STAFF PAPER

22–23 January 2013

IFRS Interpretations Committee Meeting

Previous IFRIC IC meeting: Nov 2011

Project	**Annual Improvements to IFRSs—2010-2012 Cycle (ED/2012/1) comment letter analysis (part 2)**		
Paper topic	Cover note		
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Introduction

1. The IASB published its Exposure Draft (ED) *Annual Improvements to IFRSs 2010-2012 Cycle* (ED/2012/1) in May 2012. The comment period ended on 5 September 2012 and the IASB received 84 comment letters.

2. The IASB aims to issue the final amendments in Q2 2013, with an effective date of 1 January 2014 except for the proposed amendment to IFRS 3 *Business Combinations*. The proposed amendment to IFRS 3 might, depending on the results from the comment letter analysis, have an effective date of 1 January 2015, as originally proposed.

IFRS Interpretations Committee meeting in November 2012

3. The IFRS Interpretations Committee (the Interpretations Committee) discussed a comment letter analysis prepared by the staff at its meeting in November 2012 for the following proposed amendments: [1]

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

[1] http://www.ifrs.org/Meetings/Pages/IFRSInterNov012.aspx

- IFRS 8 *Operating Segments*—Reconciliation of the total of the reportable segments' assets to the entity's assets;
- IFRS 13 *Fair Value Measurement*—Short-term receivables and payables; and
- IAS 12 *Income Taxes*—Recognition of deferred tax assets for unrealised losses.

4. At that meeting, the Interpretations Committee decided to recommend that the IASB should finalise the first three proposed amendments, subject to drafting changes.

5. On the proposed amendment to IAS 12, the Interpretations Committee decided to recommend to the IASB that IAS 12 should be amended to clarify the accounting for deferred tax assets for unrealised losses.

6. The Interpretations Committee noted, however, that the comments received on the proposed amendment raised questions about two matters that require further analysis and decision:
   - whether an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows; and
   - whether an entity can assume recovery of an asset for more than its carrying amount when estimating probable future taxable profits against which deductible temporary differences can be utilised (see paragraph 24 of IAS 12).

7. The Interpretations Committee decided to recommend that these two issues should be resolved. However, it was not clear at this stage whether resolving these two issues could be achieved within the constraints of the Annual Improvements process, or whether this work would need to be undertaken as a narrow-scope amendment to IAS 12.

8. Before commencing work on these two matters, the Interpretations Committee therefore decided to consult the IASB on the most appropriate path forward.

IASB meeting in December 2012

9. The IASB discussed the issue at its meeting in December 2012[2] and 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:

   - 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

   - such a project, which goes beyond clarifications and corrections (ie 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 recently discussed by the US-based Financial Accounting Standards Board (FASB) for the same type of debt instruments.

10. Furthermore, the IASB agreed with the Interpretations Committee 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 the contractual cash flows.

11. We will prepare an analysis of the different approaches to account for deferred tax assets for unrealised losses and present it for discussion at a future Interpretations Committee meeting.

[2] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2012/December/9-IAS12-1212.pdf

Proposed amendment to IAS 36 Impairment of Assets—Harmonisation of disclosures for value in use and fair value less costs of disposal

12. The ED proposed to amend the disclosure requirements in paragraph 130 of IAS 36 for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit.

13. If in such cases the recoverable amount is based on fair value less costs of disposal, and fair value less costs of disposal is measured using a present value technique, the ED proposed that an entity shall disclose the discount rate(s) used in the current measurement and previous measurement (if any).

14. At its meeting in December 2012, the IASB tentatively decided to amend paragraphs 130 and 134 of IAS 36 to clarify that the requirement to disclose the recoverable amount is intended only for impaired assets and not for each cash-generating unit or each group of units for which the carrying amount of goodwill or intangible assets with indefinite useful lives is significant.[3] In particular, the IASB tentatively decided:

    - to remove the requirement in paragraph 134 of IAS 36 to disclose the recoverable amount of each cash-generating unit or group of units for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit or group of units is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives;

    - to amend paragraph 130 of IAS 36 to require an entity to disclose the recoverable amount of an individual asset (including goodwill) or cash-generating unit for which the entity has recognised or reversed a material impairment loss during the period; and

    - to include in paragraph 130 of IAS 36 the requirement to disclose information about the measurement of fair value less costs of disposal of an individual asset (including goodwill) or cash-generating unit for

[3] http://media.ifrs.org/2012/Updates/IASB-Update-December-2012.pdf

which the entity has recognised or reversed a material impairment loss during the period.

15. The decision to include in paragraph 130 of IAS 36 the requirement to disclose information about the measurement of fair value less costs of disposal overlaps with the proposal in the ED to require disclosure of the discount rate(s) used in the measurement. This is because the requirement to disclose information about the measurement of fair value less costs of disposal would include the disclosure of each key assumption on which management based its determination of fair value less costs of disposal, if the fair value measurements are categorised within Level 2 and Level 3 of the fair value hierarchy (see paragraphs 72 onwards of IFRS 13).

16. The IASB noted that the discount rate(s) used in a present value technique is one of the key assumptions in measuring fair value less costs of disposal, and it would therefore need to be disclosed.

17. Consequently, there would have been an overlap of both projects: the separate project to amend paragraphs 130 and 134 of IAS 36 and the 2010-2012 Cycle of the annual improvements project[4]. Because of this overlap the IASB tentatively decided to incorporate the proposed amendment to paragraph 130(f) of IAS 36 in the ED into the proposed amendment to paragraph 130 of IAS 36 that results from the separate and broader project to amend paragraphs 130 and 134 of IAS 36. Therefore, this amendment will not be addressed in the 2010-2012 Cycle of the Annual Improvements project.

Interpretations Committee meeting in January 2013

18. At this meeting we present comment letter analyses for the remaining proposed amendments in the ED:

- Agenda paper 15A: IFRS 2 *Share-based Payment*—Definition of 'vesting condition'

[4] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2012/December/11A-IAS36-1212.pdf

- Agenda paper 15B: IFRS 3 *Business Combinations*—Accounting for contingent consideration in a business combination
- Agenda paper 15C: IAS 1 *Presentation of Financial Statements*—Current/non-current classification of liabilities
- Agenda paper 12A: IAS 7 *Statement of Cash Flows*—Interest paid that is capitalised
- Agenda paper 15D: IAS 16 *Property, Plant and Equipment* & IAS 38 *Intangible Assets*—Revaluation method—proportionate restatement of accumulated depreciation
- Agenda paper 15E: IAS 24 *Related Party Disclosure*—Key management personnel

Question to the IFRS Interpretations Committee

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Do the members of the Interpretations Committee have questions on the current status of the 2010-2012 Cycle of Annual Improvements to IFRSs?