STAFF PAPER

14 – 15 May 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 Interpretations Committee in the May 2013 meeting.

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

   (a) **ongoing issues:** submissions that the Interpretations 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 effect on the Interpretations Committee's discussions; and

   (c) **new issues:** submissions that have been received but have not yet been presented to the Interpretations Committee.

3. Submissions received since the March meeting relating to new issues are attached as appendices to this paper for information purposes only.

Ongoing issues

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

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 1-10	*Presentation of Financial Statements:* Current /non-current classification of liabilities	Request to clarify one of the criteria for the classification of liabilities as current or non-current in paragraph 69(d) of IAS 1, when read with paragraph 73 of IAS 1.	The ED *Annual Improvements to IFRSs 2010–2012 Cycle* proposed amending paragraph 73 of IAS 1 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility *with the same lender, on the same or similar terms*. After considering the comments received from respondents, the Interpretations Committee decided to recommend to the IASB that it should not confirm the proposed amendment to IAS 1 in its current form because the proposed amendment proposes to tie the classification requirements of financial liabilities in IAS 1 to the derecognition requirements of financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, which it thought was not appropriate. At its March 2013 meeting, the IASB agreed not to proceed with the proposed amendments as part of Annual Improvements to IFRSs 2010–2012 Cycle. It decided to ask the Interpretations Committee to reconsider what clarifications could be made to IAS 1 to address this issue. We will bring a paper to the Interpretations Committee at a future meeting.

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.

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. In the January 2013 meeting of the IASB for the Leases project, the IASB was provided with the summary of the views expressed in the meetings of the Interpretations Committee with regard to

			the definition of the term 'property' in IAS 40. The staff plan to bring further analysis with the updates on the IASB's discussions to a future meeting.
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.

Issue on hold

5. The following issue is on hold for the reasons stated:

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

6. This table summarises those issues that have been received but not yet presented to the Interpretations Committee:

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 32-12	IAS 32 *Financial Instruments-Presentation*: Classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a 'non-viability' contingent event	Request for guidance on how an issuer should classify a financial instrument (as liability or equity) that is mandatorily convertible into a variable number of the issuer's own ordinary shares upon a non-viability event (eg breach of a regulatory capital requirement). According to the submission, it is unclear how the requirements in IAS 32 and IAS 39 *Financial Instruments: Recognition and Measurement* should be applied to such an instrument and therefore there are five alternative views being applied in practice (or being considered as acceptable views to apply in practice).	The original submission is included in **Appendix A** of this paper. We will bring this issue to a future Interpretations Committee meeting.
IAS 32-14	IAS 32 *Financial Instruments-Presentation*: Classification of a mandatorily convertible instrument when the issuer has an option to convert into the maximum fixed number of shares	Request for guidance on how an issuer should classify a financial instrument that is settled at maturity by delivery of a variable number of the issuer's own ordinary shares (subject to a floor and a cap) but the issuer has the option to settle the instrument at any time before maturity by delivering the fixed maximum number of shares. According to the submission, it is unclear how IAS 32 should be applied in circumstances where the issuer has the option to settle the financial instrument by delivering a fixed number of its own ordinary shares but the value of that fixed number of shares may exceeds substantially the alternative settlement option. Divergent views have developed in practice.	The original submission is included in **Appendix B** of this paper. We will bring this issue to a future Interpretations Committee meeting.
IFRS 2-19	IFRS 2: *Share-based Payments*: Accounting for cash-settled share-	Request for guidance on the measurement of cash-settled share-based payment transactions that include a performance condition.	The original submission is included in **Appendix C** of this paper.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
	based payment arrangements that include a performance condition	This is because according to the submitter, the lack of specific guidance in IFRS 2 is leading to different interpretations and diversity in practice. The submitter observes that current practice is mixed. Some entities measure cash-settled share-based payment transactions that include a performance condition in the same way as equity settled share-based payment transactions and others measure the fair value of the instrument, taking into account the impact of all conditions and all possible outcomes on a weighted-average basis.	We will bring this issue to a future Interpretations Committee meeting.
IAS 1–12	*IAS 1 – Presentation of Financial Statements*: Presentation of items of other comprehensive income arising from equity accounted investments	Request for clarification on how an entity should present its share of the other comprehensive income of associates and joint ventures accounted for using the equity method. This is because, according to the submitter, the presentation requirements in IAS 1.82A are ambiguous, in particular as to whether such items should be presented by nature. The submitter observes that multiple views have arisen in practice. Some entities have presented such items in aggregate as a single line item, others in separate line items by nature, and others within the corresponding line items of similar items of the reporting entity.	The original submission is included in **Appendix D** of this paper. We will bring this issue to a future Interpretations Committee meeting.
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.	The original submission is included as Appendix A of Agenda Paper 17 of the March 2013 meeting of the Interpretations Committee. We will bring this issue to a future Interpretations Committee meeting

