IFRIC Update

From the IFRS Interpretations Committee

May 2013

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 Interpretations Committee meetings.*

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

The Interpretations Committee met in London on **14 and 15 May 2013**, when it discussed:

- the current agenda:
  - IAS 12 *Income Taxes*—Recognition of deferred tax assets for unrealised losses
- Interpretations Committee agenda decisions;
- Interpretations Committee tentative agenda decisions;
- Issues considered for Annual Improvements;
- Issues recommended for a narrow-scope amendment;
- Interpretations Committee work in progress; and
- Interpretations Committee other work.

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Future IFRS Interpretations Committee meetings

The next meetings are:
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**.

Archive of IFRS Interpretations Committee Newsletter

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Current agenda

The Interpretations Committee discussed the following issue, which is on its current agenda.

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

At its meeting in December 2012, the IASB tentatively decided that the accounting for deferred tax assets for unrealised losses on debt instruments should be clarified by a separate narrow-scope amendment to IAS 12. This is because:

a. the issue of whether an entity can assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profits should be addressed in a separate narrow-scope project; and

b. such a project, which goes beyond clarifications and corrections (that is, a project with a broader scope than annual improvements), also allows for discussing whether to amend IAS 12 to achieve an outcome for deferred tax accounting that would be consistent with the one that was recently discussed by the FASB for the same type of debt instruments.

Furthermore, the IASB noted that clarifying this issue requires addressing the question of 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 of the contractual cash flows.

At this meeting, the Interpretations Committee decided to recommend to the IASB that it should amend IAS 12 to clarify that deferred tax assets for unrealised losses on debt instruments are recognised, unless recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses. This involves:

a. 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 of the contractual cash flows; and

b. an entity can assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profits.

In addition, the Interpretations Committee understood that its recommendation would not always achieve an outcome for deferred tax accounting that would be consistent with the one that was recently discussed and proposed by the FASB. It expects that this will be the case if recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses. The Interpretations Committee concluded that deferred tax assets should not be recognised in such a situation. This is because it is not clear what the economic benefit embodied in the deferred tax asset is, if recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses.

The Interpretations Committee noted that:

a. its recommended amendment to IAS 12; and

b. an amendment that achieves an outcome for deferred tax accounting that would be consistent with the one that was recently discussed and proposed by the FASB

would be significantly different. The Interpretations Committee decided to consult with the IASB on the approach that is to be the basis for the amendment before discussing further details and drafting a proposed amendment.

Following consultation with the IASB, the staff will present an analysis discussing further details, a recommendation and a draft proposed amendment to IAS 12 in a future meeting.

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, and become final only when approved by the IASB.*

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 or permit the entity, in its reissued financial statements, to recognise events or transactions that occur between the time the financial statements were first authorised for issued and the time the financial statements are reissued, unless the adjustment is required by national regulation; instead security and regulatory practices require the entity to recognise in its reissued financial statements only those adjustments that would ordinarily be made to the comparatives in the following year's financial statements. These adjustments would include, for example, adjustments for changes in accounting policy that are applied retrospectively, but would not include changes in accounting estimates. This approach is called 'dual dating'. The submitter asked the Interpretations Committee to clarify whether IAS 10 permits only one date of authorisation for issue (ie 'dual dating' is not permitted) when considered within the context of reissuing previously issued financial statements in connection with an offering document.

The Interpretations Committee noted that the scope of IAS 10 is the accounting for, and disclosure of, events after the reporting period and that the objective of this Standard is to prescribe:

a. when an entity should adjust its financial statements for events after the reporting period; and

b. the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The Interpretations Committee also noted that financial statements prepared in accordance with IAS 10 should reflect all adjusting and non-adjusting events up to the date that the financial statements were authorised for issue.

The Interpretations Committee noted that IAS 10 does not address the presentation of re-issued financial statements in an offering document when the originally issued financial statements have not been withdrawn, but the re-issued financial statements are provided either as supplementary information or a re-presentation of the original financial statements in an offering document in accordance with regulatory requirements.

