IFRIC Update

From the IFRS Interpretations Committee

March 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 **12 and 13 March 2013**, when it discussed:

the current agenda:

IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements*—Variable payments for the separate acquisition of property, plant and equipment (PPE) and intangible assets;
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;
Issues recommended for a narrow-scope amendment; and
Interpretations Committee work in progress.

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Future IFRS Interpretations Committee meetings

The next meetings are:
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 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:

a. be included in the measurement of an asset and liability at the start of the concession; 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).

Where concession fees are variable, the Interpretations Committee noted that the issue 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 the January 2013 meeting, the Interpretations Committee tentatively decided to recommend to the IASB that it should amend IAS 16, IAS 38 and IAS 39 *Financial Instruments: Recognition and Measurement*, to require that the adjustments of the carrying amount of a financial liability, other than those adjustments for finance costs that are not eligible for capitalisation in accordance with IAS 23, are recognised as corresponding adjustments to the cost of the asset to the extent that IAS 16 or IAS 38 requires so. The Interpretations Committee also decided to proceed with their recommendation to propose amendments to IFRIC 12. Those proposed amendments were previously discussed during the March and May 2012 Interpretations Committee meetings and address the accounting for fixed and variable payments made by an operator to a grantor as part of a service concession arrangement.

At this meeting, the Interpretations Committee reviewed the proposed amendments to IAS 16, IAS 38 and IAS 39 and IFRIC 12. It decided to recommend to the IASB that it should amend IAS 16, IAS 38 and IAS 39 and IFRIC 12 as part of a narrow-scope project. The staff will prepare a paper to present at a future IASB 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 imposed by governments other than income taxes. The comment period ended on 5 September 2012.

At the January 2013 meeting, the Interpretations Committee finished its redeliberations and asked the staff to prepare a final Levies Interpretation. The final Interpretation will address the accounting for a liability to pay a levy that is accounted for in accordance with IAS 37.

At this meeting, the Interpretations Committee concluded that it did not need to re-expose the Interpretation and agreed to publish the Levies Interpretation subject to minor drafting amendments. Interpretations Committee members will now be asked to ballot the Interpretation. One Committee member declared an intention to object to the publication of the Interpretation and one Committee member declared an intention to abstain. The Interpretation will be submitted to the IASB for ratification at a future IASB 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 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 refers to the use of a residual method as an example of a possible valuation technique 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 might result in a minimal or nil fair value for the biological assets when the highest and best use of the land is different from its current use.

The Interpretations Committee observed that, in the development of IFRS 13, the IASB considered the situation where the highest and best use of an asset in a group of assets is different from its current use. The Interpretations Committee noted, however, that IFRS 13 does not explicitly address the accounting implications if those circumstances arise and the fair value measurement of the asset based on its highest and best use assumes that other assets in the group need to be converted or destroyed.

The Interpretations Committee also noted that this issue might not only affect the accounting for assets within the scope of IAS 41 but it could also affect the accounting for assets in the scope of other Standards.

In the light of the analysis above, the Interpretations Committee observed that this issue is too broad for it to address and, accordingly, the Interpretations Committee decided not to take this issue onto its agenda. The Interpretations Committee directed the staff to ask the IASB to provide clarification of the accounting requirements for the issues considered by the Interpretations Committee.

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.

In the absence of a Standard that specifically applies to this transaction the Interpretations Committee observed that the analysed transaction has 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.

If the listed non-operating entity qualifies as a business on the basis of the guidance in paragraph B7 of IFRS 3, IFRS 3 would be applicable to the transaction. However, if the listed non-operating entity is not a business, the transaction is not a business combinations and is therefore not within the scope of IFRS 3. Because the analysed transaction is not within the scope of IFRS 3, the Interpretations Committee noted that it is therefore a share-based payment transaction which 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. The Interpretations Committee concluded that, regardless of the level of monetary or non-monetary assets owned by the non-listed operating entity, the entire difference should be considered to be payment for a service of a stock exchange listing for its shares, and that no amount should be considered a cost of raising capital. The Interpretations Committee observed that the service received in the form of a stock exchange listing does not meet the definition of an intangible asset because it is not "identifiable" in accordance with paragraph 12 of IAS 38 *Intangible Assets* (ie it is not separable). The service received also does not meet the definition of an asset that should be recognised in accordance with other Standards and the *Conceptual Framework*.