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
		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.	
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 statements. The submitter thinks that the IASB should clarify which IFRS takes priority	The original submission is included as Appendix B of Agenda Paper 17 of the March 2013 meeting of the Interpretations Committee. We will bring this issue to a future Interpretations Committee meeting.
IFRS 10-4	IFRS 10 – *Consolidated Financial Statements*: Transition relief for impairment, foreign exchange	The submitter requests the Interpretations 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*	The original submission is included as Appendix C of Agenda Paper 17 of the March 2013 meeting of the Interpretations Committee. We will bring this issue to a future Interpretations

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
	and borrowing costs	and IAS 23 *Borrowing Costs*. This is because the submitter thinks that the retrospective application of these standards would be problematic (ie information may not be available or would require complex calculations).	Committee meeting

7. This paper does not include requests or issues that are still at a preliminary research stage. It will exclude, therefore, those issues for which further information is being sought from the submitter or other parties to define the issue more clearly.
8. We have reproduced in **Appendices A–D** the new requests that we have added to the above list since the March 2013 agenda paper was prepared. All information has been copied without modification, but we have deleted details that would identify the submitter of that request to preserve their anonymity.

Question

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

Appendix A: IAS 32–12

Potential agenda item request: Classification of instruments to convert into a variable number of shares upon a 'non-viability' contingent event

In the wake of the financial crisis, regulators are looking to strengthen the capital base of financial institutions, particularly in the banking sector. For example, the European Banking Authority (EBA) has set new regulatory capital requirements where a bank must be capitalised to a certain threshold. If these minimum capital requirements are breached, a wider range of investors and lenders of the bank should 'absorb the loss' if the bank suffers severe financial distress. A common way financial institutions are complying with these new capital requirements is to cancel or forgive the instrument or to issue instruments that convert into a variable number of ordinary shares of the entity upon a breach of the minimum regulatory capital requirement. This type of contingent feature is referred to as a 'non-viability' clause. Such clauses give rise to complex accounting questions. We have identified below one issue that has arisen for the IFRS Interpretations Committee ('IFRS IC') to consider clarifying through an interpretation.

The issue

This request for consideration by the IFRS IC is specifically focusing on the classification under IAS 32 *Financial Instruments: Presentation* of 'hybrid instruments' being those that are issued as a type of capital security but convert into a variable number of shares upon a non-viability event.
The actual terms of the instruments in practice could vary as national regulators are permitted to specify the required terms at their discretion as long as the instrument meets the minimum regulatory requirements. For the purposes of this request, we have described a simplified fact pattern below and discussed the possible views of how to classify this instrument. Note this is one example of a non-viability clause that we have seen in practice, however we are aware these clauses can arise in various forms.

A simplified example of an instrument with a non-viability clause – key features:

- *Term*: None, the instrument is perpetual.
- *Issue price*: Par, proceeds received in full upon issuance.
- *Coupon*: Fixed at 10%; however, the issuer may, at its sole discretion at all times, elect to cancel any interest payment on a non cumulative basis. Any coupon not paid is no longer due and payable by the issuer. Upon breach of minimum capital requirements, the regulator may force the issuer to cancel interest payments.
- *Issuer call:* The issuer may at its election choose to redeem the instrument at the par amount on the 5th anniversary of issue or an interest payment date thereafter subject to approval by the regulator provided the issuer is not in breach of its 'Tier 1 Capital ratio'.
- *Conversion*: Mandatorily convertible if there is a breach of the 'Tier 1 Capital ratio' (defined as the 'contingent non-viability event') into a variable number of ordinary shares (depending on the current price of the shares) equal to the fixed par amount of the instrument. When the contingent non-viability event occurs, the investors give up their right to coupons on par and instead receive ordinary shares.

When analysing the instrument, we assume that the issuer call option and payment of interest is discretionary. Further, it is assumed that the contingent non-viability event is 'genuine' (IAS 32.25(a)) and therefore cannot be ignored for the purposes of classification.

Current practice

We believe that there are five alternative views being applied in practice (or being considered acceptable views to apply in practice) to classify this instrument.

<u>*View 1: The entire instrument is classified as a liability.*</u>

The issuer has a contractual obligation to deliver a variable number of its own equity instruments if the contingent event arises as defined by IAS 32.25. According to the financial liability definition in IAS 32.11(b)(i), the instrument is a financial liability due to this settlement in a variable number of shares. The implication of this is that any dividends paid (which are at the discretion of the entity) are recognised in profit or loss (not equity) in accordance with IAS 32.35.