On the basis of the above and because the issue arises in multiple jurisdictions, each with particular securities laws and regulations which may dictate the form for re-presentations of financial statements, the Interpretations Committee decided not to add this issue to its agenda.

IAS 28 *Investments in Associates and Joint Ventures* and IFRS 3 *Business Combinations*—Associates and common control

In October 2012, the Interpretations Committee received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. The submitter's question is whether it is appropriate to apply the scope exemption for business combinations under common control, which is set out in IFRS 3 *Business Combinations*, by analogy to the acquisition of an interest in an associate or joint venture under common control.

The Interpretations Committee observed that paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control. The Interpretations Committee also observed that paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.

The Interpretations Committee also observed that paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements*. That paragraph further states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. The Interpretations Committee also observed that paragraph 2(c) of IFRS 3 states that IFRS 3 does not apply to a combination of entities or businesses under common control. The Interpretations Committee observed that some might read these paragraphs as contradicting the guidance in paragraph 32 of IAS 28, and so potentially leading to a lack of clarity.

The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.

The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for business combinations under common control and the equity method of accounting. The Interpretations Committee also noted that the IASB, in its May 2012 meeting, added a project on accounting for business combinations under common control as one of the priority research projects as well as a project on the equity method of accounting as one of the research activities to its future agenda. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.

IAS 7 *Statement of Cash Flows*—identification of cash equivalents

The Interpretations Committee received a request about the basis of classification of financial assets as cash equivalents in accordance with IAS 7. More specifically, the submitter thinks that the classification of investments as cash equivalents on the basis of the remaining period to maturity as at the balance sheet date would lead to a more consistent classification rather than the current focus on the investment's maturity from its acquisition date.

The Interpretations Committee noted that, on the basis of paragraph 7 of IAS 7, financial assets held as cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This paragraph further states that an investment is classified as a cash equivalent, only when it has a short maturity from the date of acquisition.

The Interpretations Committee observed that paragraph 7 of IAS 7 promotes consistency between entities in the classification of cash equivalents and did not think that the requirements of paragraph 7 of IAS 7 were unclear.

On the basis of the above, the Interpretations Committee determined that in the light of the existing IFRS guidance, an interpretation or an amendment to Standards was not necessary and it did not expect significant diversity in practice to develop regarding their application.

Consequently, the Interpretations Committee decided not to add this issue to its agenda.

IFRS 2 *Share-based Payment*—Timing of the recognition of intercompany recharges

The Interpretations Committee received a request for clarification about IFRS 2 *Share-based Payment* relating to intragroup recharges made in respect of share-based payments.

In the submitter's example, the parent company of an international group grants share-based awards to the employees of its subsidiaries. The obligation to settle these awards is the parent's. The awards are based on the employee's service to the subsidiary. The subsidiary and the parent both recognise the share-based transaction in accordance with IFRS 2—typically over the vesting period of the awards. The parent has also entered into recharge agreements with its subsidiaries that require the subsidiaries to pay the parent the value of the share-based awards upon settlement of the awards by the parent.

The submitter asked whether the subsidiary's liability to its parent in respect of these charges should be recognised from the date of grant of the award or at the date of exercise of the award.

Outreach conducted suggests that there is diversity in practice in the recognition of these liabilities. Some respondents view the recharge and the share-based payments as linked and recognise both from the date of grant over the vesting period. Others think that the recharge is a separate transaction recognised by analogy with liabilities, the distribution of equity or as an executory contract.

When discussing accounting for the intercompany recharge transaction, the Interpretations Committee was concerned at the breadth of the topic. It thought that resolving this issue would require it to address the accounting for intragroup payment arrangements generally within the context of common control and that any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. In the absence of guidance about intercompany transactions within existing Standards and the Conceptual Framework, they did not think that they would be able to resolve this issue efficiently. For that reason, the Interpretations Committee decided not to add this issue to its agenda.

