

# IFRIC Update

From the IFRS Interpretations Committee



May 2012

## Welcome to the IFRIC Update

IFRIC Update is the newsletter of the IFRS Interpretations Committee and is published as a convenience to the IASB's constituents. All conclusions reported are tentative and may be changed or modified at future IFRS Interpretations Committee meetings.

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

The IFRS Interpretations Committee (the Committee) met in London on 15 and 16 May 2012, when it discussed:

- Current agenda:
  - IAS 16 *Property, Plant and Equipment*—Contingent pricing of property, plant and equipment and intangible assets and IFRIC 12 *Service Concession Arrangements*—Payments made by an operator in a service concession arrangement
  - IAS 32 *Financial Instruments: Presentation*—Put options written over non-controlling interests
  - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Levies charged for participation in a specific market (date of recognition of a liability)
- IFRS Interpretations Committee tentative agenda decisions
- Issues considered for *Annual Improvements*
- Post-implementation review—IFRS 8 *Operating Segments*
- IFRS Interpretations Committee work in progress
- Trustee's review of the efficiency and effectiveness of the IFRS Interpretations Committee

## Current agenda

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

IAS 16 ***Property, Plant and Equipment***—Contingent pricing of property, plant and equipment (PPE) and intangible assets and IFRIC 12 ***Service Concession Arrangements***—Payments made by an operator in a service concession arrangement

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

- a. be recognised at the start of the concession as an asset with a liability to make the related

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### Future IFRS Interpretations Committee meetings

The next meetings are:  
10 and 11 July 2012  
18 and 19 September 2012  
13 and 14 November 2012

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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- payments; or
- b. be accounted for as executory in nature (ie be recognised as expenses as they are incurred over the term of the concession arrangement).

This issue was previously discussed by the Committee at its November 2011, January 2012 and March 2012 meetings.

At this meeting, the Committee discussed variable concession fees and a draft amendment to IFRIC 12 to incorporate the principles that were tentatively agreed by the Committee at the March 2012 meeting.

The Committee noted that the issue of variable concession fees is linked to the broader issue of contingent payments for the separate purchase of PPE and intangible assets outside of a business combination. This broader issue was previously discussed but not concluded on by the Committee in 2011. The Committee reconsidered the contingent payments issue at this meeting at the same time as discussing the variable concession fees and payments issue related to IFRIC 12.

At this meeting, the majority of the Committee members agreed that the principles that the Board is developing in the Leases project should be used as the basis for the accounting for contingent payments for the separate purchase of PPE and intangible assets.

The Committee directed the staff to prepare a paper to be presented at a future meeting which will consider:

- whether the characteristics of contingent payments for the separate purchase of PPE and intangible assets are similar to the characteristics of variable payments in leases;
- what amendments would need to be made to IFRSs to enable the accounting for contingent payments for the separate acquisition of PPE and intangible assets to be consistent with the principles in the leases project; and
- whether the accounting for contingent payments in IFRS 3 *Business Combinations* is an alternative to the Leases project.

At this meeting, in addition to tentatively reaffirming their previous decisions, the Committee tentatively decided in the context of contractual payments to be made by an operator under a service concession arrangement within the scope of IFRIC 12:

- that the accounting for variable payments, when the intangible asset model is applied in accordance with IFRIC 12, should be consistent with the accounting for contingent payments for acquisitions of PPE and intangible assets.
- that the accounting for variable payments, when the financial asset model is applied in accordance with IFRIC 12, should be consistent with the accounting for contingent payments to customers under IAS 18.

The Committee tentatively agreed that it would prefer to publish the exposure draft of amendments to IFRIC 12 and any other IFRSs at the same time as the re-exposure document for Leases is published.

### IAS 32 *Financial Instruments*—Put options written over non-controlling interests

Over several meetings, the Committee has discussed aspects of the accounting for put options written on non-controlling interests in the consolidated financial statements of the controlling shareholder ('NCI puts'). Constituents have expressed concerns about the diversity in accounting for the subsequent measurement of the financial liability that is recognised for NCI puts.

