IFRIC Update

From the IFRS Interpretations Committee

November 2012

Welcome to the IFRIC Update

IFRIC Update *is the newsletter of the IFRS Interpretations Committee (the Interpretations Committee). All conclusions reported are tentative and may be changed or modified at future IFRS Interpretations Committee meetings.*

Decisions become final only after the Interpretations Committee has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.

The Interpretations Committee met in London on 13 and 14 November 2012, when it discussed:

- the current agenda:
  - IAS 1 *Presentation of Financial Statements* —Disclosures about going concern;
  - IAS 16 *Property, Plant and Equipment,* IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements—Variable* payments for the separate acquisition of PPE and intangible assets;
  - IAS 19 *Employee benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions; and
  - IAS 37 *Provisions, Contingent liabilities and Contingent Assets* —Interpretation on Levies.
- Interpretations Committee agenda decisions;
- Interpretations Committee tentative agenda decisions;
- Issues considered for Annual Improvements; and
- Interpretations Committee work in progress.

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Future IFRS Interpretations Committee meetings

The next meetings are:
22 and 23 January 2013
12 and 13 March 2013
14 and 15 May 2013
16 and 17 July 2013
10 and 11 September 2013
12 and 13 November 2013

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB website before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website here.

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Current agenda

The Interpretations Committee discussed the following issues, which are on its current agenda.

IAS 1 ***Presentation of Financial Statements***—Disclosures about going concern

The Interpretations Committee received a request for clarification on IAS 1 *Presentation of Financial Statements*. This Standard requires that when management are aware of material uncertainties about the entity's ability to continue as a going concern, those uncertainties shall be disclosed. The Interpretations Committee tentatively decided to deal only with two questions about this disclosure—when to disclose and what to disclose about these uncertainties.

The Interpretations Committee tentatively decided that these two questions should be addressed as a narrow-focus amendment to IAS 1.

The Interpretations Committee tentatively agreed that:

- the high threshold for preparing financial statements on a basis other than going concern is appropriate;
- a threshold for the disclosure of material uncertainties should be identified more clearly in the Standard;
- the Standard should include objectives for this disclosure; and
- the staff should prepare a proposal about what specific disclosures, if any, should be required.

It is anticipated that the staff proposals for the narrow-focus amendment will next be presented to the Interpretations Committee in Q1 of 2013.

IAS 16 ***Property, Plant and Equipment, IAS 38 Intangible Assets*** and IFRIC 12 ***Service Concession Arrangements***—Variable payments for the separate acquisition of PPE and intangible assets

The Interpretations Committee received a request to address an issue that is related to contractual payments that are made by an operator under a service concession arrangement that is within the scope of IFRIC 12. Specifically, the submitter requested that the Interpretations Committee should clarify in what circumstances (if any) those payments should:

- be included in the measurement of an asset and liability at the start of the concession; or
- be accounted for as executory in nature (ie be recognised as expenses as they are incurred over the term of the concession arrangement).

The Interpretations Committee noted that the issue of variable concession fees is linked to the broader issue of variable payments for the separate acquisition of PPE and intangible assets outside of a business combination. This broader issue was previously discussed, but not concluded on, by the Interpretations Committee in 2011.

At this meeting, the Interpretations Committee was presented with a summary of:

- the requirements in the current IFRSs regarding the accounting for variable payments for the separate purchase of an asset;
- the requirements in IFRS 3 *Business Combinations* regarding the accounting for contingent consideration; and
- the tentative decisions taken so far by the boards in the Leases project regarding the accounting for variable lease payments.

The Interpretations Committee discussed the initial accounting for variable payments. The Interpretations Committee could not reach a consensus on whether:

- the fair value of all variable payments should be included in the initial measurement of the liability on the date of purchase of the asset; or
- the variable payments that are dependent on the purchaser’s future activity should be excluded from the initial measurement of the liability until the activity is performed.

The Interpretations Committee also discussed the subsequent accounting for variable payments. The Interpretations Committee agreed that adjustments to the liability other than finance costs should be recognised as a corresponding adjustment to the cost of the asset acquired in some specific circumstances. The Interpretations Committee directed the staff to prepare a paper to be presented at a future meeting:

- that would propose some examples that would illustrate cases in which the cost of the asset would be adjusted; and
- that would discuss whether the initial accounting affects the subsequent accounting for variable payments.

