STAFF PAPER

22 – 23 January 2013

IFRS Interpretations Committee Meeting

Project	IFRS Interpretations Committee Work In Progress		
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Objective of this paper

1. The objective of this paper is to update the IFRS Interpretations Committee (the Interpretations Committee) on the current status of issues that are in progress but that are not to be discussed by the Committee in the **January 2013** meeting.

2. We have split the analysis of the work in progress into three broad categories:

   (a) **ongoing issues:** submissions that the Committee is actively working on but the issue was not presented in this meeting;

   (b) **issues on hold:** submissions that the Interpretations Committee will discuss again at a future meeting but for some reason has decided to temporarily suspend work on the issue, for example, because there is an IASB project that might have a knock-on impact to the Interpretations Committee's discussions; and

   (c) **new issues:** submissions that have been received but have not yet been presented to the Interpretations Committee. Where this is the case, the submission has been attached as an appendix to this paper for information purposes only.

3. The following table summarises the work in progress that will be discussed at a future meeting:

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 3-10	*Business Combinations:* Definition of a business	Request for clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3. More specifically, the question was whether the acquisition of a single investment property, with lease agreements with multiple tenants over varying periods and associated processes, such as cleaning, maintenance and administrative services such as rent collection, constitutes a business as defined in IFRS 3.	At the September 2011 meeting, the Interpretations Committee observed that the difficulty in determining whether an acquisition meets the definition of a business in Appendix A of IFRS 3 is not limited to the acquisition of investment property. The Interpretations Committee noted that this broader issue goes beyond the scope of its activities and should be addressed by the IASB as part of its post-implementation review of IFRS 3. However, the Interpretations Committee considered it to be useful for the IASB's post-implementation review if it contributes to that review its experience and the results from the discussions on this issue. Consequently, the Interpretations Committee directed the staff to continue their discussions with the staff of the US accounting standard-setter, the Financial Accounting Standards Board, and to continue their outreach to interested parties from other industry sectors with the aim of providing the IASB with relevant information for its post-implementation review.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 3-10	*Business Combinations:* Definition of a business (cont.)		We have asked preparers, industry sector groups and large accounting & auditing firms what practical difficulties they have encountered or observed when applying the definition of a business in Appendix A of IFRS 3 (revised 2008) and the related application guidance in paragraphs B7-B12 of IFRS 3 (revised 2008). In the outreach to preparers and industry sector groups we also asked for observations on specific fact patterns. At present we are analysing and summarising the responses that we received from preparers, industry sector groups and the large accounting & auditing firms. Afterwards we want to discuss our outreach results with the staff of the FASB and the Post Implementation Review Team of the Financial Accounting Foundation. We plan to present an analysis of the outreach results and an update on our discussions with the staff of the FASB and the Post Implementation Review Team of the Financial Accounting Review Team of the Financial Accounting Foundation at the March 2013 Interpretations Committee meeting.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 12-8	*Income Taxes:* Recognition of deferred tax for unrealised losses.	The Interpretations Committee received a request to clarify the accounting for deferred tax assets when an entity: • has deductible temporary differences relating to unrealised losses on debt instruments that are classified as available-for-sale financials assets and measured at fair value; • is not allowed to deduct unrealised losses for tax purposes; • has the ability and intention to hold the debt instruments until the unrealised loss reverses; and • has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise those deductible temporary differences.	In its meeting in December 2012, the IASB tentatively decided that the accounting for deferred tax assets for unrealised losses on debt instruments should be clarified by a separate narrow-scope amendment to IAS 12. This is because: • 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 was recently discussed by the US-based Financial Accounting Standards Board (FASB) for the same type of debt instruments. 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. We plan to present an analysis of the different approaches to account for deferred tax assets for unrealised losses at a future meeting.