The Committee discussed several possible short-term solutions and, in March 2011, it agreed that excluding NCI puts from IAS 32 through a narrow-scope amendment was a viable solution. The scope exclusion would change the measurement basis of NCI puts to the measurement that is used for other derivative contracts.

In September 2011 the Board decided not to proceed with the Committee's proposal to amend the scope of IAS 32. However, the Board asked the Committee to consider addressing the diversity in accounting, not by changing the measurement basis of the NCI puts, but by clarifying the accounting for subsequent changes in those liabilities.

In November 2011, the Committee confirmed that it was willing to consider this issue further and

decided to take the issue back onto its agenda. It asked the staff to obtain clear guidance from the Board on how the Board would like the Committee to take the issue forward.

At its meeting in November 2011 the IASB voted to ask the Committee to analyse the following two issues:

- a. whether changes in the measurement of the NCI put should be recognised in profit or loss (P&L) or equity; and
- b. whether the clarification described in the bullet point above should be applied to only NCI puts or to both NCI puts and NCI forwards.

In response to the Board's request, at its meeting in January 2012 the Committee discussed an analysis of the alternative views on those two issues. Acknowledging that the Board had decided not to pursue the Committee's preferred solution to exclude NCI puts from the scope of IAS 32, the Committee recommended that the Board should address the diversity in accounting by proposing to amend IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* to clarify that all changes in the measurement of the NCI put must be recognised in P&L.

The Committee noted that paragraph 30 of IAS 27 and paragraph 23 of IFRS 10 give guidance on the accounting in circumstances when the respective ownership interests of the controlling shareholder and non-controlling interest shareholder change. The Committee also noted that the NCI put is a financial liability and its remeasurement does not change the respective ownership interests of the controlling shareholder or the non-controlling interest shareholder. Consequently, the Committee thinks that these two paragraphs are not relevant to the issues being considered. The Committee further noted that the proposed clarification is consistent with the requirements for other derivatives written on an entity's own equity instruments.

At its meeting in February 2012 the Board discussed the Committee's recommendation. The Board agreed with the Committee's conclusion that changes in the measurement of the NCI put must be recognised in P&L. However, the Board decided not to amend IFRSs but voted to request that the Committee should publish a draft Interpretation. The Board noted that the draft Interpretation would not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 *Business Combinations* (2004). IFRS 3 (2008) provides the relevant measurement requirements for those contracts.

At this meeting, the Committee voted to publish a draft Interpretation to clarify that all changes in the measurement of the NCI put must be recognised in P&L, consistent with its conclusions at its January 2012 meeting. The draft Interpretation will propose retrospective application and have a comment period of 120 days. Thirteen Committee members supported this decision and one objected.

**IAS 37 *Provisions, Contingent Liabilities and Contingent Assets***—Levies charged for participation in a specific market (date of recognition of a liability)

The Committee received a request to clarify whether, under certain circumstances, IFRIC 6 *Liabilities arising from participating in a specific market—Waste Electrical and Electronic Equipment* should be applied by analogy to identify the obligating event that gives rise to a liability for other levies charged by public authorities on entities that participate in a specific market. The concern relates to when the liability to pay a levy should be recognised and to the definition of a present obligation in IAS 37.

At the May 2012 meeting, the Committee reviewed a draft interpretation presented by the staff that addresses the accounting for levies charged by public authorities on entities that operate in a specific market. The Committee decided to publish for public comment the draft interpretation with a comment period of 90 days. Twelve Committee members supported this decision and one objected. One Committee member was absent.

The draft interpretation addresses the accounting for levies that are recognised in accordance with IAS 37. It does not address the accounting for income taxes that are within the scope of IAS 12 *Income Taxes*. The Committee reached the following consensus in the draft interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenues in the current period and the calculation of the

levy is based upon revenues generated in a previous period, the obligating event is that levy is the generation of revenues in the current period.