View 2: The instrument is a compound instrument: a debt host with an equity component for discretionary dividends.

The instrument is comprised of a debt host for the obligation to deliver a variable number of shares in accordance with the financial liability definition in IAS 32.11(b)(i) and an equity component representing the issuer's discretion to pay dividends. This is because one would first consider whether there is an equity component as prescribed by IAS 32.28 before applying the contingency guidance in IAS 32.25. From a measurement perspective, one could factor the timing of the contingent event occurring into the measurement of the liability. Upon discounting the liability, there would be a residual equity component.

The implication of this is that any discretionary dividends paid would be recognised in equity in accordance with IAS 32.35. Any change in the expected timing of the contingency would be recognised as an IAS 39.AG8 cumulative catch-up on the debt host through profit or loss.

View 3: The instrument is a compound instrument: a debt host with an equity component for discretionary dividends measured at nil.

This view is similar to view 2. However, in terms of measurement, it is necessary to consider that the contingent event may occur immediately and hence the debt host is carried at the amount repayable on demand. In this case the instrument would be a compound but the residual equity component would be recognised at zero.

In this view, the equity component would have an initial value of nil. Nevertheless, discretionary dividends paid shall be recognised in equity in accordance with IAS 32.35 since the payments relate to the equity component of the instrument.

View 4: The instrument is a compound instrument: an equity host with an embedded derivative for the conversion option.

Because the host contract has no stated or pre-determined maturity and represents a residual interest in the entity's net assets as defined in IAS 39.AG27, the host instrument is an equity instrument.

However, as noted earlier, the conversion option fails the fixed for fixed condition and therefore is a derivative as defined in the financial liability definition in IAS 32.11(b)(ii). As such, the derivative is in scope of IAS 39 and should be assessed as to whether it should be accounted for separately from the host contract as prescribed by IAS 39.11.

The first criterion in IAS 39.11 is whether the economic characteristics of the conversion option are closely related to the equity host contract. As the conversion feature violates the "fixed for fixed" requirement, the nature of the option is more similar to that of a debt instrument rather than the equity characteristics of the equity host. Therefore, the conversion option is not closely related to the equity host contract. The embedded conversion option would meet the first criteria to be bifurcated and accounted for separately from the host contract. In addition, the second and third criterion are met as this option would meet the definition of a derivative on a standalone basis and the hybrid instrument is not measured at fair value through profit or loss under the fair value option because the host instrument is not a financial asset or financial liability, respectively. As all three criteria for bifurcation of an embedded derivative are met, the issuer is required to separate the conversion option from the equity host contract.

View 5: The instrument is equity in its entirety.

Similar to view 4, the host instrument has no stated or pre-determined maturity and represents a residual interest in the entity's net assets; therefore, it is considered an equity instrument. The conversion option is

the right to convert one form of equity into another form of equity. While it is an embedded derivative as described in view 4, the embedded derivative contains equity characteristics similar to that of the host instrument. The application of IAS 39.AG27 precludes this derivative being separated from the host as it is closely related. Accordingly, the instrument is an equity instrument in its entirety.

Reasons for the IFRS Interpretation Committee to address the issue

We set out below consideration of this issue against the IFRS IC criteria a potential agenda item.

a) *Is this issue widespread and practical?*

Yes. These types of instruments are being issued in the current economic environment and will continue to be issued more frequently in the future. The application of the guidance in IAS 32 to these instruments has continued to give rise to questions and divergent views have emerged.

b) *Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?*

We believe there are divergent views in practice in classifying instruments with contingent non-viability clauses as described in this simplified fact pattern. We are aware of each of the five views expressed above being applied in practice (or being considered acceptable views to apply in practice).

c) *Would financial reporting be improved through elimination of diversity?*

Depending on which view is applied the financial statements will look significantly different. For example, if the instrument is defined as a liability host, the impact to profit or loss over the life of the instrument is an adjustment to the expected cash flows based on the likelihood that the mandatory conversion occurs (and the classification of dividends will follow the classification of the instrument either through profit or loss or equity). However, if the host is defined as an equity instrument and the conversion option as a net derivative, then the only impact to profit or loss is re-measurement of the derivative to fair value through profit or loss in each reporting period.

d) *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?*

We believe this issue is sufficiently narrow in scope as it could be addressed by answering a series of questions as follows:

(1) Should an entity only look to the guidance in IAS 32 when classifying an instrument from the issuer's perspective or should the entity first consider the IAS 39 guidance on determining what is the host contract?

(2) If it is appropriate to consider the host contract under IAS 39 from the issuer's perspective in Q(1) and the host contract is determined to be an equity host, is an embedded derivative to deliver a variable number of shares closely related or not?

