IFRIC Update

From the IFRS Interpretations Committee

January 2014

Welcome to the IFRIC Update

IFRIC Update *is the newsletter of the IFRS Interpretations Committee (the 'Interpretations Committee'). All conclusions reported are tentative and may be changed or modified at future Interpretations Committee meetings.*

Decisions become final only after the Interpretations Committee has taken a formal vote on an Interpretation or a Draft Interpretation, which is confirmed by the IASB.

The Interpretations Committee met in London on **29–30 January 2014**, when it discussed:

items on the current agenda;
an item recommended to the IASB for addressing through Annual Improvements;
an item recommended to the IASB for narrow-scope amendment;
Interpretations Committee agenda decisions;
Interpretations Committee tentative agenda decisions; and
other matters.

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Future IFRS Interpretations Committee meetings

The next meetings are:
25 and 26 March 2014
13 and 14 May 2014
15 and 16 July 2014
16 and 17 September 2014
11 and 12 November 2014

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB **website** before the meeting. Further information about the activities of the IFRS Interpretations Committee can be found **here**. Instructions for submitting requests for Interpretations are given on the IASB website **here**.

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Items on the current agenda

At this meeting, the Interpretations Committee discussed the following items on its current agenda:

IFRS 10 *Consolidated Financial Statements*—exemption from preparing consolidated financial statements requirements in IFRS 10: Applicability to a subsidiary of an investment entity

The Interpretations Committee received a request to clarify whether the exemption set out in paragraph 4 of IFRS 10 *Consolidated Financial Statements*, namely that an intermediate parent that meets certain conditions need not present consolidated financial statements, is available to an entity that is measured at fair value in the financial statements of its investment entity parent. Specifically, the issue presented to the Interpretations Committee is whether an intermediate parent (that is not itself an investment entity) can use the exemption from preparing consolidated financial statements if it is reflected at fair value in its investment entity parent's financial statements and has no other ultimate or any intermediate parent that produces consolidated financial statements.

The exemption from preparing consolidated financial statements for an intermediate parent entity is set out in paragraph 4 of IFRS 10. This exemption is available if all of the criteria in paragraph 4(a)(i)–(iv) are met. One of the criteria, 4(a)(iv), is "its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs".

At this meeting, the Interpretations Committee discussed whether the exemption from presenting consolidated financial statements in paragraph 4(a) should be available to an intermediate parent entity (Intermediate Parent) that is a subsidiary of an investment entity (Ultimate Parent), if the conditions set out in paragraph 4(a)(i)–(iii) are met and Ultimate Parent prepares financial statements in which all of its subsidiaries are measured at fair value in accordance with paragraph 31 of IFRS 10. The Interpretations Committee noted that the conditions in paragraph 4(a)(i)–(iii) provide safeguards for the primary users of Intermediate Parent's financial statements. However, the Interpretations Committee had mixed views on whether or not it is appropriate for Intermediate Parent to be exempt from preparing consolidated financial statements. Those Interpretations Committee members who thought that it was inappropriate for Intermediate Parent to apply the exemption thought that the exemption should only be available if Intermediate Parent's results are consolidated on a line-by-line basis in the financial statements of another parent above it in the group. Those Interpretations Committee members also questioned whether providing an exemption from preparing consolidated financial statements to such an Intermediate Parent is consistent with the IASB's intentions, when it developed the Investment Entities amendments to IFRS 10.

The Interpretations Committee asked the staff to consult the IASB on this issue, with a view to proposing a clarification to IFRS 10 on this matter.

IAS 28 *Investments in Associates and Joint Ventures*—application of the equity method by a non-investment entity investor to an investment entity investee

The Interpretations Committee received a request to clarify how an entity that is not an investment entity should apply the equity method of accounting for its investment in a joint venture that is an investment entity.

The Interpretations Committee was asked about how the requirement of paragraph 27 of IAS 28 that the equity method is applied to the associate's or joint venture's financial statements "after any adjustments necessary to give effect to uniform accounting policies" (see paragraphs 35 and 36 of IAS 28) is intended to be applied to an investee that is an investment entity. Specifically, the Interpretations Committee was asked whether the application of paragraph 27 of IAS 28 requires that an investor that is not an investment entity and not a venture capital organisation 'reverse' the fair value accounting within the investee's financial statements and record its share of the investee's profit or loss and other comprehensive income on the basis of the investee's consolidated results.