- An entity does not have a constructive obligation to pay a levy that will arise from operating in a future period as a result of being economically compelled to continue operating in that future period.
- The preparation of financial statements under the going concern principle does not imply that an entity has a present obligation to continue operating in the future and therefore does not lead to the recognition of a liability at a reporting date for levies that will arise from operating in a future period.
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy as identified by the legislation occurs over a period of time). For example, a liability to pay a levy is recognised progressively if the obligating event is the generation of revenues in the current period over a period of time.
- The liability to pay a levy that is within the scope of this interpretation gives rise to an expense.
- The same recognition principles shall be applied in the interim financial statements as are applied in the annual financial statements. As a result, in the interim financial statements, the levy expense should not be:
  - anticipated if there is no present obligation to pay the levy at the end of the interim reporting period; or
  - deferred if a present obligation to pay the levy exists at the end of the interim period.

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## IFRS Interpretations Committee tentative agenda decisions

*The Committee reviewed the following matters and tentatively decided that they should not be added to the Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Committee's agenda, will be reconsidered at the Committee meeting in September 2012. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by **26 July 2012** to: [ifric@ifrs.org](mailto:ifric@ifrs.org). Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

**IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 17 *Leases*—  
Purchase of right to use land**

In January 2012, the Committee received a request to clarify whether the purchase of a right to use land should be accounted for as:

- a purchase of property, plant and equipment;
- a purchase of an intangible asset; or
- a lease of land.

In the fact pattern submitted, the laws and regulations in the jurisdiction concerned do not permit entities to own freehold title to land. Instead entities can purchase the right to exploit or build on land. According to the submitter, there is diversity in practice on how to account for a land right in the jurisdiction.

The Committee identified characteristics of a lease in the fact pattern considered, based on the definition of a lease as defined in IAS 17.

The Committee noted that the useful life for depreciation purposes might include the renewal periods and that judgement will need to be applied in making this assessment. The Committee further noted that a lease could be indefinite with extensions or renewals and, therefore, the existence of an indefinite period does not prevent the right to use from qualifying as a lease in accordance with IAS 17.

The Committee, notwithstanding the preceding observations, noted that the particular fact pattern is specific to a jurisdiction.

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

**IAS 19 *Employee Benefits***—Accounting for contribution-based promises - Impact of the 2011 amendments to IAS 19

The Committee received a request seeking clarification about the accounting in accordance with IAS 19 (2011) for contribution-based promises. An underlying concern in the submission was whether the revisions to IAS 19 in 2011, which for example clarified the treatment of risk sharing features related to defined benefit obligations, affect the accounting for contribution-based promises.

The Committee noted that the 2011 amendments to IAS 19 that clarified the treatment of risk-sharing features address arrangements in which the cost of a pension promise is shared between the employee and the employer. It did not intend to address elements specific to contribution-based promises. Accordingly, the Committee does not expect the 2011 amendments to cause changes to the accounting for contribution-based promises, unless such promises also include elements of risk-sharing arrangements between employees and employers. The Committee also noted that the amendments in 2011 might affect how changes in contribution-based promises are presented. Finally, the Committee noted that the Board expressed, in paragraph BC148 of the revised standard, that addressing concerns about the measurement of contribution-based promises and similar promises was beyond the scope of the 2011 amendments.

On the basis of the analysis described above, the Committee [decided] not to add the issue to its agenda, it will however decide, at a future meeting, whether to address the accounting for contribution-based promises (see Committee work in progress below).

**IAS 39 *Financial Instruments: Recognition and Measurement***—Accounting for different aspects of restructuring Greek Government Bonds

The Committee received a request for guidance on the circumstances in which the restructuring of Greek government bonds (GGB) should result in derecognition of the whole asset, or only part of it, in accordance with IAS 39. In particular, the Committee has been requested to consider the following questions:

- Whether the portion of the old GGBs that are exchanged for twenty new bonds with different maturities and interest rates should be derecognised, or conversely accounted for as a modification or transfer that would not require derecognition?
- Whether IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would be applicable in analysing the submitted fact pattern?
- Whether either paragraphs AG8 or AG62 of IAS 39 would be applicable to the fact pattern submitted if the GGBs were not derecognised?
- What is the appropriate accounting for the GDP-linked security that was offered as part of the restructuring of GGBs?