IAS 19 ***Employee Benefits***—Employee benefit plans with a guaranteed return on contributions or notional contributions

At this meeting the Interpretations Committee was presented with staff proposals on the measurement of the plans that fall within the scope of its work.

Staff presented the two main issues that they have identified as important when measuring the employee plans that will fall within the scope of the project. These issues are:

- what discount rate should be used to calculate the present value of the employee benefit; and
- how to measure the “higher of option” in the employee benefit plans.

On the first issue there is a concern that the application of the requirements of IAS 19 may not faithfully represent the benefit obligation because IAS 19 requires the benefit to be projected forward at the expected rate of return on the “reference” assets or index and discount those projected cash flows to be discounted to a present value using the rate specified in IAS 19 (typically a high quality corporate bond rate). Some think that unless the benefit is defined by reference to the return on the same assets as that discount rate (such as high quality corporate bonds), the measurement of the benefit will not faithfully represent the risk of the assets that the benefit is based on.

The Interpretations Committee did not make a decision on this issue at the meeting and asked the staff to prepare examples illustrating how the proposed measurement approach would apply to different employee benefit plan designs. The staff will bring these examples for discussion to a future Interpretations Committee meeting.

The second issue the Interpretations Committee discussed was how to address the measurement of the so-called “higher of option”. The “higher of option” relates to when the employee is guaranteed the higher of two or more possible outcomes; for example, the employee may be guaranteed the higher of a fixed return of four per cent and the actual return on the contributions made by the employer. The main issue is that IAS 19 does not provide guidance on how to measure the value of the option when using the projected unit credit method.

The Interpretations Committee tentatively decided that the “higher of option” should be measured at its intrinsic value at the reporting date.

The Interpretations Committee also considered the accounting and presentation for the “higher of option” but did not make a decision on the issue. The Interpretations Committee will discuss this issue again at a future meeting.

IAS 37 ***Provisions, Contingent liabilities and Contingent Assets*** —Interpretation on levies

In May 2012, the Interpretations Committee published a draft interpretation on the accounting for levies charged by public authorities on entities that participate in a specific market. The comment period ended on 5 September 2012.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the comments received on the draft interpretation. The Interpretations Committee tentatively decided that:

- it should rediscuss the accounting for levies with minimum thresholds;
- the final interpretation should address the accounting for levies that are within the scope of IAS 37 and levies whose timing and amount is certain;
- the final interpretation should not address the accounting for liabilities arising from emissions trading schemes that are in the scope of the IASB’s project on emissions trading schemes;
- the term ‘levy’ should be defined in the final interpretation;
- the final interpretation should provide guidance on the accounting for the liability to pay a levy in annual and interim financial statements;
- it should confirm the guidance provided in the consensus of the draft interpretation regarding the accounting for the liability to pay a levy;
- further impact analysis of the final interpretation on the accounting for levies is not needed;
- the final interpretation should not require additional disclosures specific to levies;

- it should not propose to introduce specific requirements regarding levies in IAS 34; and
- it should ask the IASB to consider the issues regarding the accounting for levies when developing the definition and recognition criteria for a liability in its project on the Conceptual Framework.

The staff will prepare a paper to be presented at a future meeting that:

- provides an analysis of the different alternatives on the accounting for levies with minimum thresholds;
- discusses whether the final interpretation should address the accounting for levies that are analysed as exchange transactions and whether it should refer to other IFRSs with regard to the accounting for the debit side of the liability;
- proposes a definition for the term 'levy'; and
- proposes an updated version of the interpretation based on the Interpretations Committee's tentative decisions.

The Interpretations Committee noted that a significant number of respondents to the draft interpretation think that the result of the accounting proposed does not provide a fair representation of the economic effects of levies when the liability and the corresponding expense are recognised at a point in time, notwithstanding the acknowledgement of those respondents that the proposed accounting in the draft interpretation is a technically correct interpretation of the requirements in IAS 37. Those respondents think that the substance of a recurring levy is that it is a charge associated with a specific period (and not a charge triggered on a specific date). The Interpretations Committee directed the staff to report those comments from interested parties to the IASB.