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 September 2013. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to email those concerns by 29 July 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.*

IAS 32 *Financial Instruments: Presentation*—Classification of financial instruments that give the issuer the contractual right to choose the form of settlement

The IFRS Interpretations Committee received a request to clarify how an issuer would classify three financial instruments in accordance with IAS 32 *Financial Instruments: Presentation*. None of the financial instruments had a maturity date but each gave the holder the contractual right to redeem at any time. The holder's redemption right was described differently for each of the three financial instruments; however if the holder exercised its redemption right, in each case the issuer had the contractual right to choose to settle the instrument in cash or a fixed number of its own equity instruments.

The Interpretations Committee noted that paragraph 15 of IAS 32 requires the issuer of a financial instrument to classify the instrument in accordance with the substance of the contractual arrangement. Consequently, if the contractual substance of financial instruments is the same, the issuer cannot achieve different classification results simply by describing those contractual arrangements differently.

Paragraph 11 in IAS 32 sets out the definitions of both a financial liability and an equity instrument. Paragraph 16 describes in more detail the circumstances in which a financial instrument meets the definition of an equity instrument.

The Interpretations Committee noted that if the issuer has the contractual right to choose to settle a non-derivative financial instrument in cash or a fixed number of its own equity instruments, that financial instrument would meet the definition of an equity instrument in IAS 32 as long as the instrument does not establish an obligation to deliver cash (or another financial asset) indirectly through its terms and conditions. (For example, paragraph 20 of IAS 32 states that such an indirect contractual obligation would be established if the value of the fixed number of the issuer's own equity instruments exceeds substantially the value of the cash.)

The Interpretations Committee noted that if the issuer has a contractual obligation to deliver cash, that obligation meets the definition of a financial liability.

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

IFRS 10 *Consolidated Financial Statements*—Effect of protective rights on an assessment of control

The Interpretations Committee received a request for clarification about IFRS 10. The query relates to protective rights and the effect of those rights on the power over the investee. More specifically, the submitter asked whether the control assessment should be reassessed when facts and circumstances change such that rights, previously determined to be protective, change (for example upon the breach of a covenant in a borrowing arrangement that causes the borrower to be in default) or whether, instead, such rights are never included in the reassessment of control upon a change in facts and circumstances.

The Interpretations Committee observed that paragraph 8 of IFRS 10 requires an investor to reassess all rights to establish whether it controls an investee whenever facts and circumstances change. The Interpretations Committee also observed that if the breach of a covenant resulted in the rights becoming exercisable, that did constitute such a change. It noted that the Standard does not include an exemption for any rights from this need for reassessment. The Interpretations Committee also discussed the IASB's redeliberations of this topic during the development of IFRS 10 and concluded that the IASB's intention was that protective rights should be included in a reassessment of control when facts and circumstances change. Accordingly, the Interpretations Committee noted that the conclusion about who controlled the investee would need to be reassessed after the breach occurred.
The Interpretations Committee also concluded that it did not expect significant diversity in practice to develop following the implementation of the Standard. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator

The Interpretations Committee received a request to clarify the application of the guidance in IFRS 5 regarding the classification of a non-current asset (or disposal group) as held for sale, in the case of a disposal plan that is intended to be achieved by means of an initial public offering (IPO), but where the prospectus (ie legal document with an initial offer) has not been approved by the securities regulator. The submitter requests the Interpretations Committee to clarify whether the disposal group would qualify as held for sale before the prospectus is approved by the securities regulator, assuming that all of the other criteria in IFRS 5 have been fulfilled.

The Interpretations Committee noted that an entity should apply the guidance in paragraphs 6–9 to assess whether the sale of a disposal group by means of an IPO is highly probable.

The Interpretations Committee observed that the following criteria in paragraph 8 of IFRS 5 represent events that have occurred:

a. the appropriate level of management must be committed to a plan to sell the asset (or disposal group);

b. an active programme to locate a buyer and complete the plan must have been initiated; and

c. the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

The Interpretations Committee noted that the following criteria would be assessed based on expectations of the future, and their probability of occurrence would be included in the assessment of whether a sale is highly probable:

d. the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification (except as permitted by paragraph 9);

e. actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn; and

f. the probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.