Exchange of financial instruments: derecognition?

The Committee noted that the request has been made within the context of a narrow fact pattern. The narrow fact pattern highlights the diversity in views that has arisen in relation to the accounting for the portion of the old GGBs that is exchanged for twenty new bonds with different maturities and interest rates. The submitter asked the Committee to consider whether these should be derecognised, or conversely accounted for as a modification or transfer that would not require derecognition?

In addition, the Committee has been asked to consider whether IAS 8 would be applicable in analysing the submitted fact pattern, and whether the exchange can be considered a transfer within the scope of paragraph 17(b) of IAS 39.

The Committee observed that the term 'transfer' is not defined in IAS 39. However, the potentially relevant portion of paragraph 18 of IAS 39 states that an entity transfers a financial asset if it transfers the contractual rights to receive the cash flows of the financial asset. The Committee noted that in the fact pattern submitted, the bonds are transferred back to the issuer rather than a third party. Accordingly, the Committee believed that the transaction should be assessed against paragraph 17(a) of IAS 39.

In applying paragraph 17(a) of IAS 39, the Committee noted that in order to determine whether the financial asset is extinguished it is necessary to assess the changes made as part of the bond exchange against the notion of 'expiry' of the rights to the cash flows. The Committee also noted that if an entity applies IAS 8 because of the absence in IAS 39 of an explicit discussion of when a modification of a financial asset results in derecognition, applying IAS 8 requires judgement to develop and apply an accounting policy. Paragraph 11 of IAS 8 requires that in determining an appropriate accounting policy, consideration must first be given to the requirements in IFRSs dealing with similar and related issues. The Committee noted that in the fact pattern submitted, that requirement would lead to the development of an analogy to the notion of a substantial change of the terms of a financial liability in paragraph 40 of IAS 39.

Paragraph 40 of IAS 39 sets out that such a change can be effected by the exchange of debt instruments or by way of modification of the terms of an existing instrument. Hence, if this analogy to financial liabilities is applied to financial assets, a substantial change of terms (whether effected by exchange or by modification) would result in derecognition of the financial asset.

The Committee noted that if the guidance for financial liabilities is applied by analogy to assess whether the exchange of a portion of the old GGBs for twenty new bonds is a substantial change of the terms of the financial asset, the assessment needs to be made taking into consideration all of the changes made as part of the bond exchange.

In the fact pattern submitted, the relevant facts led the Committee to conclude that, in determining whether the transaction results in the derecognition of the financial asset, both approaches (ie extinguishment under paragraph 17(a) of IAS 39 or substantial change of the terms of the asset) would result in derecognition.

The Committee considered the following aspects of the fact pattern in assessing the extent of change that results from the transaction:

- A holder of a single bond has received in exchange for one portion of the old bond twenty bonds with different maturities and cash flow profiles as well as other instruments in accordance with the terms and conditions of the exchange transaction.
- All of the bondholders received the same restructuring deal irrespective of the terms and conditions of their individual holdings. This indicates that the individual instruments, terms and conditions were not taken into account. The different bonds (series) were not each modified in contemplation of their respective terms and conditions but instead replaced by a new uniform debt structure.
- The terms and conditions of the new bonds are substantially different from those of the old bonds; this includes many different aspects such as the change in governing law, the introduction of contractual collective action clauses and the introduction of a co-financing agreement that affects the rights of the new bond holders, and modifications to the amount, term and coupons.

The Committee noted its analysis used as the starting point the assumption in the submission that the part of the principal amount of the old GGBs that was exchanged for new GGBs could be separately assessed for derecognition. The Committee emphasised that this assumption was more favourable for achieving partial derecognition than looking at the entirety of the old bond. Hence, its conclusion that the old GGBs should be derecognised would apply even more so when taking into account that the exchange of the old GGBs was as a matter of fact the result of a single agreement that covered all aspects and types of consideration for surrendering the old GGBs. As a consequence, the Committee noted that partial derecognition did not apply.