IAS 12-11	*Income Taxes:* Recognition of deferred tax for a single asset in a corporate wrapper.	Request for clarification of the calculation of deferred tax in circumstances in which the entity holds a subsidiary which has a single asset within it. Specifically, the question asked was whether the tax base that was described in paragraph 11 of IAS 12 and used to calculate the deferred tax should be the tax base of the (single) asset within the entity which holds it, or the tax base of the shares of the entity holding the asset.	At the May 2012 meeting, the Interpretations 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 when each tax base is separately deductible for tax purposes. The Interpretations Committee also noted that the 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 them to be two separate assets and if no specific exceptions in IAS 12 apply. However, considering the concerns raised by commentators in respect of these requirements in the current IAS 12, the Interpretations Committee decided in the May 2012 meeting to not recommend the IASB to address this issue through an Annual Improvement, but instead to explore further options to address this issue that would result in a different accounting for this specific type of transaction. Consequently, the Interpretations Committee directed the staff to analyse whether the requirements of IAS 12 should be amended in response to the concerns raised by commentators. We plan to present this analysis at a future meeting.

IAS 19-18	*Employee Benefits –* Employee benefit plans with a guaranteed return on contributions or notional contributions	At its meeting in May 2012 the Interpretations Committee decided to consider the accounting for employee benefit plans with a guaranteed return on contributions or notional contributions. The Interpretations Committee had previously considered this issue in 2002-2006 and in 2004 it had issued IFRIC Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*	At the November 2012 meeting the Interpretations Committee was presented with staff proposals on the measurement of the plans that fall within the scope of its work. Staff presented the two main issues that have been identified as important when measuring the employee plans that will fall within the scope of the project. These issues are: •what discount rate should be used to calculate the present value of the employee benefit; and •how to measure the “higher of option” in the employee benefit plans. The Interpretations Committee did not make a decision on the discount rate issue at the meeting and asked the staff to prepare examples illustrating how the proposed measurement approach would apply to different employee benefit plan designs On the measurement of the ‘higher of option’ the Interpretations Committee tentatively decided that the “higher of option” should be measured at its intrinsic value at the reporting date. The Interpretations Committee also considered the accounting and presentation for the “higher of option” but did not make a decision on the issue. The Interpretations Committee will discuss this issue again at a future meeting. Staff is currently working on revised proposals on the measurement for these plans and will bring them to a future meeting.