The Interpretations Committee also observed that on the basis of the guidance in paragraph 8 of IFRS 2 which states that "when the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses", 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, neither an interpretation nor an amendment to Standards was necessary and consequently 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 July 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 27 May 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 19 *Employee Benefits*—Pre-tax or post-tax discount rate

The Interpretations Committee received a request for guidance on the calculation of defined benefit obligations. In particular, the submitter asked the Interpretations Committee to clarify whether, in accordance with IAS 19 *Employee Benefits* (2011), the discount rate used to calculate a defined benefit liability should be a pre-tax or post-tax rate.

The tax regime in the jurisdiction of the submitter can be summarised as follows:

a. the entity receives a tax deduction for contributions that are made to the plan;

b. the plan pays tax on the contributions received and on the investment income earned; but

c. the plan does not receive a tax deduction for the benefits paid.

The Interpretations Committee noted that:

a. paragraph 76(b)(iv) of IAS 19 (2011) mentions only taxes on contributions and benefits payable within the context of measuring the defined benefit obligation;

b. paragraph 130 of IAS 19 (2011) states that: in determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation; and

c. according to paragraph BC130 of IAS 19 (2011) the measurement of the obligations should be independent of the measurement of any plan assets actually held by the plan.

Consequently, the Interpretations Committee observed that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate.

On the basis of the analysis above the Interpretations Committee [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 2010–2012 Cycle*—comment letter analysis**

The Interpretations Committee deliberated on the comments received on two of the proposed amendments that had been included in the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* published in May 2012. The recommendations of the Interpretations Committee to the IASB on how to proceed with these two proposed amendments mean that it has completed its deliberations on the comments received on all the proposed amendments that have been included in that Exposure Draft.

Annual Improvements recommended for finalisation

IFRS 3 *Business Combinations*—Accounting for contingent consideration in a business combination

The Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* proposed to amend IFRS 3 to clarify the classification and subsequent measurement requirements for contingent consideration in a business combination.

The comment letter analysis for this Annual Improvement was presented to the Interpretations Committee at the January 2013 meeting. At that meeting, the Interpretations Committee questioned the consistency of the proposed subsequent measurement requirements for contingent consideration liabilities. In particular, they questioned the consistency of recognising fair value changes that relate to changes in the entity's credit risk in other comprehensive income for some contingent consideration liabilities but not for others.

The Interpretations Committee asked that the staff to look into whether the subsequent measurement requirements for contingent consideration liabilities could be made more consistent.

As a result of this analysis, the staff recommended to the Interpretations Committee that a consistent approach to the subsequent measurement for contingent consideration liabilities would be:

a. held-for-trading contingent consideration should be subsequently measured at fair value through profit or loss;

b. 'other' financial liability contingent consideration should be subsequently measured in accordance with the fair value option in IFRS 9 *Financial Instruments* and should therefore be required to apply paragraph 5.7.7–5.7.9 of IFRS 9; and

c. non-financial liability contingent consideration should be subsequently measured at fair value with the change attributable to the non-performance risk of those liabilities presented in other comprehensive income and the remaining fair value change presented in profit or loss.

The Interpretations Committee did not agree with the staff's proposals for non-financial liability contingent consideration because it felt that it was more complex than necessary. Further, the Interpretations Committee did not agree with the proposal to apply the fair value option guidance to non-derivative financial liabilities. Instead, the Interpretations Committee decided to recommend that all liability contingent consideration should be subsequently measured at fair value through profit or loss.

The Interpretations Committee therefore decided to recommend to the IASB that it should proceed with this amendment, incorporating the decision that all liability contingent consideration should be required to be subsequently measured at fair value through profit or loss.

Annual Improvements not recommended for finalisation

IAS 7 *Statement of Cash Flows*—Interest paid that is capitalised

The Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* proposed to amend IAS 7 to clarify the classification in the statement of cash flows of interest paid that is capitalised into the cost of property, plant and equipment.

The proposed amendments were to:

a. propose that the example guidance in paragraph 16(a) of cash flows arising from investing activities should explicitly include interest paid that is capitalised into the cost of property, plant and equipment; and
b. clarify that interest paid that is capitalised in accordance with IAS 23 *Borrowing Costs* should be classified in conformity with the classification of the underlying asset to which those payments were capitalised.