Consequently, the Committee [decided] not to add the issue to its agenda.

Application of paragraphs AG62 or AG8 of IAS 39 to the submitted fact pattern

The Committee noted that the questions raised by the submitter assume that the old GGBs in the fact pattern would not be derecognised. In the submitted fact pattern, the Committee concluded that the old GGBs are derecognised. The Committee noted that because of its conclusion on derecognition these questions did not need to be answered.

Accounting for the GDP-linked security granted as part of the restructuring of

The Committee discussed the request for guidance on the appropriate accounting for the GDP-linked security that was offered as part of the restructuring of GGBs.

The submitter noted that IAS 39 refers to a 'non-financial variable that is not specific to a party to the contract' but does not define the meaning of that term. The Committee noted that the four alternatives in the submitted fact pattern were based on the assumption that the indexation to the issuer's GDP is a non-financial variable specific to a party to the contract. The Committee noted that the question of what constitutes an underlying that is a non-financial variable specific to a party to the contract had been considered on several previous occasions by itself and the Board. Therefore, the Committee was concerned that it could not resolve the issue efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process and that it was not probable that it would be able to reach a consensus on the issue on a timely basis. The Committee considered that it would therefore remain an open question whether the assumption in the submission is appropriate.

However, the Committee thought that it could highlight some aspects that should be considered when assessing the accounting for the GDP-linked securities. The Committee highlighted the following aspects:

- The GDP-linked security is a structured option that entitles the holder to cash payments depending on the nominal and the real GDP of the issuer exceeding particular thresholds.
- Mandatory classification as at fair value through profit or loss only applies, by definition, if the GDP-linked security is a derivative or is otherwise held for trading.
- The definition of loans and receivables excludes those financial assets "for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale".
- The definition of held-to-maturity investments requires that an entity has the positive intention and ability to hold that financial asset to maturity. The application guidance in IAS 39 clarifies that "the criteria for classification as a held-to-maturity investment are met for a financial asset that is callable by the issuer if the holder intends and is able to hold it until it is called or until maturity and the holder would recover substantially all of its carrying amount".
- Unless the GDP-linked securities are classified as at fair value through profit or loss they would be classified as available for sale debt instruments.
- Entities should consider the operational complexities of applying the effective interest method to the GDP-linked securities owing to their complex cash flow profile.

The Committee considered that no clarification of IAS 39 was required. Even if changes were required, the Committee considered that IFRS 9 already used a different classification for financial assets. The Committee further noted that the issue also relates to a current IASB project (the limited review of classification and measurement under IFRS 9). Consequently, the Committee [decided] not to add the issue to its agenda.

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## Issues considered for **Annual Improvements**

*The Committee assists the IASB in Annual Improvements by reviewing proposed improvements to IFRSs and making recommendations to the Board. Specifically, the 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 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 Board for discussion, in a public meeting, before being finalised. Approved Annual Improvements to IFRSs (including exposure drafts and final standards) are issued by the Board.*

Issues recommended for inclusion in the 2011-2013 cycle for Annual Improvements

The Committee received a request to address an issue related to the meaning of 'effective' in paragraph 7 of IFRS 1. The submitter notes that, if there is a new IFRS that is not yet mandatory but that can be adopted early, there may be two possible versions of an IFRS that are effective at the end of an entity's first IFRS reporting period.

The Committee agreed that an entity has the choice between applying an old IFRS or adopting a new IFRS. If a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements, provided the same version is applied throughout the periods covered by the entity's first IFRS financial statements.

The Committee observed that the requirement in paragraph 7 is clear, but paragraph BC11 needs clarification through Annual Improvements to avoid unnecessary misunderstanding. Consequently, the Committee decided to recommend that the Board should amend BC11 by adding a new paragraph in the Basis for Conclusions.