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Interpretations Committee agenda decisions

The following explanation is published for information only and does not change existing IFRS requirements*. Interpretations Committee agenda decisions are not Interpretations. Interpretations are determined only after extensive deliberations and due process, including a formal vote. Interpretations become final only when approved by the IASB.*

IAS 18 Revenue, IAS 37 ***Provisions, Contingent Liabilities and Contingent Assets*** and IAS 39 ***Financial Instruments: Recognition and Measurement***—Regulatory assets and liabilities

The Interpretations Committee received a request seeking clarification on whether a regulatory asset or regulatory liability should be recognised in a particular situation in which a regulated entity is permitted to recover costs, or required to refund some amounts, independently of the delivery of future services. Specifically, the submitter asked two questions for the accounting under this situation:

- Can the population of customers be regarded as a single unit of account?
- If the population is a single unit of account, is it acceptable to recognise an asset or liability?

The Interpretations Committee did not address the two specific questions in the submission. However, regarding the question of the recognition of regulatory assets and liabilities generally, the Interpretations Committee noted that it had discussed in 2005 the subject of whether or not it would be appropriate to recognise a regulatory asset. At that time the Interpretations Committee concluded that an entity should recognise only assets that qualify for recognition in accordance with the IASB's Conceptual Framework and with relevant IFRSs such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets.* The Interpretations Committee noted that since the Interpretations Committee reached that conclusion there have been no major changes made to these IFRSs that warrant revisiting this issue.

The Interpretations Committee also noted that, in the IASB's project on Rate-regulated Activities, the IASB had concluded that the issue could not be resolved quickly, and had therefore included requests for views on future plans for this project in its Agenda Consultation published in July 2011. In addition, the Interpretations Committee noted that in September 2012 the IASB had started to discuss its plan for the new Rate regulated Activities project following its decision in May 2012 to give priority to developing a standards level proposal for Rate regulated activities. At the September 2012 meeting, the IASB decided to develop a Discussion Paper for this project which it expects to publish in the second half of 2013.

Because of the position reached by the IASB in its last project on this subject, the Interpretations Committee observed that this issue is too broad for the Interpretations Committee to address within the confines of existing IFRSs and of the Conceptual Framework. Consequently, for this reason, and because the IASB has recently resumed a comprehensive project on Rate regulated Activities in which the IASB expects to publish a Discussion Paper in the second half of 2013, the Interpretations Committee decided not to add this issue to its agenda.

IAS 39 ***Financial Instruments: Recognition and Measurement***—Scope of paragraph AG5

The Interpretations Committee received a request for guidance on several accounting issues that resulted from the restructuring of Greek government bonds (GGBs) in 2012. At its September 2012 meeting, the Interpretations Committee concluded that the GGBs surrendered in March 2012 should be derecognised, which means the new GGBs received as part of the debt restructuring are recognised as new assets. At the July 2012 and November 2012 meetings, the Interpretations Committee addressed the particular request to consider whether paragraph AG5 of IAS 39 could apply when determining the effective interest rate on initial recognition of those new GGBs. Applying paragraph AG5 of IAS 39 means that the effective interest rate would be determined at initial recognition using estimated cash flows that take into account incurred credit losses.

The Interpretations Committee noted that paragraph AG5 of IAS 39 applies to acquired assets, which includes both purchased and originated assets.

The Interpretations Committee also noted that even though an origination of a debt instrument with an incurred loss is rather unusual, there are situations in which such transactions occur. For example, within the context of significant financial difficulty of an obligor, transactions can arise that involve originations of debt instruments that are outside the normal underwriting process but are instead forced upon already existing lenders by a restructuring process. This could include situations in which modifications of debt instruments result in derecognition of the original financial asset and the recognition of a new financial asset under IFRSs. In circumstances such as these, new financial assets could be recognised that have incurred losses on initial recognition. The Interpretations Committee noted that whether an incurred loss exists on initial recognition of an asset is a factual matter and that the assessment requires judgement. The Interpretations Committee also noted that the circumstances leading to the recognition of an asset with an incurred loss on initial recognition need not be limited to those in which debt instruments are effectively forced upon existing lenders, but could also arise in other transactions.

The Interpretations Committee considered that in the light of its analysis of the existing requirements of IAS 39 an interpretation was not necessary and consequently decided not to add the issue to its agenda.

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Interpretations Committee tentative agenda decisions

The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Interpretations Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Interpretations Committee's agenda, will be reconsidered at the Interpretations Committee meeting in March 2013. Interested parties who disagree with the decision not to add the items to the Interpretations Committee's agenda, the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by 22 January 2013 to ifric@ifrs.org. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

IFRS 3 ***Business Combinations*** and IFRS 2 ***Share-based Payment***—Accounting for

reverse acquisitions that do not constitute a business

The Interpretations Committee received requests for guidance on how to account for transactions in which the former shareholders of a non-listed operating entity become the majority shareholders of the combined entity by exchanging their shares for new shares of a listed non-operating entity. However, the transaction is structured such that the listed non-operating entity acquires the entire share capital of the non-listed operating entity.