After considering the comments received from the respondents, the Interpretations Committee decided to recommend the IASB to refrain from proceeding with the proposed amendment to paragraphs 16(a) and 33 and with the proposed addition of paragraph 33A to IAS 7 due to the concerns raised about the implementation of the amendment.

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

IAS 7 *Statement of Cash Flows*— Classification of expenditures in the statement of cash flows

In connection with its deliberations on IAS 7 on the definitions of operating, investing and financing activities (refer to the next section) the Interpretations Committee analysed the guidance in paragraph 16 of IAS 7 which makes explicit that "only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities". It observed that this guidance is:

a. leading to the misinterpretation that expenditures that give rise to recognised assets are, by default, investing activities; and

b. giving precedence to the second principle that the Committee had identified in previous meetings which is that "cash flows in IAS 7 should be classified consistently with the classification of the related or underlying item in the statement of financial position". The Interpretations Committee had identified in previous meetings that the primary principle behind the classification of cash flows in IAS 7 is that based on paragraph 11 of IAS 7, cash flows should be classified based on the nature of the activity in a manner that is most appropriate to the business of the entity, in accordance with the definitions of operating, investing and financing activities in paragraph 6 of IAS 7.

The Interpretations Committee noted that this guidance in paragraph 16 had originally been added to IAS 7 as an annual improvement ("Improvements to IFRS" April 2009) following a recommendation by the Interpretations Committee at that time.

During its deliberations in March 2013, the Interpretations Committee concluded that:

a. an expenditure that gives rise to a recognised asset should be classified as an investing activity when it meets the definition of an investing activity; and
b. an expenditure that does not give rise to a recognisable asset can also meet the definition of investing activities to the extent that this expenditure has been made for resources that are intended to generate future income and cash flows.

Consequently, to avoid misinterpretations, the Interpretations Committee proposes the IASB to delete the guidance in paragraph 16 that "only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities".

IAS 7 *Statement of Cash Flows*— Definitions of operating, investing and financing activities

At its March 2012 meeting the Interpretations Committee observed that the primary principle behind the classification of cash flows in IAS 7 is that cash flows should be classified based on the nature of the activity in a manner that is most appropriate to the business of the entity, in accordance with the definitions of operating, investing and financing activities in paragraph 6 of IAS 7.

At its July 2012 meeting the Interpretations Committee discussed an analysis of some fact patterns to

illustrate the application of the identified primary principle behind the classification of the cash flows, in an attempt to consider how to develop further guidance on the application of that principle.

At its March 2013 meeting, the Interpretations Committee discussed how the definitions of operating, investing and financing cash flows in IAS 7 could be made clearer and thus could lead to a more consistent application of the primary principle. In this respect it concluded that clarifying the application of the primary principle is a matter that is too broad for the Interpretations Committee to address and, as a consequence, it determined that it could not take a holistic approach to the specific fact patterns recently discussed regarding the classification of cash flows under IAS 7. During its deliberations, the Interpretations Committee observed that several specific requests regarding the classification of cash flows had been considered individually but it thought that amendments to IAS 7 on a piecemeal basis would not be appropriate unless the classification is evident from the current guidance in IAS 7 and an amendment to IAS 7 would make that classification clearer.

The Interpretations Committee also noted that respondents to the IFRS Foundation's Agenda Consultation (published in July 2011) the results of which were summarised in the feedback statement published in December 2012, did not cite IAS 7 or a project specifically related to the statement of cash flows as one that should be prioritised by the IASB. Consequently, the Interpretations Committee does not propose the IASB to further clarify in IAS 7 the application of the primary principle for the classification of cash flows.

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

The Interpretations Committee received a request to address the accounting for mandatory purchases of non-controlling interests that arise as a result of business combinations. The submission noted that IFRS 3 does not specifically address the accounting for a sequence of transactions that begins with an acquirer gaining control of an entity and is followed shortly thereafter by the acquisition of additional ownership interests as a result of a regulatory requirement that obliges the acquirer to offer to purchase the ownership interests of non-controlling-interest shareholders.