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## Post-implementation review—IFRS 8 Operating Segments

*In 2007 the Trustees added a post-implementation review process (PIR) of major new IFRSs and major amendments to IFRSs as a mandatory step to the IASB's due process requirements. This process consists of two phases:*

- a. an initial assessment and public consultation phase; and*
- b. an evaluation of evidence and presentation of findings phase.*

*The initial assessment process draws on a broad network of IFRS-related bodies and interested parties, including the Committee.*

At this meeting the Committee discussed how the proposed general approach to the Board's post implementation review process had changed since they were consulted on the generic methodology of PIRs in March 2011. They also reviewed the draft schedule of issues identified for investigation during the PIR of IFRS 8.

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## IFRS Interpretations Committee work in progress

### IFRS 3 **Business Combinations**—Continuing employment

The Committee received a request for guidance on the accounting in accordance with IFRS 3 for contingent payments to selling shareholders in circumstances in which those selling shareholders become employees. The submitter asked the Committee to clarify whether paragraph B55(a) of IFRS 3 is, on its own, conclusive in determining that an arrangement in which payments to an employee that are forfeited upon termination of employment is remuneration for post-combination services and not part of the consideration for an acquisition.

The Committee noted that the issue is widespread and that paragraph B55(a) is generally interpreted as conclusive, however some diversity in practice exists.

The Committee also noted that IFRS 3 is part of the joint effort by the Board and the US-based Financial Accounting Standards Board (FASB) to promote the convergence of accounting standards. The Committee was advised that the US GAAP guidance equivalent to paragraph B55(a) is interpreted as conclusive.

Consequently, the Committee asked the staff to consult the two boards on whether they think that paragraph B55(a) of IFRS 3 and the US GAAP equivalent guidance should be conclusive when analysing the contingent payments described. Dependent on that consultation the boards will be asked if and how IFRSs and US GAAP should be amended.



IAS 12 **Income Taxes**—Recognition of deferred tax for a single asset in a corporate entity

The Committee received a request to clarify the accounting for deferred tax in the consolidated financial statements of the parent, when the subsidiary has only one single asset within it (the asset inside) and the parent expects to recover the carrying amount of the asset inside by selling the shares in the subsidiary (the shares).

The Committee noted significant diversity in practice in accounting for deferred tax when tax law attributes separate tax bases to the asset inside and the parent's investment in the shares and each tax base is separately deductible for tax purposes:

- a. some follow the tax perspective and recognise deferred tax related to both the asset inside and the shares; while
- b. others recognise only the deferred tax related to the shares.
- c. a third group of preparers determines deferred tax by comparing the carrying amount (in the consolidated financial statements) of the asset inside with the tax base of the shares and using the tax rate that applies if the parent recovers the carrying amount of the shares.

The Committee also noted that current IAS 12 requires the parent to recognise both the deferred tax related to the asset inside and the deferred tax related to the shares, if tax law considers the asset inside and the shares to be two separate assets and if no specific exceptions in IAS 12 apply.

Considering however the concerns raised by commentators in respect of these requirements in current IAS 12, the Committee decided not to recommend an Annual Improvement to the Board in this meeting but to explore further options to address this issue that would result in a different accounting for this specific type of transactions.

Consequently, the Committee directed the staff to analyse whether the requirements of IAS 12 should be amended in response to the concerns raised by commentators. The Committee noted that such amendments would be more than simply clarifying or correcting in nature and therefore beyond the scope of the Annual Improvements project. However targeted amendments to IAS 12 that are narrow in scope could be developed by the Committee in consultation with the Board as separate amendments to IAS 12. The staff will present such an analysis including a recommendation in a future meeting.

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

The 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?

In this meeting, the 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 Committee noted that it reached a conclusion in 2005 on the subject of whether or not it would be appropriate to recognise a regulatory asset. At that time the 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, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The Committee noted that its past conclusions are still valid because there have been no major changes made to these IFRSs that warrant revisiting this issue since the Committee reached that conclusion. The Committee further observed that recognition of regulatory assets and liabilities would generally not be in accordance with the IASB's conceptual framework.

The Committee also noted that in the Board's project on rate-regulated activities, the Board 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. Given the status

reached by the Board, the Committee observed that this issue is too broad for the Committee to address within the confines of existing IFRSs and the conceptual framework.

