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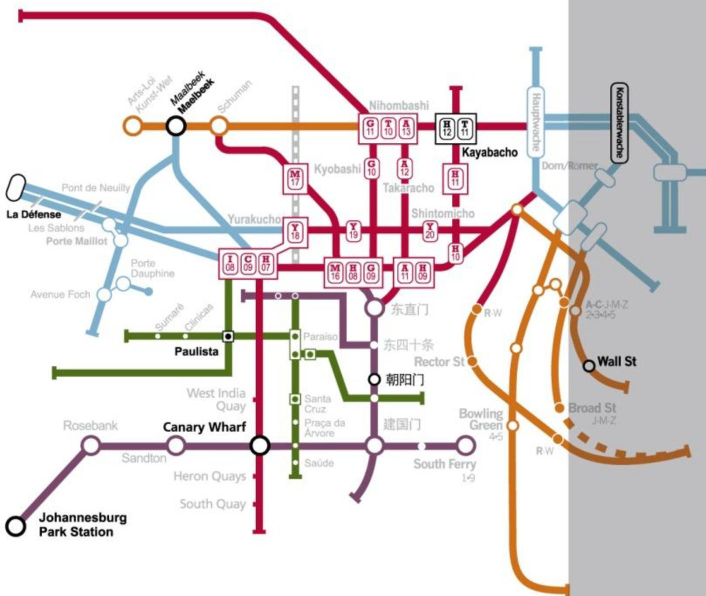

IFRIC Update for the Global Preparers Forum

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AGENDA

- Work in progress
- New issues
- Draft Interpretations
- Due process documents out for comment
- Annual Improvements cycles

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Work in progress

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Work in progress

- **IAS 19 *Employee Benefits***
  - Determination of discount rate
  - Measurement of the net DBO for post-employment benefit plans with employee contributions
- **IAS 16 *Property, Plant and Equipment* / IAS 38 – *Intangible Assets***
  - Contingent pricing of PPE & intangible assets

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IAS 19 – Determination of discount rate

Description of the issue

- What is the underlying principle?
- Is the IAS 19 discount rate a risk-free rate?
- What does “high quality corporate bonds” mean?
- Government bonds or high quality government bonds?

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IAS 19 – Determination of discount rate
(continued)

Status

February 2013 IASB meeting:

- Par. 84 is the objective and par 83 is the way to achieve the objective
- Discount rate = time value of money + minimal/very low credit risk
- Government bonds should be high quality.

January 2013 IC meeting:

- the deepness of the market of euro HQCB should be assessed at the Eurozone level

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IAS 19 – Measurement of net DBO for post-employment benefit plans with employee contributions

Description of the issue

- What is the accounting for employee contributions?
- How do they affect the calculation of the DBO (including the effect of back-end and front-end loaded)?

Status

- The IASB discussed issue and proposes:
  - narrow-scope amendment to IAS 19:

    Employee contributions are a reduction in service cost, if they are linked solely to the employee's service in that period

Next step

- The staff will prepare an Exposure Draft

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IAS 16/IAS 38 – Variable payments for the separate acquisition of PPE and intangible assets

Description of the issue

- How to account for variable payments for the separate acquisition of PPE and intangible assets?

Status

- January 2013: IC tentatively agreed to propose amendments to IAS 16, IAS 38 and IAS 39

Proposed solution

- Adjustments to the amount of a financial liability other than those corresponding to finance costs would be recognised as a corresponding adjustment to the cost of the asset to the extent that IAS 16 or IAS 38 requires so.

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New issues

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New issues

- **IFRS 10 – *Consolidated Financial Statements***
  - Classification as liability or equity of puttable instruments that are non-controlling interests.
- **IAS 28 – *Investments in Associates and Joint Ventures***
  - Elimination of gains arising from a transaction between an entity and its joint venture.
- **IFRS 5 – *Non-current Assets held-for-sale and Discontinued Operations***
  - Classification as held-for-sale if disposal method is through an initial public offering (IPO) and accounting requirements when disposal method changes.