Issues on hold			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 2-1	*Inventories:* Long-term prepayments in inventory supply contracts.	Request for clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make prepayments to the supplier. The question is whether the purchaser/supplier should accrete interest on long-term prepayments by recognising interest income/expense, resulting in an increase of the cost of inventories/revenue.	At the January 2012 Interpretations Committee meeting, the Interpretations Committee noted that the Exposure Draft (ED) *Revenue from Contracts with Customers*, published in November 2011, contains requirements regarding the time value of money. Provided that the requirements on the time value of money are not changed in the final revenue standard, this would apply in the seller's financial statements when prepayments are received. The Interpretations Committee observed that the principles regarding accounting for the time value of money in the seller's financial statements are similar to those in the purchaser's financial statements. The Interpretations Committee decided to ask the IASB whether it agrees with the Interpretations Committee's observation, and, if so, whether there should be amendments made in the IFRS literature in order to align the purchaser's accounting with the seller's accounting. At the February 2012 IASB meeting, the IASB agreed that a financing component contained in a purchase transaction should be identified and recognised separately. As a result, interest would be accreted on long-term prepayments made in a financing transaction. However, the IASB noted that payments made when entering into a long-term supply contract might include premiums paid for securing supply or for fixing prices. The IASB noted that in such cases, it is not appropriate to accrete interest on these payments. Consequently, the IASB tentatively decided that it should be made clear that the clarifications proposed should only apply to financing transactions, ie transactions in which prepayments are made for assets to be received in the future. The IASB asked the Interpretations Committee to consider addressing the diversity in accounting, not by amending the current literature as part of a separate IASB project, but by clarifying the purchaser's accounting through an interpretation. We will prepare a paper to be presented at the March 2013 IFRS Interpretations Committee meeting, where we will consider the result of the IASB's redeliberations on the ED on revenue.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 10-2	IFRS 10 *Consolidated Financial Statements:* Protective rights and continous assessment of control under IFRS 10	Request for clarification of how the concept of 'protective rights' affects the control assessment made in IFRS 10. The submitter thinks that it is unclear whether that control assessment is changed when rights that are otherwise protective are 'activated' (ie become exercisable). The submitter questions whether the fact that protective rights become exercisable warrants a reassessment of the control conclusion which might lead to a change in the consolidation conclusion.	The staff will bring this issue to the March 2013 Interpretations Committee meeting. The submission is included in **Appendix A** of this paper.
IFRS 3-16	IFRS 3 –*Business Combinations*: Acquisition of control over joint operations	Request to provide guidance on whether previously held interest in the assets and liabilities of a joint operation should be remeasured to fair value on acquiring control over the joint operation. According to the submitter IFRS 3 does not contain any specific guidance on accounting for acquisition of control over a joint operation whose activities constitute a 'business' as defined in IFRS 3. According to the submitter, joint operations are not generally conducted through legal entities and the operators do not have equity interests in joint operation. Instead, they have rights to their share of assets and obligation for their share of liabilities relating to the joint operation. In such cases, it is not clear whether the previously held interest in the joint operation should be re-measured to fair value on acquiring control over the joint operation.	The original submission is included in **Appendix B** of this paper. The staff will bring this issue to a future Interpretations Committee meeting
IFRS 10-3	IFRS 10 *Consolidated Financial Statements* and IAS 32 *Financial Instruments: Presentation*: Puttable instruments that are non-controlling	Request for clarification of how puttable instruments that are non-controlling interests (NCI) should be classified in consolidated financial statements. The submitter thinks that IFRS 10 and IAS 32 are inconsistent because: • IFRS 10 states that a parent shall present NCI in the consolidated statement of financial position	The original submission is included in **Appendix C** of this paper. The staff will bring this issue to a future Interpretations Committee meeting.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
	instruments	within equity; and • IAS 32.AG29A states that puttable instruments classified as equity instruments in accordance with paragraphs 16A-16D of IAS 32 in separate financial statements that are NCI are classified as liabilities in the consolidated financial statements. The submitter thinks that the IASB should clarify which IFRS takes priority	

4. This paper does not include requests on issues that are still at a preliminary research stage, including where further information is being sought from the submitter, or other parties, to define the issue more clearly.
5. The work in progress paper presented at the November 2012 Interpretations Committee meeting (refer to agenda paper 15) included an IAS 39 – *Financial Instruments: Recognition and Measurement* issue relating to a request for clarification of the accounting for a convertible feature of a mandatory convertible debenture in a 50:50 joint venture if the conversion does not result in a change of ownership interest in the joint venture.
6. This issue has since been withdrawn by the submitter. Before it was withdrawn, we conducted outreach to the International Forum of Accounting Standard Setters (IFASS) and various regulators to assess how widespread the issue is. The responses received to that outreach request indicated that the fact pattern submitted was not common or relevant to their jurisdictions and thus the issue was not widespread. In addition, the submitter acknowledge that the fact pattern in the submission is not recurring in nature. Consequently, following the withdrawal of the submission, we do not intend to bring this issue to the Interpretations Committee in the future.
7. We are reproducing in **Appendices A-C** the new requests that we have received. All information has been copied without modification. We deleted details that would identify the submitter of those requests.

Question
Does the Interpretations Committee have any questions or comments on the Interpretations Committee Outstanding Issues List?

Appendix A –IFRS 10 *Consolidated Financial Statements:* Protective rights and continous assessment of control under IFRS 10

IFRIC potential agenda item request

This letter describes an issue that we believe should be added to the IFRIC's agenda. We have included a summary of the issue, a range of possible views and an assessment of the issue against IFRIC's agenda criteria.

The issue: protective rights and continuous assessment of control under IFRS 10

IFRS 10 *Consolidated Financial Statements* explicitly introduces the concept of protective rights. However, we believe that the application of the concept is unclear when rights that are otherwise protective are 'activated' – i.e. become exercisable. As explained in the rest of this letter, the fundamental issue is whether or not a change in the control conclusion is appropriate as a result of such rights becoming exercisable.