Issues considered for Annual Improvements

The Interpretations Committee assists the IASB in Annual Improvements by reviewing proposed improvements to Standards 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 2011–2013 Cycle*—comment letter analysis**

The Interpretations Committee deliberated on the comments received on the four proposed amendments that had been included in the Exposure Draft *Annual Improvements to IFRSs 2011–2013 Cycle* published in November 2012.

Annual Improvements recommended for finalisation

The Interpretations Committee recommended the following proposed amendments for finalisation and submitted these proposed amendments to the IASB for approval at a future IASB meeting. Subject to that approval, the IASB will include these amendments in the *Annual Improvements to IFRSs 2011-2013 Cycle*, which is expected to be issued in the fourth quarter of 2013. The four proposed amendments recommended for finalisation are:

IFRS 1 First-time Adoption of International Financial Reporting Standards—Meaning of effective IFRSs

Having considered the comments received, the Interpretations Committee recommended that the IASB should finalise the proposed amendment to the Basis for Conclusions of IFRS 1 subject to some wording revisions. Specifically, the Interpretations Committee recommended that the proposed amendment should confirm that an entity has the choice between applying an old Standard that is still effective or applying a new one. If a new Standard is applied early in the entity's first IFRS financial statements that entity is required to apply the same version of that Standard throughout the periods covered by the entity's first IFRS financial statements, unless IFRS 1 grants specific exemptions or exceptions.

IFRS 3 Business Combinations: Scope exceptions for joint ventures

Having considered the comments received, the Interpretations Committee recommended that the IASB should finalise the proposed amendment to paragraph 2(a) of IFRS 3. Specifically, the Interpretations Committee recommended that the proposed amendment should confirm that:

a. the formation of all types of joint arrangements as defined in IFRS 11 is excluded from the scope of IFRS 3, and

b. the scope exception only applies to the accounting in the financial statements of the joint arrangement itself.

The Interpretations Committee also recommended that the proposed amendment should be applied prospectively.

IFRS 13 *Fair Value Measurement*—Scope of paragraph 52 (portfolio exception)

Having considered the comments received, the Interpretations Committee recommended that the IASB should finalise the proposed amendment to paragraph 52 of IFRS 13. Specifically, the Interpretations Committee recommended that the proposed amendment should confirm that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities in accordance with IAS 32.

The Interpretations Committee also recommended that the proposed amendment should be applied prospectively from the beginning of the earliest period presented for which IFRS 13 is applied.

IAS 40 *Investment Property*—Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Having considered the comments received, the Interpretations Committee recommended that the IASB should finalise the proposed amendment to IAS 40. Specifically, the Interpretations Committee recommended that the proposed amendment should confirm that:

a. judgement is needed to determine whether the acquisition of investment property is an acquisition of a single asset or of a group of assets, or is a business combination within the scope of IFRS 3; and

b. this judgement is not based on paragraphs 7-15 of IAS 40 but on the guidance in IFRS 3. The guidance in paragraphs 7-15 of IAS 40 relates only to the judgement needed to distinguish an investment property from an owner-occupied property.

The Interpretations Committee also recommended that the proposed amendment should be applied prospectively. However, retrospective application of this amendment is permitted if, and only if, the information needed to apply the amendment retrospectively is available to the entity.

Issues considered for inclusion in the Annual Improvements Cycle 2012–2014

IFRS 5 *Non-current Assets held for Sale and Discontinued Operations*—Change of Disposal method

The Interpretations Committee received a request to clarify the application of the guidance in IFRS 5 regarding the case of a change in a disposal plan from a plan that qualified as held for sale to a plan to spin off a division and issue a dividend in kind to the shareholders. The submitter asked the Interpretations Committee to clarify whether such a change in a disposal method would qualify as a change to a plan of sale and thus the held for sale accounting would be discontinued in accordance with paragraphs 26–29 of IFRS 5.