At its November 2012 meeting, the Interpretations Committee tentatively agreed that the initial acquisition of the controlling stake and the subsequent mandatory tender offer (MTO) should be treated as a single acquisition. The Interpretations Committee tentatively decided to propose that the guidance in IFRS 10 *Consolidated Financial Statements* on how to determine whether the disposal of a subsidiary achieved in stages should be accounted for as one transaction, or as multiple transactions, should also be applied to circumstances in which 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 that it should amend IFRS 3 through Annual Improvements.

Also at its November 2012 meeting, the Interpretations Committee 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 *Provisions, Contingent Liabilities and Contingent Assets* 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 that it should not amend IFRS 3.

At this meeting, the Interpretations Committee continued to discuss whether a liability should be recognised for the MTO. A small majority of Interpretations Committee members expressed the view that a liability should be recognised for the MTO in a manner that is consistent with IAS 32 *Financial Instruments: Presentation* at the date that the acquirer obtains control of the acquiree. Other Interpretations Committee members expressed the view that an MTO is not within the scope of IAS 32 or IAS 37 and that a liability should therefore not be recognised.

The Interpretations Committee acknowledged that in some jurisdictions an entity is obliged to offer to purchase the remaining ownership interests when it obtains less than a controlling stake (eg an entity obtains a 30 per cent stake and is obliged to offer to purchase the remaining 70 per cent). The Interpretations Committee noted that there may be similar questions in practice about whether a liability should be recognised in those circumstances.

The Interpretations Committee directed the staff to report its views on whether a liability should be recognised for the MTO to the IASB and noted that the IASB could address this issue as part of its post-implementation review of IFRS 3. The IASB plans to initiate that review later in 2013.

Issues recommended for a narrow-scope amendment

IFRS 2 *Share-based Payment*—Share-based payment awards settled net of tax withholdings

In the July 2012 meeting, the Interpretations Committee received an update on the issues that have been referred to the IASB but have not yet been addressed. The Interpretations Committee asked the staff to update the analysis and perform further outreach on an issue of the classification of a share-based payment transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments that would otherwise be issued to the counterparty upon exercise (or vesting) of the share-based payment award. The equity instruments are withheld by the entity in return for settling the counterparty's tax obligation that is associated with the share-based payment. The request received by the Interpretations Committee asked whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, if the entire award would otherwise be classified as equity-settled without the net settlement feature.

In this meeting, the Interpretations Committee observed that this issue is widespread and that there is significant diversity in practice on the basis of the updates on the outreach result provided by the staff. Consequently, the Interpretations Committee tentatively decided to recommend amendments to IFRS 2 to clarify the accounting for this type of share-based payment transaction.

The Interpretations Committee deliberated approaches to amending IFRS 2 to address this issue. In the discussions, the Interpretations Committee noted that divergent interpretations on the relevant requirements of IFRS 2 were expressed in its previous meetings and in the comment letters received on the tentative agenda decision issued in September 2010. Accordingly, the Interpretations Committee observed that it is difficult to reach a consensus on whether the portion withheld by the entity in the share-based payment transaction should be classified as cash-settled or equity-settled in the light of the existing requirements in IFRS 2. In addition, the Interpretations Committee sympathised with concerns that requiring a different classification of the portion that is withheld by the entity from the classification of the other portion could cause an undue burden to the entity when applying the Standard.

As a result of the discussions, the Interpretations Committee decided to recommend to the IASB that to mitigate the diversity in practice on this issue it should amend IFRS 2 in a narrow-scope amendment project by adding specific guidance that addresses limited types of share-based payment transactions with a net settlement feature. The guidance would be to clarify that a share-based payment transaction in which the entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet its minimum statutory tax withholding requirements would be classified as equity-settled in its entirety, if the entire award would otherwise be classified as equity-settled without the net settlement feature.

The Interpretations Committee directed the staff to bring the Interpretations Committee's recommendation to a future meeting of the IASB.

IFRS 2 *Share-based Payment*—Modification of a share-based payment from cash-settled to equity-settled

In the July 2012 meeting, the Interpretations Committee received an update on the issues that have been referred to the IASB but have not yet been addressed. The Interpretations Committee asked the staff to update the analysis and perform further outreach on an issue of the accounting for a modification of a share-based payment arrangement with employees that changes its classification from cash-settled to equity-settled. The request received by the Interpretations Committee asked for clarification on how to account for a share-based payment award in situations in which a cash-settled award is cancelled and is replaced by a new equity-settled award and the replacement award has a higher fair value than the original award.