The following example is used to illustrate the issue:

> An operating company has all of its shares owned by another entity (the investor), which has held them for many years. The operating company enters into a loan arrangement with a bank, which contains several covenants. If a covenant is breached, then the bank has rights to veto major business decisions (considered to be the relevant activities of that company) and to call the loan. At the outset of the loan, the investor concludes that the bank's rights are protective, because they are designed to protect the interests of the bank without giving the bank power over the company. The investor continues to consolidate the company.
>
> After a period of time, due to its deteriorating financial position, the company breaches a covenant. The bank does not call the loan, although it retains the right to do so, and now also has the right to veto any major business decisions – i.e. it has veto rights over the relevant activities of the company. In some cases such a situation may be resolved in the short-term (covenants renegotiated), and in others it may not.

At the point in time at which the bank's right to call the loan and to veto any major business decisions becomes exercisable, what are the consolidation implications for the investor and the bank?

- The consolidation conclusion is or may be changed because there has been a change as to how decisions about relevant activities are made.

- The consolidation conclusion is not changed, because once rights are assessed as being protective they continue to be classified as protective throughout their lives, and protective rights are not taken into account in the control assessment. [1]

These outcomes are explored further below.

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[1] The issues set out in the two bullet points would also be relevant to the bank even if there was no investor that owned all of the shares of the borrower company – e.g. if the borrower company was listed.

Current practice

There is currently no established practice because IFRS 10 is not yet in effect. However, we believe that this issue is likely to establish itself as a practice issue once entities begin to apply the standard. We believe that IFRIC should consider the issue because the potential outcomes (consolidate vs do not consolidate) could have a significant effect on the statement of financial position of entities, particularly lenders, and that consistency in this area is desirable.

Here we outline what we believe are the different approaches that an entity could take.

View 1: Consolidation conclusion is reassessed and may change

View 1 proceeds from the premise that IFRS 10 is based on the concept of 'continuous assessment'. When protective rights become exercisable, there is a change in facts and circumstances, which warrants a reassessment of the control conclusion. In the example above this will, or may, lead the majority investor to conclude that it no longer controls the company and for the bank to conclude that it controls it. This is based on IFRS 10.8 and BC149-BC153.

Supporters of View 1 argue the following based on IFRS 10:

- Paragraph 8 takes precedence in assessing (reassessing) control, because it establishes the overall principle underlying the consolidation model. Therefore, even if the guidance in Appendix B can be read (explicitly or implicitly) to support View 2, this was not the Board's intent.

- While BC152 refers to changes in market conditions not leading to a change in control, the text refers to market conditions *alone*. However, in accordance with BC153, if a change in market conditions triggers a consequential change in one of the three elements of control, then control should be reassessed.

Paragraph BC85 of IFRS 12 *Disclosure of Interests in Other Entities* states that traditional operating entities whose financing was restricted following a downturn in activities were not meant to be structured entities – i.e. entities that are controlled by rights other than voting rights. Supporters of View 1 believe that this statement is made solely in the context of disclosure, and was not intended to indicate that no reassessment of control is required in such circumstances.

View 2: Consolidation conclusion would not change even if reassessed

View 2 is based on the premise that protective rights are excluded from the control assessment and that rights that were originally determined to be protective do not stop being protective solely because the rights become exercisable due to the occurrence of the exceptional circumstances to which they relate. Accordingly, a reassessment of control at this point would lead to the same control conclusion as arrived at initially.

This view is supported by the following analysis of IFRS 10:

- Paragraph B26 has a direct definition of protective rights. Paragraph B27 states the consequence of meeting this definition, being that such rights do not lead to power.

- There is nothing in IFRS 10 to specify the fact that rights cease to be protective on the occurrence of the exceptional circumstances to which they relate. In fact, B27 refers to protective rights as being so by design, supporting that it is the initial set-up and purpose of rights that is the focus of application of the definition and not any later activation.

- Accordingly, if rights meet the definition of protective when they are initially set up, then they do not lose their protective character if they subsequently become exercisable.