Nevertheless, the Committee noted that the Board would discuss in the May 2012 Board meeting whether the Board should add a project related to rate-regulated activities to its agenda. Consequently, the Committee decided to wait for the results of the Board's discussions before the Committee issues a tentative agenda decision on this issue.

The staff will inform the Committee of the results of the Board's discussions in the July Committee meeting so that the Committee can decide how to finalise this conclusion.

**IAS 19 *Employee benefits***—Accounting for contribution-based promises –  
Reconsideration of Draft Interpretation D9 ***Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions***

The submission considered by the Committee in respect of the application of IAS 19 to contribution-based promises raised a broader question about how to account for such pension plans in addition to the narrow question about the impact of the 2011 amendments to IAS 19 (see tentative agenda decision above).

The Committee has previously considered this issue in 2002-2006. In 2004 it published IFRIC Draft Interpretation D9. In November 2006 it decided to refer the issue to the Board to be included in the Board's project on post-employment benefits. Although the Board initially intended to address contribution-based promises in its project, it later decided to defer this work to a future broader project on employee benefits

In the light of the Board's decision not to address the accounting for contribution-based promises at present and the ongoing concerns about how to account for such pension arrangements, the Committee decided to revisit the issues. Accordingly, the Committee asked the staff to bring proposals on how to address the accounting for contribution-based promises, with a limited scope such as the proposals in D9, to a future meeting.

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

In April 2012, the Committee received a request seeking clarification on paragraph 25 of IAS 41. This paragraph permits the use of a residual method to arrive at the fair value of biological assets 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, when using the residual method, the use of the fair value of land (ie based on its highest and best use as required by IFRS 13) when its highest and best use is different from its current use, might result in a minimal or nil fair value for the biological assets. This causes tension between IAS 41 and IFRS 13 when using the residual method.

The Committee observed that it is unlikely that the residual method will be appropriate if it returns a nil or minimal value for the biological assets.

The Committee decided not to propose an amendment to IFRSs in respect of this issue, and asked the staff to bring back proposed wording to the next meeting for a tentative agenda decision.

**IFRIC 15 *Agreements for the Construction of Real Estate***—Meaning of continuous transfer of control in real estate transactions

At this meeting the Committee received an update on the Board's discussion of IFRIC 15 that took place at the February 2012 Board meeting.

At that meeting the Board discussed four possible courses of action that the Committee could take with regard to IFRIC 15:

- a. Option A—retain IFRIC 15 as issued;

- b. Option B—revise IFRIC 15 to include the Board's tentative decisions about the methods to be used, which were included in the revenue exposure draft;
- c. Option C—revise IFRIC 15 to include indicators of the transfer of control and risks and rewards for use in interpreting IAS 18 *Revenue*; and
- d. Option D—withdraw IFRIC 15.

At the February Board meeting, the Board agreed with the staff recommendation to retain IFRIC 15 in its current form. They did not recommend adding an example or any further guidance to the interpretation.

The Committee duly noted the Board's conclusion and advice.

#### Committee outstanding issues update

The Committee received a report on two outstanding issues for consideration at a future meeting. In addition, the Committee was advised that the issue relating to accretion of interest on prepayment balances relating to purchase contracts will be brought to the Committee in a future meeting after the Board has redeliberated proposals for accounting for the time value of money in the revenue recognition project.

With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

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## Trustees' review of efficiency and effectiveness of the IFRS Interpretations Committee

### Recommendations

On 2 May 2012, the Trustees of the IFRS Foundation published their findings following a review of the efficiency and the effectiveness of the IFRS Interpretations Committee. The primary recommendations are:

- that a broader range of 'tools' should be developed by the Committee, enabling it to be more responsive to requests for assistance;
- to revise the criteria used to determine which issues the Committee should take action on;
- to improve the Committee's communication regarding issues that it decides not to address; and
- to expand the Committee's outreach and the transparency surrounding its decisions regarding which issues to address.

The Committee discussed the progress being made on the implementation of these recommendations.

The Trustee's report is available [here](#).

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