The Interpretations Committee observed that the transactions analysed have some features of a reverse acquisition under IFRS 3 because the former shareholders of the legal subsidiary obtain control of the legal parent. Consequently, it is appropriate to apply by analogy, in accordance with paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the guidance in paragraphs B19–B27 of IFRS 3 for reverse acquisitions. Application of the reverse acquisitions guidance by analogy results in the non-listed operating entity being identified as the accounting acquirer, and the listed non-operating entity being identified as the accounting acquiree. The Interpretations Committee noted that in applying the reverse acquisition guidance in paragraph B20 of IFRS 3 by analogy, the accounting acquirer is deemed to have issued shares to obtain control of the acquiree.

The Interpretations Committee also noted that on the basis of the guidance in paragraph B7 of IFRS 3, the listed non operating entity is not a business. Consequently, the transactions analysed are not business combinations and are therefore not within the scope of IFRS 3. Because the transactions analysed are not within the scope of IFRS 3, the Interpretations Committee noted that they are therefore share-based payment transactions that should be accounted for in accordance with IFRS 2. The Interpretations Committee observed that on the basis of the guidance in paragraph 13A of IFRS 2, any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer. This service received is that of a stock exchange listing for its shares. The Interpretations Committee observed that a stock exchange listing does not meet the definition of an intangible asset under IAS 38, *Intangible Assets*. Consequently, in accordance with the guidance in paragraph 8 of IFRS 2, the cost of the service received is recognised as an expense.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, an interpretation or an amendment to IFRSs was not necessary and consequently [decided] not to add this issue to its agenda. As a result of this, the Interpretations Committee does not expect diversity in practice to continue.

IAS 41 ***Agriculture*** and IFRS 13 ***Fair Value Measurement***—Valuation of biological assets using a residual method

The Interpretations Committee received a request seeking clarification on paragraph 25 of IAS 41. This paragraph permits the use of a residual method to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market exists for the combined assets.

The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13) in applying the residual method in IAS 41 might result in a minimal or nil fair value for the biological assets when the current use of the land is different from its highest and best use.

The Interpretations Committee noted that the IASB has tentatively decided to undertake a limited scope project on IAS 41 to address the accounting for bearer biological assets. The Interpretations Committee also noted that guidance on the application of highest and best use concept in IFRS 13 will form part of the educational material for IFRS 13.

Consequently, the Interpretations Committee [decided] not to take this issue onto its agenda.

Issue considered for Annual Improvements

The Interpretations Committee assists the IASB in Annual Improvements by reviewing proposed improvements to IFRSs and making recommendations to the IASB. Specifically, the Interpretations

Committee's involvement includes reviewing and deliberating issues for their inclusion in future exposure drafts of proposed Annual Improvements to IFRSs and deliberating the comments received on the exposure drafts. When the Interpretations Committee has reached consensus on an issue included in Annual Improvements, the recommendation (including finalisation of the proposed amendment or removal from Annual Improvements) will be presented to the IASB for discussion, in a public meeting, before being finalised. Approved Annual Improvements to IFRSs (including exposure drafts and final standards) are issued by the IASB.

Annual Improvements to IFRSs 2010-2012 Cycle—comment letter analysis

At its meeting in November 2012, the Interpretations Committee deliberated upon the comments received on four proposed amendments that had been included in the Exposure Draft of proposed Annual Improvements to IFRSs published in May 2012.

Annual Improvements to IFRSs recommended for finalisation

The Interpretations Committee decided to recommend three of these proposed amendments, subject to its final review of drafting changes, for approval at a future IASB meeting. Subject to that approval, the IASB will include the amendments in the *Annual Improvements to IFRSs 2010-2012 Cycle* that are expected to be issued in the second quarter of 2013. The three confirmed proposed amendments are:

IFRS 8 ***Operating Segments***—Aggregation of operating segments

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to include a disclosure in IFRS 8 requiring a description of both the operating segments that have been aggregated and the economic indicators that have been assessed in order to conclude that the operating segments have "similar economic characteristics" in accordance with paragraph 12 of IFRS 8.