The Interpretations Committee noted that IFRS 5 lacks guidance in circumstances in which:

a. an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa); and

b. an entity no longer meets the criteria for held for distribution.

The Interpretations Committee observed that a decision to change the form of disposal should not automatically cause an entity to discontinue the held for disposal accounting. It observed that IFRS 5 sets out criteria for a disposal group to be classified as held for sale (in paragraphs 7–9) similar to those for a disposal group to be classified as held for distribution (in paragraph 12A). The Interpretations Committee also observed that paragraph 26 of IFRS 5 implies continuous monitoring of the held for sale criteria and thought that continuous monitoring of the held for distribution criteria should also be required.

The Interpretations Committee observed that the measurement guidance in paragraphs 27–29 relating to the discontinuation of the held for sale accounting was not meant to be applied in circumstances in which a disposal group moves seamlessly from held for sale classification to held for distribution classification. This is because the Interpretations Committee observed that the conditions required by paragraph 8 of IFRS 5 for a sale to be considered highly probable are similar to the conditions required by paragraph 12A of IFRS 5 for a distribution to be considered highly probable. It also noted that the accounting requirements for held for sale are the same as those for held for distribution. Consequently, it thought that even if there is a change in the classification of the disposal group from held for sale to held for distribution, an entity should not adjust the amounts that had been recognised in the manner described in paragraphs 27–28 of IFRS 5.

To address the lack of guidance in IFRS 5 in circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), the Interpretations Committee recommends and proposes to the IASB to add guidance in IFRS 5 to state that a change from held for sale to held for distribution (or viceversa) should not be accounted in accordance with the guidance in paragraphs 27–29 of IFRS 5.

To address the lack of guidance in IFRS 5 in circumstances which an entity no longer meets the criteria for held for distribution, the Interpretations Committee recommends and proposes to the IASB to add guidance to state that when an entity no longer meets the criteria in paragraph 12A it should cease held-for-distribution accounting and apply the guidance in paragraphs 27–29 of IFRS 5 (unless the disposal group immediately meets the criterion to be classified as held for sale).

The Interpretations Committee also recommended that the proposed amendments to IFRS 5 should be applied prospectively.

The Interpretations Committee thought that the missing guidance was an oversight, and accordingly proposes the amendment to be made as an annual improvement.

IFRS 7 *Financial Instruments: Disclosures*—Transfers of Financial Assets (Amendments to IFRS 7) –Servicing agreements

The IASB issued *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7) (the transfer disclosures) in October 2010. The transfer disclosures amended IFRS 7 *Financial Instruments: Disclosures* to require an entity to disclose information related to the transfer of financial assets, including its continuing involvement in the transferred assets. The amendments to IFRS 7 also included a description of the term “continuing involvement” in paragraph 42C for the purpose of the transfer disclosures.

The IFRS Interpretations Committee received a request for clarification through an Annual Improvement on whether servicing agreements constitute continuing involvement for the purpose of the transfer disclosures.

In January 2013, the Interpretations Committee discussed the issue and recommended that the IASB should consider clarifying the requirements for continuing involvement in paragraph 42C of IFRS 7. In February 2013, the IASB indicated that their intention was that servicing agreements would meet the definition of continuing involvement for the purposes of the IFRS 7 disclosures and that paragraph 42C includes servicing agreements in the transfer disclosure requirements.

In the light of the IASB’s discussion, at this meeting the Interpretations Committee recommended that the IASB propose an amendment to paragraph 42C(c) of IFRS 7 to clarify that the requirements in that paragraph do not exclude servicing agreements from the transfer disclosures. The Interpretations Committee noted that it may be possible to propose such a clarification through an Annual Improvement.