(3) If the entity should only look to the guidance in IAS 32, should an entity assess whether there are any equity components (IAS 32.28) before considering whether there are any contingent settlement provisions (IAS 32.25)?

(4)If there are contingent settlement provisions, is it appropriate to factor the expected timing of a contingent settlement event into the initial measurement of a liability or should an entity assume that the contingent event could happen immediately and therefore is an 'on demand' liability?

Guidance provided by the IFRS IC on these questions will eliminate diversity for instruments with equity type features but that can be settled in a variable number of shares upon a contingent event.

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?*

We are aware that the Board was previously working on the *Financial instruments with characteristics of equity* ('FICE') project and thus interpretations relating to IAS 32 were not being considered. However, given that the FICE project is no longer on the Board's current agenda and its timing is uncertain, we suggest that the IFRS IC should consider providing guidance as it relates to these types of instruments in order to reduce diversity in practice.

Furthermore, we believe that this issue would not involve any fundamental changes to existing guidance and therefore can be resolved on a timely basis.

We hope that the Interpretations Committee will give due consideration to including this issue on their agenda for interpretation.

Appendix B – IAS 32-14

IFRS IC Potential Agenda Item: Classification of mandatorily convertible instruments with an issuer option to convert into the maximum fixed number of shares

Over recent years we have considered the accounting for mandatory convertible instruments that are not redeemed in cash but are settled by delivering shares, where there is a cap and floor linked to the share price that limits or guarantees, respectively, the number of shares to be delivered. We are aware there is some diversity in the accounting for these instruments under IAS 32 *Financial Instruments: Presentation.* However, in recent months we have become aware of a new feature included in these instruments, an issuer option to settle the instrument by issuing the maximum fixed number of shares ('issuer option'), thus creating even further diversity in the possible ways to account for these instruments.

For the purposes of this request, we have described a simplified fact pattern below. We note the actual terms of the instruments may vary in practice.

Example instrument

- Instrument is settled at maturity by delivery of issuer's ordinary equity shares to the value of C99,000.
- The instrument also contains a cap that limits the number of shares that the issuer is required to deliver to 660 and a floor that requires the issuer to deliver a minimum number of 550 shares.
- The issuer also has an option to issue the 660 shares (i.e. fixed maximum number of shares) at any time before maturity.
- If the issuer chooses to settle the instrument by issuing the maximum number of shares early (in this case 660) all interest must be paid for the entire period of the instrument (i.e. make whole provision).
- The fair value of the shares at the date of issue is C160 which would equate to the issue of 620 shares.
- Interest of 5% is payable annually, but can be deferred if the issuer does not pay dividends on its ordinary shares. However, deferred interest must be paid upon settlement.

Alternative treatments

While mandatorily convertible bonds are often structured with a variety of features, the issuer option in the example instrument above (that is, the option to deliver 660 shares) is becoming more prevalent. This submission is concerned with how to assess this feature in relation to the instrument as a whole.

Should the issuer option be assessed under the guidance in IAS 32 paragraph 20(b)?

Paragraph 20(b) of IAS 32 indicates that an instrument is a financial liability if the entity can settle the instrument either in cash (or another financial asset) or by delivering "its own shares whose value is determined to exceed substantially the value of the cash or other financial asset". In our example, the issuer can either deliver the maximum 660 shares at any time (a fixed number of shares) or at maturity deliver a variable number of shares between 550 or 660, depending on the share price at that time. One question is whether paragraph 20 should apply to this instrument, given it will be a comparison of two different share settlement outcomes rather than cash. Those who support the application of IAS 32.20(b) to the example instrument would apply this guidance by analogy.

Assuming the instrument should be considered under paragraph 20, the next question is how to assess whether the delivery of 660 shares (a fixed number of shares) substantially exceeds the other share alternative (which is the delivery of a variable number of shares subject to a cap and floor). This question is important because if 660 shares does substantially exceed the variable share alternative, then the instrument could be considered a financial liability in accordance with paragraph 20.

With regard to this assessment, we question for example, whether in assessing 'substantially exceeds' the fixed number of shares (660 in this example) should be compared to the fair value of the minimum alternative (550 in this example) or the fair value of the shares expected to be delivered. Another

suggestion is that an analogy to AG62 of IAS 39 could suggest that if the difference in number of shares is greater than 10% then this would be substantial, but this would not appear to be a required interpretation. One of the challenges in considering this instrument is the rationale for the insertion of the issuer option, given that there is no cash settlement alternative and the make whole interest provision that requires the issuer to pay all interest due through to maturity of the instrument. Some have suggested that as long as it is concluded that the maximum number of shares does not "substantially exceed" the alternative minimum number of shares then there is no need to make any further assessment of the likelihood of the issuer exercising the option. Indeed some would argue that since the Interpretation Committee in March 2006 indicated that economic compulsion does not give rise to a liability, the substance of the option does not ever need to be considered. Others have suggested that there would need to be a further assessment of the commercial rationale for the option ever being exercised or whether the issuer option is considered 'genuine' (by analogy to the guidance for contingent settlement provisions in IAS 32 paragraph 25 and AG28 to assess the likelihood of a feature being triggered). That means that one would have to look at the specific facts and circumstances to assess whether there could be other incentives for the issuer to exercise the option (for example, rating agency considerations or regulatory capital implications).