The Interpretations Committee members expressed mixed views on this matter and were unable to reach a conclusion at this meeting. The Interpretations Committee noted that the IASB staff plan to start discussions on its research project on the equity method of accounting in May 2014. The Interpretations Committee asked that the staff report back to the Interpretations Committee following the IASB's initial discussions on the research project.

IFRS 11 *Joint Arrangements*—analysis of implementation issues

The Interpretations Committee received several requests with regard to the application of the requirements of IFRS 11 *Joint Arrangements*.

At its November 2013 meeting, the Interpretations Committee identified the following two priority issues for further consideration:

- (Issue 1) whether an assessment of 'other facts and circumstances' should take into account facts and circumstances that do not involve contractual and (legal) enforceable terms; and
- (Issue 2) how the parties to a joint operation should recognise assets, liabilities, revenues and expenses, especially if the parties' interests in the assets and liabilities differ from their ownership interest in the joint operation.

At this meeting, the staff presented an analysis of Issue 1. This analysis covered the following five sub-issues:

- Issue 1A—Should the assessment of ‘other facts and circumstances’ be based only on contractual (and legal) enforceable terms?

- Issue 1B—Does the fact that the output from the joint arrangement is sold at a market price prevent the joint arrangement from being classified as a joint operation, when assessing ‘other facts and circumstances’?

- Issue 1C—Does financing from a third party prevent an arrangement from being classified as a joint operation?

- Issue 1D—Does the nature of the output produced by the joint arrangement determine the classification of a joint arrangement when assessing ‘other facts and circumstances’?

- Issue 1E—When assessing ‘other facts and circumstances’ in the case in which parties are taking substantially all of the output, is the assessment based on volumes or monetary values?

With regard to Issue 1A, the Interpretations Committee tentatively decided not to add the issue to its agenda. The Interpretations Committee’s tentative agenda decision on this issue is included in the section ‘Interpretations Committee tentative agenda decisions’ of this IFRIC Update.

With regard to the other issues considered, the Interpretations Committee noted that it is important to understand how and why particular facts and circumstances create rights and obligations that result in the joint arrangement being classified as a joint operation. The Interpretations Committee asked the staff to develop examples to analyse this matter. These examples should include fact patterns illustrating Issues 1B–1E and consider the application of IFRS 11 to some common joint arrangement structures. The Interpretations Committee also requested that this analysis consider the implications for accounting within separate financial statements. After it has considered this further analysis, the Interpretations Committee will decide whether to recommend adding examples or other guidance to the Standard.

The staff will present this analysis at a future meeting.

IAS 12 *Income Taxes*—recognition of deferred tax assets for unrealised losses

At its meeting in May 2013, the Interpretations Committee tentatively decided to:

- recommend to the IASB that it should amend IAS 12 to clarify that deferred tax assets for unrealised losses on debt instruments measured at fair value are recognised, unless recovering the debt instruments by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses; and
- consult with the IASB on the approach that is to be the basis for the amendment before discussing further details and drafting a proposed amendment.

At this meeting, the Interpretations Committee analysed feedback from the consultation with IASB members and tentatively decided to confirm its recommended approach and to draft an amendment to IAS 12 that illustrates the application of the existing principles of IAS 12 in accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The Interpretations Committee noted that this amendment should explain the following aspects in the application of the principles of IAS 12:

- an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference if the holder of the debt instrument expects to recover its carrying amount by holding it to maturity and collecting all of the contractual cash flows and if the loss is not tax deductible until realised;
- an entity assesses the utilisation of deductible temporary differences related to unrealised losses on debt instruments measured at fair value in combination with other deferred tax assets. If tax law, however, restricts the utilisation of deductible temporary differences so that an entity can only utilise certain tax deductions against taxable profits of a specific type (for example, if it can deduct capital losses only against capital gains), the entity must still assess such a deductible temporary difference in combination with other deductible temporary differences, but only with deductible temporary differences of the appropriate type;
- when estimating probable future taxable profit for the purposes of recognising deferred tax assets, an entity assumes that it will recover an asset for more than its carrying amount, provided such a recovery is probable;

- probable future taxable profit against which existing deductible temporary differences are assessed for utilisation excludes tax deductions represented by those deductible temporary differences;
- the approach to apply in the assessment of the utilisation of deductible temporary differences when it is probable that the entity will utilise only part of its deductible temporary differences. This was raised in the context of a circumstance where all three sources of taxable profits (ie future reversal of existing taxable temporary differences, future taxable profits, and tax planning opportunities) are available but together are insufficient for the recognition of all deferred tax assets; and
- how an entity should determine the amount of deferred tax to recognise in other comprehensive income compared with the amount to recognise in profit or loss, when the entity cannot recognise all deferred tax assets due to having insufficient future taxable profits. The Interpretations Committee noted that this determination should be on a reasonable pro-rata allocation, unless tax law requires a different allocation.