Having considered the comments received, the Interpretations Committee further recommended to the IASB that it should eliminate the examples of economic indicators in the proposed new paragraph to avoid confusion and recommended to the IASB that it should include some further minor edits to make the proposed amendment clearer.

Because IFRS 8 is largely converged with the equivalent guidance in US GAAP, the Interpretations Committee also recommended the staff to discuss the proposed amendment with the staff of the FASB.

IFRS 8 ***Operating Segments***—Reconciliation of the total of the reportable segments' assets to the entity's assets

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to IFRS 8 to confirm that a reconciliation of the total of the reportable segments' assets to the entity's assets shall be disclosed only if a measure of total assets for each reportable segment is regularly provided to the chief operating decision maker. This clarification would make this paragraph consistent with the guidance in paragraphs 23 and 28(d) of IFRS 8.

Because IFRS 8 is largely converged with the equivalent guidance in US GAAP, the Interpretations Committee also recommended the staff to discuss the proposed amendment with the staff of the FASB.

IFRS 13 ***Fair Value Measurement***—Short-term receivables and payables

The Interpretations Committee recommended that the IASB should finalise, subject to some wording amendments, the proposals to explain in the Basis for Conclusions of IFRS 13 why it had removed certain guidance in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*. That guidance related to the measurement of short-term receivables and payables with no stated interest rate at invoice amounts if the effect of discounting is immaterial. When deleting those paragraphs, the IASB did not intend to change the measurement requirements for short-term receivables and payables, because it noted that the materiality principle in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the guidance for using present value techniques in

IFRS 13 already covered the requirements in those paragraphs. However, the IASB was informed that some users of IFRS think that the deletion means the measurement requirements have changed.

In the light of the comments received, the Interpretations Committee recommended modifying the wording of the proposed amendment to the Basis for Conclusions of IFRS 13. These modifications do not, however, change the rationale for deleting the mentioned paragraphs in IFRS 9 and IAS 39, which the IASB provided in the Exposure Draft of proposed Improvements to IFRSs published in May 2012.

Annual Improvements to IFRSs requiring further consideration

IAS 12 *Income Taxes*—Recognition of deferred tax assets for unrealised losses

The Interpretations Committee considered the comments received on the proposed amendment to clarify the accounting for deferred tax assets for unrealised losses.

The Interpretations Committee recommends that IAS 12 is amended to clarify the accounting for deferred tax assets for unrealised losses.

The Interpretations Committee noted, however, that the comments received on the proposed amendment raised questions about two matters that require further analysis and decision:

- whether an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows; and
- whether an entity can assume recovery of an asset for more than its carrying amount when estimating probable future taxable profits against which deductible temporary differences can be utilised (see paragraph 24 of IAS 12).

The Interpretations Committee recommends that these two issues are resolved. However, it was not clear at this stage whether resolving these two issues could be achieved within the constraints of the Annual Improvements process, or whether this work would need to be undertaken as a narrow-scope amendment to IAS 12. Before commencing work on these two matters, the Interpretations Committee decided to consult with the IASB on the most appropriate path forward.

The staff will bring the Interpretations Committee's question to a future IASB meeting.

Issues recommended for inclusion in the next cycle for Annual Improvements

IFRS 3 *Business Combinations*—Mandatory purchase of non-controlling interests in business combinations

The Interpretations Committee received a request to address the accounting for mandatory purchase of non-controlling interests that arise as a result of business combinations. The submitter noted that IFRS 3 *Business Combinations* does not specifically address the accounting for a sequence of transactions that begins with acquirer gaining control over another entity, followed by acquiring an additional ownership interest shortly thereafter as a result of a regulatory requirement to offer to purchase the additional interest. The issues considered by the Interpretations Committee were:

- Should the initial acquisition of the controlling stake and the subsequent Mandatory Tender Offer (MTO) be treated as separate transactions or as one single acquisition (linked transactions)?
- Should a liability be recognised for the MTO at the date the acquirer obtains control of the acquiree?

The Interpretations Committee tentatively agreed that the initial acquisition of the controlling stake and the subsequent MTO should be treated as one single acquisition. The Interpretations Committee tentatively decided to propose that the guidance in IFRS 3 on how to determine whether the disposal of a subsidiary achieved in stages should be accounted for as one or more transactions should also be applied to circumstances when the acquisition of a business is followed by successive purchases of additional interests in the acquiree. The Interpretations Committee tentatively decided to propose to the IASB to amend IFRS 3 through Annual Improvements.