How should the instrument be classified if not an indirect obligation under IAS 32 paragraph 20(b)?

Assuming that it is concluded that the issuer option to deliver 660 shares at any time has commercial substance and/or does not become an indirect obligation under paragraph 20 of IAS 32, how should the instrument be accounted for? One view is that the issuer option gives the issuer the ability to avoid delivering a variable number of shares. This view is based on the wording in paragraph 16b(i) and paragraph 19 of IAS 32. The issuer has an unconditional right to avoid delivering a variable number of shares. The instrument would therefore be separated into a liability for the present value of the interest payments with a large residual equity component given that the issuer always has the discretion to settle the instrument by delivering a fixed number of shares.

Others have suggested that it is inappropriate for the issuer option to take precedence over the other features in the instrument and that essentially this instrument is for the settlement of a variable number of shares with the issuer early redemption option being a settlement option under paragraph 26 of IAS 32. This would result in the instrument having no equity component.

Reasons for the IFRS Interpretation Committee to address the issue

We set out below consideration of this issue against the IFRS IC criteria a potential agenda item.

a) *Is this issue widespread and practical?*

   Yes. These types of instruments are being issued in the current economic environment and we believe they will be issued more frequently in the future if they result in equity accounting treatment for the instrument (apart from the financial liability for the stream of interest payments). The application of the guidance in IAS 32 to these instruments has continued to give rise to questions and divergent views have emerged.

b) *Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?*

   As noted above, we believe there are divergent views in practice in classifying instruments with such clauses.

c) *Would financial reporting be improved through elimination of diversity?*

   Depending on which view is applied the financial statements will look significantly different. For example, if the issuer option 'trumps' all other terms then the instrument will be almost entirely classified as equity except for a small liability component for the interest payments. However, if the clause is disregarded then the conversion into a variable number of shares will, in our view, require the instrument to be treated as a liability with embedded derivatives for the cap and floor which then require re-measurement to fair value through profit or loss in each reporting period based on the issuer's share price.

d) *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?*

We believe this issue is sufficiently narrow in scope as it could be addressed by answering the following questions:

1. How should paragraph 20 of IAS 32 be read with regards to an indirect obligation to settle a financial instrument with its own shares whose value is determined to exceed substantially the alternative settlement option? That is, does paragraph 20 apply to the fact pattern in this paper and if it does, can it be concluded that the fixed share alternative does not 'substantially exceed' the other share alternatives? Can we automatically conclude that having considered paragraph 20 the issuer option has substance?
2. Does the issuer option take precedence over the other share settlement features of the instrument so that since the issuer can always issue a fixed number of shares the instrument is largely equity (apart from the financial liability for interest payments)?

Guidance provided by the IFRS IC on these questions will eliminate diversity for instruments with issuer options to convert into a fixed number of shares.

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?*

We are aware that the Board was previously working on the *Financial instruments with characteristics of equity* ('FICE') project and thus interpretations relating to IAS 32 were not being considered. However, given that the FICE project is no longer on the Board's current agenda and its timing is uncertain (albeit we appreciate that the Board is now working on the conceptual framework for which the definition of liabilities and equity is being considered), we suggest that the IFRS IC should consider providing guidance as it relates to these types of instruments in order to reduce diversity in practice.

Furthermore, we believe that this issue would not involve any fundamental changes to existing guidance and therefore can be resolved on a timely basis.

We hope that the Interpretations Committee will give due consideration to including this issue on their agenda for interpretation.

Appendix C – IFRS 2-19

IFRS IC Potential Agenda Item: Accounting for cash-settled share-based payment arrangements that include a performance condition

We suggest in this letter an issue that the IFRS Interpretation Committee might consider clarifying.

The issue

IFRS 2 does not specifically address the measurement of cash-settled share-based payment transactions that include a performance condition. Share-based payments in the scope of IFRS 2 are excluded from the scope of IFRS 13. The measurement of cash-settled share-based payments is being interpreted in different ways, leading to diversity in practice. This is illustrated by the extracts from published guidance attached as Appendix B.

IFRS 2 paragraph 30 states "For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability". IFRS 2 paragraph 33 explains that for a cash-settled share appreciation right “The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date”.