In this meeting, the Interpretations Committee noted that the results of the outreach confirmed that this issue is widespread and that there is significant diversity in practice. This is primarily because IFRS 2 lacks guidance that addresses a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. Accordingly, the Interpretations Committee tentatively decided to recommend amendments to IFRS 2 to address the diversity in practice.

The Interpretations Committee decided to recommend to the IASB that it should amend IFRS 2 in a narrow-scope amendment project in a manner consistent with the following:

a. the cancellation of a share-based award followed by a replacement equity-settled award should be viewed as a modification of the share-based award because the economic substance of cancellation followed by replacement is the same as the modification of the terms of the original share-based award. This is consistent with the requirements in paragraph 28(c) of IFRS 2, which requires replacement of an equity-settled award to be accounted for in the same manner as a modification of

the original grant of equity instruments;

b. the new equity-settled award should be measured by reference to the modification-date fair value of the equity-settled award, because the modification-date should be viewed as the grant date of the new award in accordance with the definition of grant date in IFRS 2;

c. the liability recorded in respect of the original cash-settled award should be derecognised upon the modification and the equity-settled replacement award should be recognised to the extent that service has been rendered up to the modification date;

d. the unrecognised portion of the modification-date fair value of the new equity-settled award should be recognised as compensation expense over the remaining vesting period as the services are rendered; and

e. the difference between the carrying amount of the liability and the amount recognised in equity as at the modification date should be recorded in profit or loss immediately in order to show that the liability has been remeasured to its fair value at the settlement date in accordance with paragraph 30 of IFRS 2.

The Interpretations Committee directed the staff to bring the recommendation of the Interpretations Committee to a future meeting of the IASB.

Interpretations Committee work in progress

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Classification in conjunction with a planned initial public offering (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 with regard to the classification of a disposal group as held for sale, in the case of a disposal plan that is intended to be achieved by means of an IPO, but where the prospectus (ie the legal document with an initial offer) has not yet been approved by the securities regulator:

The submitter requested 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 had a preliminary discussion of this issue and directed the staff to do additional research on the general issues raised during the discussion and present some further analysis including a recommendation at a future Committee meeting. The staff will also bring a summary of the outreach performed by the staff on this issue.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Change in a disposal method from a plan to sell to a plan to distribute a dividend in kind

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 to sell a division by means of an initial public offering to a plan to spin off a division and distribute a dividend in kind to its shareholders.

The submitter requested the Interpretations Committee to clarify whether such a change in a disposal method would qualify as a change to a plan of sale.

The Interpretations Committee had a preliminary discussion of this issue and directed the staff to do some

further analysis including a recommendation at a future Committee meeting. The staff will also bring a summary of the outreach performed by the staff on this issue.

IFRS 7 *Financial Instruments: Disclosure*—Applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* to condensed interim financial statements

The Interpretations Committee received a request for guidance on the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* issued in December 2011 ('amendments to IFRS 7') to condensed interim financial statements. In particular, the submitter asked the Interpretations Committee to clarify the meaning of "interim periods within those annual periods" as used in paragraph 44R of IFRS 7. The submitter noted there was uncertainty about whether the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 should be included in condensed interim financial statements that are prepared in accordance with IFRSs and if so, whether these should be presented in every set of condensed interim financial statements or only in those in the first year in which the disclosure requirements are effective or are governed by the principles in IAS 34 *Interim Financial Reporting* which was not changed as a result of these amendments to IFRS 7.

The Interpretations Committee noted that the current wording of paragraph 44R has the potential to lead to divergent interpretations.

Consequently the Interpretations Committee requested the staff to consult with the IASB in order to determine what the IASB's intention was. The staff will report back to the Interpretations Committee at a future meeting.

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 if protective rights become exercisable, typically on the breach of a covenant in a borrowing arrangement that gives rise to a default, or whether protective rights can never affect an assessment of control.