Supporters of View 2 argue that there would be no purpose to having categorised rights as protective when they are dormant at the outset, only to reverse that once they become exercisable:

- At the outset it would be uncontentious that dormant protective rights could not affect the consolidation assessment, and this would be so without needing a special designation of those rights as 'protective'.

- The protective designation would then be withdrawn on the occurrence of the exceptional circumstances for which they are designed.

So, if View 2 does not apply, then at no time would the concept of protective rights have had any practical consequences.

Supporters of View 2 would also note the following points:

- View 2 is not denying the principle of continuous assessment. It is not trying to prevent a re-performance of the assessment in order to avoid a consequent change in the consolidation conclusion. Rather, it is saying that even if the assessment were re-performed, it would not result in a different conclusion because the rights are still protective.

- It may be important to consider the relationship between substantive and protective rights. For example, if substantive and protective rights were mutually exclusive categories, then that might support View 1 – on activation the rights become substantive and therefore can no longer be protective. However, supporters of View 2 would argue that B22, B25 and B26 of IFRS 10 appear clear that protective rights are also substantive – i.e. they are a subset of substantive rights. In effect, they would argue that the steps of analysis required by IFRS 10 are: (1) disregard any rights that are not substantive (B22); (2) some of the remaining substantive rights may be protective (B25); (3) so identify those substantive rights that are protective as defined (B26) and disregard them (B27).

Reasons for the IFRIC to address the issue

a) ***Is the issue widespread and practical?*** Yes. Protective rights are common in contractual arrangements, especially loans, and given the ongoing economic environment, we expect this issue to be very widespread.

b) ***Does the issue involve significantly divergent interpretations?*** Yes. Depending on the interpretation applied, the decision to consolidate vs not consolidate by a majority investor and a lender could have a significant effect on an entity's statement of financial position.

c) ***Would financial reporting be improved through elimination of the diversity?*** Yes. The comparability of financial statements will be improved if entities apply the concept of substantive vs protective rights on the same basis.

d) ***Is the issue sufficiently narrow…?*** Yes. We believe that the issue is capable of interpretation within the confines of IFRS 10. It is concerned with specific concepts in IFRS 10.

e) ***If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?*** The issue does not relate to a current or planned IASB project.

Appendix B–IFRS 3 –*Business Combinations: a*cquisition of control over joint operations

IFRS IC Potential Agenda Item

The issue

Should a previously held interest in the assets and liabilities of a joint operation be re-measured to fair value on acquiring control over the joint operation?

IFRS 3 does not contain any specific guidance on accounting for acquisition of control over a joint operation (JO) whose activities constitute a 'business' as defined in IFRS 3. For example, a transaction where an entity has a 40% stake in a JO and acquires an additional 40% stake from another party to the joint arrangement which gives the entity control over the JO.

IFRS 3 specifically requires an acquiring entity to recognise and measure the identifiable assets acquired and liabilities assumed in a business combination at fair value. Similarly if the acquiring entity had a previous equity interest in the acquiree, IFRS 3 requires such previously held equity interest to be re-measured at fair value. The difference between the fair value and the carrying value of the previously held equity interest is recorded as a gain or loss in the income statement.

JOs are generally not conducted through legal entities and the operators do not have equity interests in a JO. Instead, they have rights to their share of assets and obligation for their share of liabilities relating to the JO. In such cases, it is not clear whether the previously held interest in the JO should be re-measured to fair value on acquiring control over the JO.

Current practice

Currently there is significant diversity in accounting for these transactions. There are two approaches generally seen in practice:

a) *IFRS 3 approach*

The previously held interest in the assets and liabilities of the jointly controlled operation is re-measured to fair value and the gain or loss arising on the re-measurement is recognised in the income statement.

This view considers the previously held net interest in the assets and liabilities of the jointly controlled operation as previously held 'equity interest' and hence, it is re-measured to fair value. The substance of the transaction is that control has been acquired over a business and hence the guidance under IFRS 3 is applied in its entirety.

This approach does not give a different accounting result depending on whether the joint arrangement operates through a legal entity or not.

b) Modified IFRS 3 approach

The previously held interest in the assets and liabilities of the JO is not re-measured to fair value instead it is recorded at the previous carrying value.