Equity-settled awards with a performance vesting condition are measured using the modified fair value approach described in IFRS 2 paragraph 19. This requires that a performance vesting condition is reflected in the number of awards expected to vest, not in the measurement of the fair value of the award. No expense is recognised for goods or services received where an award is not expected to vest because achievement of a performance condition is not probable.

IFRS 2 uses the term fair value but is excluded from the scope of the fair value guidance in IFRS 13. An equity-settled award is measured without taking account of factors, such as vesting conditions other than market performance conditions and reload features. This is clearly not fair value. It is less clear whether the measurement of a liability for a cash-settled share-based payment should be at fair value as defined in IFRS 13.

Some believe that the measurement of the fair value of the liability should reflect the weighted average impact of all conditions and all possible outcomes, consistent with IFRS 13. A liability based on fair value should be recognised for all cash-settled awards even where achievement of a performance or service condition is not probable. Fair value reflects the probability of meeting any vesting conditions. Supporters of this view believe that excluding IFRS 2 from the scope of IFRS 13 was simply a drafting expedient and not an indication of a specific view regarding the measurement of cash-settled share based payment liabilities. A modification to exclude from the scope of IFRS 13 equity-settled awards but include cash-settled awards would have been complicated.

Others consider that the guidance in IG Example 12 of IFRS 2 suggests that the fair value for each award should be measured and then the number of awards expected to vest should be estimated. This would be consistent with the treatment of an equity-settled award. Supporters of this view consider that the exclusion of IFRS 2 from the scope of IFRS 13 suggests that none of the references to fair value in IFRS 2 should be regarded as consistent with fair value as defined in IFRS 13.

We note that IG Example 12 includes a service condition that can be expressed in terms of the number of employees expected to complete the service condition and not a performance condition. The result of the two valuation approaches would be the same. This example therefore does not suggest that a liability should be recognised only for awards that are more likely than not to vest.

Example

An entity might grant share appreciation rights to employees under which the employees will become entitled to a cash payment (rather than an equity instrument) based on the increase in the entity's share price over a specified period. The employees will earn the award after providing three years of service if the entity also meets a revenue target at the end of year three.

Some argue that no expense should be recorded unless it is probable that the performance condition (the revenue target) will be met. They also believe that the measurement should follow the same approach as equity-settled awards, so if it is probable the performance condition will be met, an expense based on the total number of awards should be recognised.

Others believe that the impact of any conditions is a measurement issue and not a recognition issue. They argue that measurement should reflect the impact of all conditions and all possible outcomes on a weighted-average basis and compensation expense should be recorded for the cash-settled share-based payment, whether or not it is probable the performance condition will be met.

Current practice

We understand that current practice is mixed. Some entities measure cash-settled share-based payment transactions that include a performance condition in the same way as equity-settled share-based payment transactions and others measure the fair value of the instrument, taking into account the impact of all conditions and all possible outcomes on a weighted-average basis.

Question for the Committee

Should the liability for cash-settled share-based payments be measured at fair value or recognised only when it is probable that a performance condition will be met and the award will vest?

Reasons for the IFRIC to address the issue

Criteria	Assessment
Is the issue widespread and practical?	**Awards with performance conditions are common. The accounting for cash-settled awards with a performance condition should be clear and not be subject to different interpretation.**
Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?	**Existing practice includes the divergent interpretations described above. The cumulative total expense will be the amount finally paid, but these interpretations can lead to significantly different timing for the recognition of that expense.**
Would financial reporting be improved through elimination of the diversity?	**The accounting for cash-settled awards with performance conditions should be consistent. Clarification would eliminate divergent application.** **The guidance currently has one example of a cash-settled award, which includes a service condition but it does not include a performance condition. IG Example 12 includes a forfeiture assumption, which would be incorporated into the accounting for an equity-settled and a cash-settled award in the same manner.** **Clarity would be provided if another example is included in the implementation guidance in IFRS 2 to address cash-settled awards with a performance condition. We set out in Appendix A suggested wording for an additional example, based on the assumption that the award is measured at**

	fair value taking into account all terms and conditions.
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?	**We believe this issue is 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.**
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?	**No current or planned IASB project will address this issue.**

We believe that the clarification of the illustrative example would help with consistent application and reduce diversity in practice.

Appendix A

Draft additional implementation guidance

IG Example 12 A

Background

An entity grants 100 cash-settled share appreciation rights (SARs) to each of its 500 employees on condition that the employees remain in its employment for the next three years and the entity reaches a revenue target (CU1B in sales) at the end of year 3.

For simplicity, it is assumed that no employees are expected to leave and none leave.