The Interpretations Committee also discussed whether a liability should be recognised for the MTO at the date the acquirer obtains control of the acquiree. The Interpretations Committee noted that IAS 37 excludes from its scope contracts that are executory in nature and concluded that no liability needed to be recognised for the MTO. The Interpretations Committee tentatively decided to recommend to the IASB not to amend IFRS 3.

IAS 34 ***Interim Financial Reporting***—Disclosure of information “elsewhere in the interim financial report”

The Interpretations Committee received a request to clarify the meaning of “interim financial report” in IAS 34. The submitter thought that the definition of the term “interim financial report” in paragraph 4 of IAS 34 is not sufficiently clear with respect to whether the “interim financial report” covers only the information reported under IFRS (meaning the IFRS interim financial statements) or more generally also includes management reports or other elements.

The Interpretations Committee noted that because paragraph 16A explicitly states that the information required by that paragraph could be given elsewhere in the interim financial report, it does not have to be included in the notes to the interim financial statements. The Interpretations Committee therefore concluded that the interim financial report may include, in addition to IFRS interim financial statements, management reports or other elements.

The Interpretations Committee also thought that it would be appropriate to include a cross-reference from the interim financial statements to the location of this information, even though IAS 34 does not specify such a cross-reference.

Consequently, the Interpretations Committee tentatively decided to propose amendments to paragraph 16A of IAS 34, through Annual Improvements, to clarify the meaning of disclosure of information “elsewhere in the interim financial report” and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

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Interpretations Committee's work in progress

IAS 10 ***Events after the Reporting Period***—Reissuing previously issued financial statements

The Interpretations Committee was asked to clarify the accounting implications of applying IAS 10 *Events after the Reporting Period* when previously issued financial statements are reissued in connection with an offering document. The issue arose in jurisdictions in which securities laws and regulatory practices require an entity to reissue its previously issued annual financial statements in connection with an offering document, when the most recently filed interim financial statements reflect matters that are accounted for retrospectively under the applicable accounting standards. In these jurisdictions securities law and regulatory practices do not require the entity, in its reissued financial statements, to recognise events or transactions occurring between the time the financial statements were first issued and the time the financial statements were reissued, unless the adjustment is required by national regulation.

The majority of the Interpretations Committee members expressed concern that the issue arises in jurisdictions with particular securities laws and regulations and that addressing this issue could conflict with national laws and regulations in other jurisdictions and so were in favour of making no amendments to IFRS.

The Interpretations Committee requested the staff to draft a tentative agenda decision for consideration at a future meeting.

IAS 19 ***Employee Benefits***—Measurement of the net defined benefit obligation (DBO)

for post employment benefit plans with employee contributions

In May 2012, the Interpretations Committee received a request for clarification of paragraph 93 of IAS 19 *Employee Benefits*. The Standard was issued in 2011 and will be effective for annual periods beginning on or after 1 January 2013. That paragraph refers to the accounting for contributions from employees to defined benefit plans.

The submitter is concerned that the guidance in paragraph 93 of IAS 19 (2011) would affect any plan with employee contributions, resulting in a change in the measurement of the defined benefit obligation (DBO) for all of those plans. The submitter thinks that this is an unintended consequence of the wording of that paragraph. The submitter is also concerned that, in periods in which the discount rate increases, employee contributions made in earlier periods have a higher value, which may cause the net benefit to be back-end loaded and increase the DBO.

At its September 2012 meeting, the Interpretations Committee tentatively observed that paragraph 93 of IAS 19 (2011) requires that employee contributions, including expected future contributions resulting from employee service in the current and prior periods, should be considered in calculating the DBO. Nonetheless, taking into account the general concern that it is not clear how to account for employee contributions, the Interpretations Committee asked the staff to bring some specific examples of how to account for employee contributions in accordance with paragraph 93 of IAS 19 (2011).

At this meeting, the Interpretations Committee considered a number of examples illustrating the application of the requirements and the effect of different discount rate and salary growth assumptions on the calculation of the net benefit. The Interpretations Committee agreed with the staff analysis that the calculations illustrated are in line with the requirements for employee contributions in respect of service that are set out in paragraph 93 of IAS 19 (2011). However, the Interpretations Committee was concerned about the complexity of the required calculations and the potential confusion that they could introduce to practice. The Interpretations Committee was further concerned about this possibility because an entity must apply IAS 19 (2011) retrospectively.