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Classification as liability or equity of puttable instruments that are non-controlling interests

Description of the issue

- How should **puttable instruments that are non-controlling interests** be classified in consolidated financial statements? *Equity or liability*?

Status

- To be discussed at forthcoming IC meeting. No divergence in practice noted.
- *Staff view:* puttable instruments that are NCI should be classified as liability.
- The exception in IAS 32.16A-16D requiring that particular puttable instruments are classified as equity applies only to the issuing entity's own financial statements.

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Elimination of gains arising from a transaction between an entity and its joint venture

Description of the issue

- An entity leases its fixed asset to its joint venture
- The gain from this transaction exceeds the carrying amount of the entity's investment in the joint venture
- What amount should be eliminated when the entity prepares its financial statement using the equity method?

Status

- Divergence in practice:
  - <u>View A:</u> eliminate the gain until the investment reduces to zero
  - <u>View B:</u> eliminate all of the entity's share of the gain

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Elimination of gains arising from a transaction between an entity and its joint venture *(continued)*

Status

- View A analogises the requirement that an entity should discontinue recognising its share of further losses when the entity's share of losses of its joint venture exceeds its interest in the joint venture
- View B is based on the requirement that an entity's share in its joint venture's gains or losses resulting from 'upstream' or 'downstream' transactions should be eliminated
- IFRS IC will discuss the issue in its March 2013 meeting
- Will be discussed in March 2013 meeting (see attachment – AP2A)

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Classification as HFS if disposal method is IPO & accounting when disposal method changes

Description of the issue

- **<u>Case 1:</u>** A disposal plan that is intended to be achieved by means of an initial public offering (IPO) and the prospectus has not been approved by the securities regulator;
  <u>Question:</u> would this plan qualify as held-for-sale?

- **<u>Case 2:</u>** An entity changes its disposal plan from a plan that previously qualified as held for sale to a plan to spin off the disposal group and distribute a dividend in kind to its shareholders;
  <u>Question:</u> does this change qualify as a change to a plan of sale?

Status

- To be discussed at forthcoming IC meeting.

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Classification as HFS if disposal method is IPO & accounting when disposal method changes *(continued)*

Staff view

- Prospectus approval is needed to consider the disposal to be ***highly probable*** *(par. 8 IFRS 5)*
- Change of method of disposal <u>does not necessarily </u>qualify as change of plan for sale because the sale (or distribution) has not ceased to be ***highly probable*** *(par 26 IFRS 5).*
- In addition:
  - IFRS 5 does not distinguish between methods of disposal.
  - IFRS 5 has similar requirements to classify a disposal group as held for sale (par. 7–9) and as held for distribution (par. 12A).

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Draft Interpretations

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Draft Interpretations

- *DI/2012/1* – **Levies Charged by Public Authorities on Entities that Operate in a Specific Market**
  - Issued in May 2012
  - Comments by 5 September 2012
- *DI/2012/2* – **Put Options Written on Non-controlling Interests**
  - Issued in May 2012
  - Comments by 1 October 2012

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Levies Charged by Public Authorities on Entities that Operate in a Specific Market

Description of the issue

- What is the accounting for levies imposed by governments on entities in the F/S of the entity paying the levy?
- In particular, when should the liability to pay a levy be recognised?

Status

- May 2012: IC published **draft interpretation**
- January 2013: IC analysed comments received

Next step

- March 2013: IC will vote on the final interpretation

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Levies *(continued)*

Accounting (consensus)

- The obligating event that gives rise to a liability is the activity that triggers the payment of the levy
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in the future
- The liability is recognised progressively if the obligating event occurs over a period of time
- The accounting for levies with minimum thresholds is consistent with the principles established above
- The same recognition principles are applied in the annual financial statement and in the interim financial report

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Put options written on NCI

Description of the issue

- **How to subsequently measure** in the parent's consolidated financial statements:
  - **the financial liability** that arises when a parent entity is obliged to purchase the shares of its subsidiary (that are held by an NCI shareholder) for cash or for another financial asset (NCI put)?

Status

- May 2012 – IC published **draft interpretation** (DI/2012/2)
- January 2013 – IC analysed comments received.