During year 1, the entity estimates there is a 40% probability that the revenue target will be attained at the end of year 3. During year 2, the entity estimates there is a 70% probability that the revenue target will be attained at the end of year 3. At the end of year 3, the revenue target was attained and 150 employees exercise their SARs, another 150 employees exercise their SARs at the end of year 4 and the remaining 200 employees exercise their SARs at the end of year 5.

Using an option pricing model the entity estimates the fair value of the SARs, ignoring the revenue target performance condition, at the end of each year in which a liability exists as shown below. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and 5 are also shown below.

Year	Fair value of one SAR	Intrinsic value of one SAR
1	CU14.40	
2	CU15.50	
3	CU18.20	CU15.00
4	CU21.40	CU20.00
5		CU25.00

Application of requirement

Year	Calculation	Expense CU	Liability CU
1	500 employees × 100 SARs × 40% × CU14.40 × ⅓	96,000	96,000
2	500 employees × 100 SARs × 70% × CU15.50 × ⅔ –	265,667	361,667

	CU96,000			
3	(500-150) employees × 100 SARs × CU18.20 – CU361,667	275,333		637,000
	+ 150 employees × 100 SARs × CU15.00	225,000		
	Total		500,333	
4	(350 – 150) employees × 100 SARs × CU21.40 – CU637,000	(209,000)		428,000
	+ 150 employees × 100 SARs × CU20.00	300,000		
	Total		91,000	
5	CU0 – CU428,000	(428,000)		0
	+ 200 employees × 100 SARs × CU25.00	500,000		
	Total		72,000	
	Total		1.025,000	

Appendix B

Extracts from published guidance

PwC Manual of Accounting

12.150 There is, however, an important difference. For cash-settled transactions, the fair value of the liability is re-measured at each reporting date and at the date of settlement. The measurement reflects the impact of all conditions and all possible outcomes on a weighted-average basis, unlike the measurement for an equity-settled award. Any changes in fair value are recognised in profit or loss for the period. [IFRS 2 para 30].

KPMG Insights into IFRS

4.5.1260.40 Therefore, it is unclear whether, by analogy to the modified grant-date method for equity-settled share-based payments (see 4.5.780), only market conditions and non-vesting conditions should be taken into account when measuring the fair value of the cash-settled liability; or whether all conditions – including service and non-market performance conditions – should be taken into account in determining that fair value.

4.5.1260.50 In our view, an entity should choose an accounting policy, to be applied consistently to all cash-settled share-based payments, to measure the fair value of a cash-settled liability taking into account either:

- only market and non-vesting conditions, meaning that service and non-market performance conditions affect the measurement of the liability by adjusting the number of rights to receive cash based on the best estimate of the service and non-market performance conditions that are expected tobe satisfied; or

- all vesting and non-vesting conditions, including service conditions and non-market performance conditions. [*IFRS 2.IG 19, Ex12*]

Deloitte iGAAP

Does not clearly address the issue but repeats the wording of the standard without further clarification.

Ernst & Young International GAAP

9.3.2.C Non-market vesting conditions
As drafted, IFRS 2 does not specifically address the impact of vesting conditions in the context of cash-settled transactions - the provisions of IFRS 2 relating to vesting conditions are to be found in paragraphs 19-21 of IFRS 2, all of which fall under the main heading 'Equity-settled share-based payment transactions' immediately before paragraph 10.

Where a vesting condition is a minimum service period, IG Example 12 in IFRS 2 (broadly reproduced as Example 32.36 above) clearly indicates that, during the period to vesting, the liability should be estimated on the basis of the current best estimate of the number of awards that will vest, this estimate being made exactly as for an equity-settled transaction.

As regards other non-market performance conditions, based on the analogy of the treatment of service periods in IG Example 12, we believe that the liability until vesting date should be based on the current best estimate of the outcome of those conditions.

Appendix D – IAS 1-12

IFRS IC Potential Agenda Item: Presentation of items of other comprehensive income arising from equity accounted investments

The issue

The amendment to IAS 1 effective for periods beginning on or after 1 July 2012 deletes paragraph 82(f)-(i) and inserts paragraph 82A. IAS 1 now requires items of other comprehensive income (OCI) to be grouped together into those that will not be reclassified subsequently to profit or loss, and those that will be reclassified to profit or loss when specific conditions are met. IAS 1 paragraph 82A requires the following:

The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs:

a. will not be reclassified subsequently to profit or loss; and

b. will be reclassified subsequently to profit or loss when specific conditions are met.

[Emphasis added]

We believe that this wording is ambiguous and potentially inconsistent with the principles of equity accounting.