Issues recommended for a narrow-scope amendment

IAS 28 *Investments in Associates and Joint Ventures*—Elimination of gains arising from a transaction between a joint venturer and its joint venture

The IFRS Interpretations Committee received a request to clarify the accounting for a transaction between a joint venturer (an entity) and its joint venture. The request describes a circumstance in which the amount of gains to eliminate in a ‘downstream’ transaction in accordance with paragraph 28 of IAS 28 exceeds the amount of the entity’s interest in the joint venture. Specifically, the submitter requested that the Interpretations Committee should clarify whether:

a. the gain from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity’s interest in the joint venture; or

b. the remaining gain in excess of the carrying amount of the entity’s interest in the joint venture should also be eliminated and if so, what it should be eliminated against.

At the March 2013 meeting, the Interpretations Committee noted that the entity should eliminate the gain from a 'downstream' transaction to the extent of related investors' interest in the joint venture, even if the gain to be eliminated exceeds the carrying amount of the entity's interest in the joint venture, as required by paragraph 28 of IAS 28.

The Interpretations Committee also noted that presenting the eliminated gain in excess of the carrying amount of the entity's interest in the joint venture as a deferred gain would be appropriate because other alternative accounting treatments are not consistent with the principle described in IAS 28. However, the Interpretations Committee observed that IAS 28 does not provide sufficient guidance on this issue.

Consequently, the Interpretations Committee decided to recommend to the IASB that it should propose to amend IAS 28 in a narrow-scope amendment project by adding specific guidance on how to account for the corresponding entry for the eliminated gain in excess of the carrying amount of the entity's interest in the joint venture in a 'downstream' transaction.

Interpretations Committee's work in progress

IFRS 2 *Share-based Payment*—Accounting for share-based payment transactions in which the manner of settlement is contingent on future events

In the July 2012 meeting, the Interpretations Committee received an update on the issues that have been referred to the IASB and that have not yet been addressed. The Interpretations Committee asked the staff to update the analysis and perform further outreach on an issue regarding the classification of share-based payment transactions in which the manner of settlement is contingent on either:

a. a future event that is outside the control of both the entity and the counterparty; or
b. a future event that is within the control of the counterparty.

The Interpretations Committee noted that paragraph 34 of IFRS 2 indicates a principle that an entity is required to account for a share-based payment transaction, or the components of that transaction, as a cash-settled share based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets. The Interpretations Committee noted, however, that IFRS 2 does not provide specific guidance on share-based payment transactions in which the manner of settlement is contingent on a future event that is outside the control of both the entity and the counterparty. Paragraphs 34-43 of IFRS 2 provide guidance only on share-based payment transactions in which the terms of the arrangements provide the counterparty or the entity with a choice of settlement.

In addition, the Interpretations Committee observed that it is unclear which guidance in other Standards and the Conceptual Framework would be the best analogy for the share-based payment transaction in which the manner of settlement is contingent on a future event that is outside the control of both parties.

The Interpretations Committee noted significant diversity in accounting for the share-based payment transaction. The Interpretations Committee therefore asked the staff to explore approaches to providing guidance for the classification of the share-based payment transaction in which the manner of settlement is contingent on a future event that is outside the control of both parties. The Interpretations Committee will discuss whether guidance can be developed for such a share-based payment transaction on the basis of additional analysis in a future meeting.

IFRS 13 *Fair Value Measurement*—portfolios

The Interpretations Committee received a request to clarify the interaction between the use of Level 1 inputs and the portfolio exception set out in IFRS 13. The portfolio exception in IFRS 13 permits an entity to measure its net exposure to either market risks or credit risk arising from a group of financial assets and financial liabilities in specified circumstances. The portfolio exception was intended to align the valuation of financial instruments for financial reporting with an entity's internal risk management practices. In particular, the issue that was discussed by the Interpretations Committee was whether an entity is:

a. permitted to apply the portfolio exception in IFRS 13 to measure the resulting net risk exposure of a portfolio made up solely with identical Level 1 instruments; or

b. required to measure the financial assets and the financial liabilities of such a portfolio on an individual basis, using the corresponding Level 1 prices for each financial instrument.