Proponents of this approach consider the following factors as the basis for the view:

a) Joint operations are generally not conducted through legal entities and hence there is no equity interest in a JO. Consequently, the requirement of IFRS 3 to re-measure the previously held equity interest to fair value does not apply; and

b) Assets of a joint operation are already recognised on the balance sheet of the operator to the extent it controls those assets (40% in the case above). On acquiring control over the JO (additional 40% stake), the operator has effectively acquired a further 40% control over the assets of the JO. Hence, it records the additional stake acquired at fair value but does not re-measure the previously held interest in the assets that it already controls.

Both these approaches are illustrated in the section below.

Question

Should the previously held interest in the assets and liabilities of a JO should be re-measured to fair value and a gain or loss be recognised in the income statement when control is acquired over a JO?

<u>Illustration</u>

There are three participants in a producing field which is a joint operation. The producing field represents a business as defined in IFRS 3. The ownership interest of the participants is as follows:

Entity A 40%
Entity B 40%
Entity C 20%

The terms of the joint operating agreement require decisions relating to financial and operating policies be approved by parties representing 75% of the interest in the arrangement. The carrying value of the asset in Entity A's financial statements is C 15 million.

Entity A purchases Entity B's interest of 40% and obtains control. The fair value of the business is determined to be C 50 million. Entity A pays B consideration equivalent to its fair value of C 20 million.

Entity A records this transaction as a business combination since it has acquired control over a producing field whose activities constitute a business.

How should Entity A record the previously held interest of 40% in the assets and liabilities of the producing field?

a) *IFRS 3 approach*

Entity A records the previously held interest of 40% in the assets and liabilities of the producing field at its fair value of C 20 million. A gain of C 5 million (being the difference between the carrying value of C 15 million and fair value of C 20 million) is recognised by Entity A in the income statement.

b) *Modified IFRS 3 approach*

Entity A records the previously held interest of 40% in the assets and liabilities of the producing field at its carrying value of C 15 million. No gain or loss is recognised in the income statement.

Criteria	Assessment
Is the issue widespread and practical?	**Yes. The issue affects all entities that acquire control over a joint operation.**
Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?	**Yes. There is existing diversity in practice.**
Would financial reporting be improved through elimination of the diversity?	**Yes.**
Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process?	**Yes. The issue relates specifically to acquisition of control over joint operations.**
If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?	**Not applicable.**

Appendix C–IFRS 10 and IAS 32: Puttable instruments that are non-controlling interests

Good morning

I just wanted to ask that IASB consider making a slight improvement to IFRS 10 for an inconsistency that was carried over from IAS 27.

IFRS 10.22 clearly states “a parent shall present non-controlling interests in the consolidated statement of financial position within equity…..”

The above principle is stated with such certainty, clarity and no exception wording that a reasonable person will rely it and do no further assessment and this could result in an honest misapplication of principles.

As an example subsidiary with redeemable shares which are classed as equity in accordance with IAS 32.16A/B on an entity level may continue to be classed as equity at a consolidated level because IFRS 10.22 clearly states that non-controlling interests are equity, no exceptions. However this position as a non-controlling interest as equity under IFRS 10.27 conflicts with the classification of these same shares under IAS 32.AG29A, which indicates there is an exception. Which IFRS takes precedent or priority.

I believe that users, preparers and auditors would be well served if this very small exception was made more visible. For instance IFRS 10.22 should be change to indicate explicitly that a non-controlling interest must be assessed in accordance with the principles of IAS 32 to be determine whether it represents a residual interest or a contractual obligation of the consolidated entity, which may differ from the legal entity.

Secondly the exception as outlined in IAS 32.AG29A should be cross referenced to IFRS 10.22-24 or maybe even included in the guidance in IFRS 10.B94-B96 to indicate that securities which have been assessed as equity at a legal entity in accordance with IAS 32.16A/B and form part of the non-controlling interests in the subsidiary are considered debt of the consolidated entity.

I believe that the current exception in IAS 32.AG29A is too obscure, especially considering that consolidated financial statements are very common.

Regards,