STAFF PAPER

12 – 13 March 2013

IFRS Interpretations Committee Meeting

Project	IFRS Interpretations Committee Work In Progress		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

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 **March 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. Afterwards, we discussed the outreach results with the staff of the FASB and the Post-Implementation Review Team of the Financial Acccounting Foundation (the FAF PIR team). At present we are summarising the responses that we received from preparers, industry sector groups and the large accounting & auditing firms and the disucssions with the FAF PIR team. We plan to present an analysis of the outreach results and an update on our discussions with the staff of the FASB and the FAF PIR team. at a future 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.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
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.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
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.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 40-1	IAS 40 – *Investment Property*: Accounting for a structure that appears to lack the physical characteristics of a building	Request for clarification on whether telecommunication towers in a jurisdiction should be accounted for as property, plant and equipment (PP&E), in accordance with IAS 16 *Property, Plant and Equipment*, or as an investment property, in accordance with IAS 40 *Investment Property*. The request describes a circumstance in which an entity owns telecommunication towers and receives rent revenue in exchange for leasing spaces in the towers to telecommunication operators to which they attach their own devices. The entity provides some basic services to the telecommunication operators such as maintenance services. In this request, the submitter is specifically seeking a clarification on: a. whether a telecommunication tower should be viewed as a 'building' and thus 'property', as described in paragraph 5 of IAS 40; and b. how the service element in the leasing agreement and business model of the entity should be taken into consideration when analysing this issue.	In the January 2013 meeting, the Interpretations Committee was provided with updates on the staff analysis on whether and how IAS 40 could be amended to expand the scope of IAS 40 to a structure that lacks the physical characteristics associated with a normal building. In the discussions, the Interpretations Committee observed that there is merit in exploring approaches to amending IAS 40 to help the IASB to decide whether IAS 40 should be amended so that the scope of IAS 40 is not limited to land and buildings in order to accommodate emerging business models such as leasing of spaces in telecommunication towers. The Interpretations Committee discussed whether the scope of IAS 40 might be more meaningful if it focused on a nature of the business activity (and therefore might include assets other than property that are held to earn rentals or for capital appreciation or both) rather than the nature of the asset. However, the Interpretations Committee also noted that under the new proposed lease accounting model, the guidance for deciding (a) how a lessor accounts for a lease; and (b) how a lessee recognises lease related expenses in profit or loss depends, to a large extent, on whether the lease is a lease of property or a lease of an asset other than property. In this regard, the Interpretations Committee was concerned about whether the meaning of the term 'property' should be consistent with that under the new lease accounting model. Consequently, the Interpretations Committee directed the staff to inform the IASB of the views expressed in this meeting when the IASB deliberates the Lease project, and to seek the IASB's views as to what extent the IASB think the definition of the term 'property' in IAS 40 should be aligned with that in the new Lease Standard. The staff are plan to bring further analysis with the IASB's views to a future meeting.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 29-4	IAS 29 – *Financial* Reporting in Hyperinflationary Economies: Applicability of IAS 29	Request to clarify whether an entity whose functional currency is the currency of a hyperinflationary economy as described in IAS 29 *Financial Reporting in Hyperinflationary Economies* needs to apply IAS 29 to its financial statements prepared under the concept of financial capital maintenance defined in terms of constant purchasing power units rather than nominal monetary units.	The staff are developing analysis on the issue raised in the submission and an additional issue identified after the receipt of the submission. The staff plan to bring the analysis to a future Interpretations Committee meeting.
IFRS 2-13	IFRS 2 – *Share based payment*: Share based payment transactions where the manner of settlement is contingent on future events	Request for clarification on the classification and measurement of share based payment transactions in which the manner of settlement is contingent on future events. More specifically, the submitter is seeking clarification on how to account for SBPshare-based payment transactions for which the manner of settlement is contingent on either: (a) a future event that is outside the control of both the entity and the counterparty; or (b) a future event that is within the control of the counterparty. The submitter states that IFRS 2 provides guidance on the classification of a share-based payment transaction in cases in which either the entity or the counterparty can choose whether the transaction is settled in cash (or other assets) or by issuance of equity instruments (paragraphs 34-43 of IFRS 2). However, the submitter argues that there is no clear guidance on the two transactions described above and therefore, there are divergent views on both of them.	The Interpretations Committee discussed this issue in November 2009 and January 2010. In the meetings, divergent views were expressed especially on the issue related to share-based payment transactions for which the manner of settlement is contingent on a future event that is outside the control of both the entity and the counterparty. In addition, the Interpretations Committee noted that many other issues have been raised associated with the classification and measurement of share-based payment transactions as cash- settled or equity-settled. Accordingly, in January 2010, the Interpretations Committee decided not to add this issue to its agenda and recommend that this issue be dealt with by the IASB in a post-imprementation reviewe of IFRS 2. In the July 2012 meeting, the Interpretations Committee decided to revisit three issues related to IFRS 2 including this issue. The Interpretations Committee asked the staff to update the analysis and outreach on those issues so that they can discuss them at future meetings. We have been updating our analysis and outreach on this issue and plan to present the results at 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 a future IFRS Interpretations Committee meeting, where we will consider the result of the IASB's redeliberations on the ED on revenue.