The Interpretations Committee noted that paragraph 92 of IAS 19 (2011) states that employee contributions either are set out in the formal terms of the plan or are discretionary, and that discretionary contributions reduce service cost upon payment. The Interpretations Committee also noted that paragraph 93 of IAS 19 (2011) refers to the accounting for employee contributions set out in the formal terms of the plan.

The Interpretations Committee observed that the distinction between discretionary contributions and contributions that form part of the formal terms of the plan is not necessarily clear and, therefore, the scope of employee contributions that are subject to paragraph 93 of IAS 19 (2011) is not clear. The Interpretations Committee observed that some employee contributions, such as contributions related to service rendered in the same period, might be classified as a reduction of short term employee benefits and would therefore not be within the scope of paragraph 93 of IAS 19 (2011).

Consequently, the Interpretations Committee directed the staff to consider the aspects above and bring the analysis to a future meeting.

IAS 19 ***Employee Benefits***—Actuarial assumptions: discount rate

The Interpretations Committee received a request for guidance on the determination of the rate used to discount post-employment benefit obligations. The submitter stated that:

- according to paragraph 83 of IAS 19 (2011) the discount rate should be determined by reference to market yields at the end of the reporting period on “high quality corporate bonds” (HQC bonds);
- IAS 19 does not specify which corporate bonds qualify to be HQC bonds;
- according to prevailing past practice, listed corporate bonds have usually been considered to be HQC bonds if they receive one of the two highest ratings given by a recognised rating agency (eg “AAA” and “AA”); and
- because of the financial crisis, the number of corporate bonds rated “AAA” or “AA” has decreased

in proportions that the submitter considers significant.

In the light of the points above, the submitter asked the Interpretations Committee whether corporate bonds with a rating lower than “AA” can be considered to be HQC bonds.

The Interpretations Committee noted that according to paragraphs 84 and 85 of IAS 19 (2011) the discount rate:

- reflects the time value of money but not the actuarial or investment risk;
- does not reflect the entity-specific credit risk;
- does not reflect the risk that future experience may differ from actuarial assumptions; and
- reflects the estimated timing of benefit payments.

The Interpretations Committee further noted that the predominant past practice has been to consider corporate bonds to be high quality if they receive one of the two highest ratings given by a recognised rating agency (eg ‘AAA’ and ‘AA’).

The Interpretations Committee observed that IAS 19 does not specify how to determine the market yields on HQC bonds, and in particular what grade of bonds should be designated as high quality. The Interpretations Committee considers that an entity shall apply judgement in determining what the current market yields on HQC bonds are, taking into account the guidance in paragraphs 84 and 85 of IAS 19 (2011).

The Interpretation Committee also noted that under paragraph 15 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity’s policy for determining the discount rate should be applied consistently over time. In particular, the requirement that the discount rate excludes the effects of actuarial risk and investment risk should be applied consistently from period to period. In addition, the Interpretations Committee notes that paragraph 34 of IAS 8 states that an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The Interpretations Committee does not expect that an entity’s method of determination of the discount rate so as to reflect the yields on HQC bonds will change significantly from period to period, other than to reflect changes in the time value of money and the estimated timing and amounts of benefit payments.

The Interpretations Committee briefly discussed, but did not conclude, on whether a change to the way in which an entity determines the discount rate would be a change in accounting policy or a change in estimate. However, the Interpretations Committee noted that:

- any changes that an entity makes in its accounting policy for determining the discount rate should be applied retrospectively in accordance with paragraph 19(b) of IAS 8 and the effects (nature and amount) of that change on the current period, the prior periods and future periods shall be explained and disclosed in accordance with paragraph 29 of IAS 8. The effects (nature and amount) on the current and future periods of any changes in estimates arising in determining the yields on HQC bonds shall be disclosed in accordance with paragraph 39 of IAS 8; and
- an entity shall disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements in accordance with paragraph 122 of IAS 1 *Presentation of Financial Statements*.

The Interpretations Committee will continue to discuss the requirements in IAS 19 for determining the discount rate based on the market yields on HQC bonds, used in the measurement of post-employment benefits, at its next meeting.

Interpretations Committee work in progress update

The Interpretations Committee received a report on five new issues and on five ongoing issues for consideration at a future meeting. The report also included one issue that is on hold and will be considered again at a future meeting. With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

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