Next step

- Staff will report the IC's views at March IASB meeting**.**

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Put options written on NCI *(continued)*

Accounting (consensus)

- **Initial measurement:** financial liability at present value of redemption amount.
- **Subsequent measurement:** all changes in the measurement of that financial liability should be recognised in **profit or loss** in accordance with IAS 39 and IFRS 9.

Interpretations Committee's recommendation

- Reaffirm consensus reflects current IFRS requirements…

  …but superior answer would be to apply derivative accounting to put options and forward contracts written on an entity's own equity.

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Due process documents out for comment

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Due Process documents out for comment

- **ED/2013/2 Novation of OTC derivatives and continuation of hedge accounting** *(Feb 2013; comments by 02/04/13)*
  - Proposed amendments to IAS 39 and IFRS 9
- **ED/2012/3 – Equity method: Share of other net asset changes IAS 28** *(Nov 2012; comments by 22/03/13)*
  - Proposed amendments to IAS 28
- **ED/2012/6 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** *(Dec 2012; comments by 23/04/13)*
  - Proposed amendments to IFRS 10 and IAS 28
- **ED/2012/7 Acquisition of an Interest in a Joint Operation** *(Dec 2012 comments by 23/04/13)*
  - Proposed amendments to IFRS 11

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Novation of derivatives and continuation of hedge accounting

Why the need for an amendment?

- New regulation to mandate central clearing of over-the-counter (OTC) derivatives, prompted by a G20 commitment
- A novation of the hedging instrument to a central counterparty results in the discontinuation of the hedge accounting

Areas of diversity/current views in practice

- No divergent views in practice
- Concern about the financial reporting effect arising from new regulation

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Novation of derivatives and continuation of hedge accounting *(continued)*

Proposed amendment

- Introduces an exception to the requirement for the discontinuation of hedge accounting in IAS 39.
- An entity continues hedge accounting in a circumstance where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations if specific conditions are met.
- Equivalent requirements are proposed to be included in the forthcoming hedge accounting chapter in IFRS 9 *Financial Instruments.*

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Equity method: share of other net asset changes

Why the need for an amendment?

- IAS 28.10 is not clear whether, and if so, where, the investor should account for "other net asset changes" of the investee

(Other net asset changes are changes in the net assets of the investee other than profit or loss or OCI or distributions received)

Proposed amendment

- Investor should:
  - recognise other net asset changes in its equity
  - reclassify to profit or loss the amount recognised in equity when it discontinues the use of the equity method

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Why the need for an amendment?

- There is a conflict between IAS 27 and SIC-13: IAS 27 requires a full gain or loss recognition on the loss of control of a subsidiary, whereas SIC-13 requires a partial gain or loss recognition in transactions between an investor and its associate or joint venture
- This conflict will remain when IFRS 10 replaces IAS 27 and when SIC-13 is included into IAS 28 (2011)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(continued)*

Areas of diversity/current views in practice

- Entities apply either SIC-13 or IAS 27 to the contribution of a subsidiary to a joint venture/associate

Proposed amendments

- The IASB proposes to amend IAS 28 (2011) and IFRS 10 so that:
  - A full gain or loss is recognised on the loss of control of a business (regardless of whether that business is housed in a subsidiary or not)
  - A partial gain or loss is recognised in accounting for the sale or contribution of a group of assets or a subsidiary that does not constitute a business

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Acquisition of an Interest in a Joint Operation

Why the need for an amendment?

- **No guidance** in IFRS 11 on the accounting, by a joint operator, for the acquisition of an interest in a joint operation, **in which the activity of the joint operation constitutes a business**, as defined in IFRS 3 *Business Combinations*.
- **Current views applied in practice** to address the issue:
  - View 1. Apply the principles on business combinations accounting in **IFRS 3** and in other Standards;
  - View 2. Allocate the total **cost** of acquiring interests in jointly controlled operations or assets on the basis of relative fair values;
  - View 3. Apply the principles of business combinations accounting only to issues **not addressed in other Standards**.