The Interpretations Committee observed that paragraph 8 of the IFRS 10 requires an investor to reassess whether it controls an investee if facts and circumstances change and further observed that if the breach resulted in the protective rights becoming exercisable that did constitute such a change. They noted that the Standard does not include an exemption for protective rights from this need for reassessment. They also discussed the IASB's redeliberations on this topic and concluded that the IASB's clear intention was that protective rights should be included in a reassessment of control when facts and circumstances change.

The Interpretations Committee concluded that who controlled the investee would need to be reassessed after the breach occurred and after the rights in question became exercisable, but they did not think that they had enough information about the rights of the investor, bank or others to come to a conclusion about the outcome of that control assessment in the submitted example.

The Interpretations Committee tentatively decided that the agenda criteria were not met for this submission and requested that the staff should prepare an agenda decision for discussion at their May meeting.

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 November 2012 meeting, the Interpretations Committee noted that:

a. 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 an internationally recognised rating agency (ie 'AAA' and 'AA');
b. IAS 19 does not specify how to determine the market yields on HQCB and, in particular, it does not specify what grade of bonds should be designated as high quality;
c. an entity shall apply judgement in determining what the current market yields on HQCB are, taking into account the guidance in paragraphs 84–85 of IAS 19; and
d. an entity's policy for determining the discount rate should be applied consistently over time.

In its January 2013 meeting, the Interpretations Committee:

a. expressed support for the June 2005 Interpretations Committee agenda decision that, in determining

the discount rate, an entity shall include HQCB issued by entities operating in other countries, provided that they are issued in the currency in which the benefits are to be paid. A consequence of this view is that for a liability expressed in euros, the deepness of the market of HQCB should be assessed at the Eurozone level; and

b. requested the staff to consult the IASB.

At this 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. It provided the staff with some comments to address in drafting the proposals, particularly with respect to (c) and (d) above. In addition, the Interpretations Committee asked that the proposed amendment should also clarify that, in determining the discount rate, an entity shall include high quality corporate bonds issued in other countries, provided that they are issued in the currency in which the benefits are to be paid. The Interpretations Committee will discuss the staff proposals at a future meeting.

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

The Interpretations Committee received a request to clarify the accounting for a finance lease transaction in which a joint venturer (an entity) leases an item of property, plant and equipment to its joint venture. The request describes a situation in which the amount of the entity’s share of the gain from the transaction to be eliminated in accordance with paragraph 28 of IAS 28 exceeds the amount of the entity’s interest in the joint venture. Specifically, the submitter is seeking a clarification on 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, similarly to the requirement in paragraph 39 of IAS 28; 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, against what.

In addition, the submitter asked a further question about whether the lease transaction would qualify as a finance lease in a circumstance in which two joint venturers have a 50 per cent ownership interest in the joint venture respectively.

The Interpretations Committee discussed whether the entity should eliminate the whole of its share of the gain from a ‘downstream’ transaction when the entity’s share of the gain exceeds the carrying amount of the entity’s interest in the joint venture. The Interpretations Committee observed that paragraph 28 of IAS 28 states that, referring to ‘downstream’ and ‘upstream’ transactions, “the investor’s share in the associate’s or joint venture’s gains and losses resulting from those transactions is eliminated”. Consequently, the Interpretations Committee observed that the entity should eliminate all of its share of the gain from the transaction even if the entity’s share of the gain exceeds the carrying amount of the entity’s interest in the joint venture. The Interpretations Committee noted that its observations would apply to all ‘downstream’

transactions and not only to the finance lease example in the submission.

The Interpretations Committee also discussed how to present the corresponding entry for the amount of the eliminated gain that exceeds the carrying amount of the entity's interest in the joint venture. The Interpretations Committee, taking into consideration various types of 'downstream' transactions, noted that the accounting may change depending on the details of the 'downstream' transaction. Consequently, the Interpretations Committee requested the staff to bring further analysis and any proposed amendments to IAS 28 to the next meeting so that the Interpretations Committee can consider whether amendments could or should be made.

The Interpretations Committee did not discuss the submitter's further question about whether a lease from a joint venturer to a 50 per cent joint venture could qualify as a finance lease at this meeting. This issue will be brought back to the next meeting.

Interpretations Committee work in progress update

The Interpretations Committee received a report on three new issues and on seven ongoing issues for consideration at future meetings. The report also included two issues that were 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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