Issues on hold			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 39-32	IAS 39 *Financial Instruments: Recognition and Measurement*—Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income	The demand of investors for 'safe harbour' assets has increased to a degree that the yield on some assets (on some of the remaining high quality government bonds) has turned negative. This raises the question of how the income or expense that results from negative interest rates should be presented in the statement of comprehensive income .	In September 2012 and January 2013, the IFRS Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income. In September 2012, the Interpretations Committee reached a tentative decision on how amounts of income and expense arising from a negative yield on a financial instrument should be presented in the Statement of Profit or Loss and published a tentative agenda decision for comment. In January 2013, the Interpretations Committee was concerned that finalising the tentative agenda decision could have unintended consequences on the classification of financial assets in accordance with IFRS 9 *Financial Instruments* which is currently subject to a project to consider limited scope amendments. The Interpretations Committee therefore decided to refrain from finalising the tentative agenda decision until the IASB has completed its redeliberations on the Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9.*

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
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 A** 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 instruments	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 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	The original submission is included in **Appendix B** of this paper. The staff will bring this issue to a future Interpretations Committee meeting.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
		statements. The submitter thinks that the IASB should clarify which IFRS takes priority	
IFRS 10-4	IFRS 10 – *Consolidated Financial Statements*: Transition relief for impairment, foreign exchange and borrowing costs	The submitter requests the Intepretations Committee to provide transitional relief provisions in IFRS 10 and IFRS 11 in respect to the application of IAS 36 *Impairment of Assets*, IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 23 *Borrowing Costs*. This is because the submitter thinks that the retrospective application of thse standards would be problematic (ie information may not be available or would require complex calculations).	The original submission is included in **Appendix C** of this paper. The staff will bring this issue to a future Interpretations Committee meeting

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. 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 3 –*Business Combinations:* acquisition 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?

Illustration

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 B–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,

Appendix C– IFRS 10 – *Consolidated Financial Statements*: Transition relief for impairment, foreign exchange and borrowing costs

Mr Wayne Upton
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14 January 2013

Dear Mr Upton,

Suggested agenda item: Transitional provisions of IFRS 10 and IFRS 11 – Impairment, foreign exchange and borrowing costs

Neither IFRS 10 nor IFRS 11 provides transitional relief in respect of the application of IAS 36 *Impairment of Assets*, IAS 21 *The Effects of Changes in Foreign Exchange Rates* or IAS 23 *Borrowing Costs*. As described below, retrospective application of each of these standards could prove problematic.

We are seeking clarification of this issue by the Committee or, ideally, via amendments to those standards.

The Issue – Impairment

IFRS 10 and IFRS 11 do not provide any transitional relief in respect of IAS 36. Accordingly, the requirements of IAS 36 related to the impairment of assets would need to be considered from the date at which control was obtained (in the case of IFRS 10) or from the inception of a joint arrangement (in the case of IFRS 11) for individual assets and goodwill not previously recognised in the financial statements.

A further issue arising from the retrospective application of the standards relates to how the change in the accounting basis of an investment in the group accounts impacts the historical CGU determinations of the consolidated group (and for which periods).

A change in the composition of the group arising from a newly consolidated investee, recognition of assets of a joint operation, deconsolidation of an investee or the derecognition of assets of a proportionately consolidated JCE could, by adding or removing assets, liabilities and cash flows of investees from the consolidated group, affect the allocation of goodwill within the group and the determination of the CGUs that collectively support goodwill. This would appear to impact, and potentially require changes to, historical impairment assessments.

Reperforming historical impairment testing could be challenging, particularly with respect to avoiding the use of hindsight. It is unclear whether this issue was considered in developing the standards; however, we believe that transition relief should be provided to allow impairment testing reflecting any changes to the composition of a group to begin at a fixed date (for example, at the start of the year of application, or the immediately preceding period).

Example

Three subsidiaries, each a CGU, collectively support a specific goodwill balance. Upon the adoption of IFRS 10, one of the three subsidiaries is no longer consolidated. As part of the retrospective application of the standards, a portion of the goodwill is allocated to the unconsolidated subsidiary, which is now accounted for as an associate. The remaining goodwill is now supported by the two remaining CGUs.

In the absence of any transitional relief, this change in the composition of the group seems to necessitate reperformance of annual goodwill impairment tests from the earliest comparative period presented onwards. However, the standard does not provide guidance about recasting the CGUs and groups of CGUs which support goodwill.

The issue – Foreign exchange and borrowing costs

Similarly, IFRS 10 and IFRS 11 provide no transitional relief from retrospective application of IAS 21 and IAS 23. Application of those standards from the date that control was obtained or from the inception of a joint arrangement may require complex calculations and access to data from a number of periods which may not be available to a preparer at the date of transition to IFRS 10 and 11.

Reason for IFRIC to Address the Issue

We believe that this issue should be addressed in a timely manner. With the adoption of IFRS 10 and IFRS 11 in the first quarter of 2013 in many jurisdictions, this could result in a significant issue for many entities in first quarter of 2013. The timely provision of guidance for an area in which there is currently none could reduce the potential for diversity in practice.