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Areas of diversity in practice *(continued)*

- **Recognition of a premium paid in addition to the fair value of the identifiable net assets:**
  - – recognise as an asset? or
  - – allocate it to identifiable net assets on the basis of relative fair values?
- **Deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities:**
  - – recognise on the acquisition of the interests in the jointly controlled operation or assets?
  - – do not recognise because of initial recognition exceptions?
- **Acquisition-related costs**
  - – capitalise?
  - – recognise as an expense?

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Proposal in the Exposure Draft *(continued)*

- Apply **the relevant principles for business combinations accounting in IFRS 3** and other Standards, which include:
  - measuring identifiable assets and liabilities at **fair value**
  - recognising **acquisition-related costs as expenses** in the periods in which costs are incurred and the services are received
  - **recognising deferred tax assets and deferred tax liabilities** that arise from the initial recognition of assets and liabilities
  - **recognising the excess** of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, **as goodwill**.

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Annual improvements to IFRSs

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Current cycles

- The ongoing cycles are:
  - **2011-2013** (stage: comment letter analysis)
  - **2010-2012** (stage: comment letter analysis)
  - **2012-2014** (stage: collecting issues)
- Annual Improvements webpage:

  http://www.ifrs.org/Current+Projects/IASB+Projects/Annual+Improvements/Annual+Improvements+Process.htm

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2011-2013 cycle (ED Nov 2012)

Issues

- **IFRS 1:** Meaning of effective IFRSs
- **IFRS 3:** Scope exceptions for joint ventures
- **IFRS 13:** Scope of portfolio exception
- **IAS 40:** Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Deadline for comments: 18 February 2013

Status: About 60 comment letters received

Next steps: IC May 2013 – Presentation of comment letters analysis

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2010-2012 cycle (ED May 2012)

Overview

- **ED Annual Improvements to IFRSs 2010-2012 Cycle**:
  - ED comprises **11 proposed amendments** to 11 IFRSs (including a proposed amendment to IFRS 9)
  - IASB and IFRS IC collected issues for inclusion in ED from **November 2010 until November 2011**
  - ED published on 3 May 2012 with a **comment period** until 5 September 2012
- **Current Status**: IASB and IFRS IC are discussing comment letter analyses in several meetings

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2010-2012 cycle (ED May 2012) *(continued)*

Issues already discussed by IASB

- **Issues approved for finalisation**:
  - IFRS 2—Definition of ‘vesting condition’
  - IFRS 8—Aggregation of operating segments
  - IFRS 8—Reconciliation of the total of the reportable segments’ assets to the entity’s assets
  - IFRS13—Short-term receivables and payables
- **Issues rejected for annual improvements**:
  - IAS 12—Recognition of deferred tax assets for unrealised losses
    - Issues that go beyond the scope of annual improvements need to be addressed
  - IAS 36—Harmonisation of disclosures for value in use and fair value less costs of disposal
    - Because of overlap included in project ‘Recoverable Amounts Disclosures on Non-Financial Assets’

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2010-2012 cycle (ED May 2012) *(continued)*

Issues to be discussed by IASB

- **Issues recommended for finalisation by IFRS IC**:
  - IAS 16 & IAS 38—Revaluation method—proportionate restatement of accumulated depreciation
  - IAS 24—Key management personnel
- **Issue recommended for rejection by IFRS IC**:
  - IAS 1—Current/non-current classification of liabilities
    - Issues should be addressed in narrow-scope project to amend IAS1 because so-called ‘10 per cent test’ is not appropriate for presentation purposes
- **Issue requiring (further) discussion by IFRS IC**:
  - IFRS 3—Accounting for contingent consideration in a business combination
  - IAS 7—Interest paid that is capitalised

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2012-2014 cycle (ED tentative Q3)

- **IAS 34 *Interim Financial Reporting***—Disclosure of information ‘elsewhere in the interim report’
  - To require the inclusion of a cross-reference from the interim financial statements to the location of the information “elsewhere in the interim report” in paragraph 16A of IAS 34
- Other issues that will be collected through Q1 and Q2 (2013)

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Questions or comments?

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Thank you

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