Current practice

This amendment has not yet been applied to annual financial statements but it has been applied in some interim financial information. There is consequently limited published practice, however, three different views have emerged:

1. Report OCI from equity accounted investments in two separate lines

2. Report each item of OCI by reference to the nature of the underlying transaction, showing separately amounts arising from equity accounted investments

3. Report OCI items arising from equity accounted investments in the same line as similar items arising within the reporting entity

Appendix 1 explains these views in more detail and also provides an illustrative presentation of each view.

We suggest that paragraph 82A be revised to require the presentation set out in View 1, with consequential amendments to the Implementation Guidance. This presentation is most consistent with the principles of equity accounting and, in the absence of a specific decision to require additional disclosure, we believe that this treatment is closest to that required by the previous version of IAS 1.

We suggest that IAS 1 be amended as follows:

82A. The other comprehensive income section shall ~~present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive~~

~~income of associates and joint ventures accounted for using the equity method) and grouped into those that~~ be split into two sub-sections, reporting separately those items that, in accordance with other IFRSs:

a. will not be reclassified subsequently to profit or loss; and

b. will be reclassified subsequently to profit or loss when specific conditions are met.

82B. Within the other comprehensive income section, and split in accordance with the requirements of paragraph 82A, an entity shall present the following line items:

a. a separate line for each item of other comprehensive income in the period, classified by nature (excluding share of the other comprehensive income of associates and joint ventures accounted for using the equity method); and

b. share of the other comprehensive income of associates and joint ventures accounted for using the equity method.

Appendix 2 explains why we believe this issue should be addressed in the next annual improvements project.

APPENDIX 1 – DIFFERING VIEWS EMERGING IN PRACTICE

View 1 – Report OCI from equity accounted investments in two separate lines

The principles of equity accounting require that single line items should be reported rather than reporting each individual item of OCI. The single line item reported under the previous version of IAS 1 for the share of OCI of equity accounted investments should now be split into two lines for those items that will be recycled and those that will not. OCI arising from equity accounted investments is different in nature to that arising from transactions of the group. A two line presentation reflects the substance of the items and complies with the requirements of IAS 1 to present OCI by nature. The example below illustrates this view:

Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Income tax relating to items that will not be reclassified	(166)	(1,000)
Share of other comprehensive income (expense) of associates, net of tax, that will not be reclassified	400	(700)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
Share of other comprehensive income (expense) of associates, net of tax, that may be reclassified	250	(155)
	(14,250)	24,845
Other comprehensive income for the year, net of tax	**(13,750)**	**27,845**

View 2 – Report each item of OCI by reference to the nature of the underlying transaction showing separately amounts arising from associates

Each item of OCI should be reported separately based on the underlying transaction with amounts arising from equity accounted investments identified separately. This view might be implied by the presentation set out in the Implementation Guidance. The example below illustrates this view:

Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Income tax relating to items that will not be reclassified	(166)	(1,000)
Share of gain (loss) on property revaluation of associates, net of tax	195	(800)
Share of remeasurements of defined benefit pension plans of associates, net of tax	205	100
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
Share of gains and losses on available-for-sale financial assets of associates, net of tax	250	(155)
	(14,250)	24,845
Other comprehensive income for the year, net of tax	**(13,750)**	**27,845**

View 3 – Report OCI items arising from equity accounted investments in the same line item as similar items arising within the reporting entity

Paragraph 82A requires a single total for each class of OCI by nature, which should include amounts arising from both the reporting entity's transactions and equity accounted investments. The nature of OCI items arising from equity accounted investments is the same as similar items that arise from transactions of the group. Material amounts of OCI arising from equity accounted investments should be disclosed separately in the notes in accordance with paragraph 85. The example below illustrates this view:

Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation*	1,128	2,567
Remeasurements of defined benefit pension plans*	(462)	1,433
Income tax relating to items that will not be reclassified	(166)	(1,000)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets*	(23,750)	26,512
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
	(14,250)	24,845
Other comprehensive income for the year, net of tax	**(13,750)**	**27,845**

* Includes tax in respect of OCI arising from equity method investments

** To the extent that amounts in respect of equity method investments are material, separate disclosure of these amounts should be provided by way of a note

APPENDIX 2 – REASONS FOR THE IFRS IC TO ADDRESS THIS ISSUE WITHIN THE NEXT ANNUAL IMPROVEMENTS PROJECT

Criteria	Assessment
The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs, or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle.	We believe that IAS 1 paragraph 82A is unclear. We also understand that the Board did not intend to require significantly more disclosure about OCI arising from equity accounted investments as a result of the amendment to IAS 1.
The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.	The proposed amendment relates to a single paragraph of IAS 1 and consequential changes to the Implementation Guidance.
It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.	We believe the Board will be able to agree on revised wording to clarify the guidance in a timely manner.
If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.	This aspect of IAS 1 is not currently the subject of an on-going or future project.