In its discussions, the Interpretations Committee observed that, in relation to (a) above, the main question that needs to be addressed is whether an entity:

a. would be required to measure such a net risk exposure on the basis of the Level 1 prices for the individual instruments that comprise that net risk exposure; or

b. would be allowed to consider the net risk exposure as a whole and, consequently, consider adjusting it with any appropriate premiums or discounts.

The Interpretations Committee noted that there was insufficient guidance in the Standard for it to be able to answer this question and so it decided that this issue needs to be considered by the IASB. Accordingly it asked the staff to present the Interpretations Committee's concerns to the IASB.

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

In October 2012 the Interpretations Committee received a request for guidance on the determination of the rate used to discount post-employment obligations. In particular, the submitter asked the Interpretations Committee whether corporate bonds with an internationally recognised rating lower than 'AA' can be considered to be high quality corporate bonds (HQCB).

In its March 2013 meeting, the Interpretations Committee was informed that the majority of the IASB members agreed that:

a. the objective for the determination of the discount rate is paragraph 84 of IAS 19, ie "the discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.";

b. the Interpretations Committee should clarify the sentence "the discount rate reflects the time value of money but not the actuarial or investment risk" and that this sentence does not mean that the discount rate for post-employment benefit obligations should be a risk-free rate;

c. the discount rate should reflect the credit risk of HQCB and that a reasonable interpretation of HQCB could be corporate bonds with minimal or very low credit risk; and

d. the Interpretations Committee should propose amendments to IAS 19 to specify that when government bonds are used to determine the discount rate they should be of high quality.

Consequently, the Interpretations Committee requested the staff to consult appropriate experts, for example actuaries, and to prepare proposals for a narrow-scope amendment to IAS 19 that reflects the IASB's direction above.

At this meeting, having considered the staff proposals for a narrow-scope amendment, the Interpretations Committee decided that the staff proposals were too broad an amendment to IAS 19. Consequently, the Interpretations Committee requested the staff to refocus its work on an analysis of whether 'high quality' is a relative or an absolute concept. Depending on the conclusions of this analysis the Interpretations Committee will consider whether to issue an agenda decision, develop some guidance or recommend some amendments to the Standard.

Interpretations Committee’s other work

IFRS 3 *Business Combinations*—Definition of a business

The Interpretations Committee received a request seeking clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3. More specifically, the question was whether the acquisition of a single investment property, with lease agreements with multiple tenants over varying periods and associated processes, such as cleaning, maintenance and administrative services such as rent collection, constitutes a business as defined in IFRS 3.

The Interpretations Committee also observed that the difficulty in determining whether an acquisition meets the definition of a business in Appendix A of IFRS 3 is not limited to the acquisition of investment property. The Interpretations Committee noted that this broader issue goes beyond the scope of its activities and should be addressed by the IASB as part of its post-implementation review of IFRS 3.

However, the Interpretations Committee considered that it would be useful for the IASB’s post implementation review if the Interpretations Committee were to contribute to that review its experience and the results from the discussions on this issue. Consequently, the Interpretations Committee asked the staff to continue their discussions with the FASB staff, and to continue their outreach to interested parties from other industry sectors with the aim of providing the IASB with relevant information for its post-implementation review.

At this meeting, the Interpretations Committee discussed:

a. a summary of the results from the staff’s further outreach activities to preparers, industry sector groups and the large accounting "&" auditing networks/firms;

b. a summary of the discussion of these outreach results with the FASB staff and the Post Implementation Review Team of the Financial Accounting Foundation; and

c. a list of issues identified by the staff from these outreach results and discussions that could be further explored as part of the IASB’s post-implementation review of IFRS 3.

The Interpretations Committee decided that these summaries, the list of issues that could be further explored as part of the post-implementation review of IFRS 3 and a summary of its discussion during this meeting will be contributed to the post-implementation review of IFRS 3.

Interpretations Committee work in progress update

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

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ISSN 1477-206X