Subject to reviewing the draft amendment to IAS 12, the Interpretations Committee supported the staff recommendation that such an amendment to IAS 12 should mainly be an illustrative example, with other amendments to IAS 12 made only if the clarification through an illustrative example is insufficient.

The Interpretations Committee tentatively decided to develop the amendment to IAS 12 for application to debt instruments measured at fair value in accordance with IAS 39 as well as those measured at fair value in accordance with IFRS 9.

Finally, the Interpretations Committee asked the staff to assess whether there are any unintended consequences for the accounting for deferred tax arising in relation to non-financial assets measured at fair value when drafting the amendment to IAS 12.

The staff will present a draft amendment to IAS 12 in a future Interpretations Committee meeting.

IAS 34 *Interim Financial Reporting*—condensed statement of cash flows

The Interpretations Committee received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 *Interim Financial Reporting*.

The submitter observed that there are divergent views on the application of the requirements in paragraph 10 of IAS 34 regarding presentation and content of the condensed statement of cash flows. One view is that an entity could present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity could present a three-line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities.

The Interpretations Committee observed that the underlying principles in IAS 34 for the presentation of condensed information in the interim financial statements require an entity to present condensed financial information that is not misleading. The Interpretations Committee further observed that to comply with paragraph 10 of IAS 34, management should employ its judgement in determining the level of disaggregation that prevents a condensed interim financial statement from being misleading.

The Interpretations Committee concluded that an amendment to the Standard was not required and directed the staff to draft a tentative agenda decision that would reflect the existing principles in IAS 34 for presenting condensed financial information in the interim period. The staff will bring a draft tentative agenda decision to a future meeting for discussion by the Interpretations Committee.

Item recommended to the IASB for addressing through Annual Improvements

IFRS 10 *Consolidated Financial Statements*—an investment entity subsidiary that also provides investment-related services

The Interpretations Committee received a request to clarify the accounting by an investment entity that has an investment entity subsidiary that also provides investment-related services.

The investment entity amendments to IFRS 10 introduced an exception to the consolidation requirement. An investment entity measures its investments in subsidiaries, including subsidiaries that are investment entities, at fair value, rather than consolidating those subsidiaries, unless the subsidiary provides investment-related services. If a subsidiary provides investment-related services, the investment entity consolidates the subsidiary.

According to the submitter, where an investment entity's subsidiary is itself an investment entity (and has investees measured at fair value) and, additionally, provides investment-related services, it is unclear whether the investment entity parent should measure that subsidiary at fair value or consolidate it.

At this meeting, the Interpretations Committee reviewed the IASB's discussions during the development of the Investment Entity amendments and noted that the IASB separately discussed the circumstances in which an investment entity provides investment-related services to its investors, investment-related services to third parties and investment-related activities to investees.

The Interpretations Committee thought that the IASB's decision was clear that an investment entity parent should account for an investment entity subsidiary at fair value when that investment entity subsidiary provides investment-related services to its investors or when it carries out investment-related activities in relation to its investees. The Interpretations Committee acknowledged that the Standard does not give guidance on the accounting by an investment entity parent for an investment entity subsidiary when that investment entity subsidiary also provides investment-related services to third parties. The Interpretations Committee tentatively concluded that an investment entity parent should account for all investment entity subsidiaries in the same way, ie at fair value. Consequently, the Interpretations Committee proposed that this accounting should be made clear through Annual Improvements.

Item recommended to the IASB for narrow-scope amendment

IAS 28 *Investments in Associates and Joint Ventures*—inconsistency with paragraph 31 of IAS 28

In its July 2013 meeting, the Interpretations Committee recommended that the IASB should proceed with the amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled *Accounting for the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. At that meeting it also considered whether or not to propose that the IASB should amend or delete paragraph 31 of IAS 28, which is perceived as conflicting with the proposed amendments to IFRS 10 and IAS 28. The perceived conflict is that:

- Paragraph 31 of IAS 28 requires that the accounting for the gain or loss resulting from the contribution of non-monetary assets depends on whether an equity interest or other assets are received in exchange. A full gain is recognised on the contribution relating to the other assets received and a partial gain is recognised on the contribution relating to the equity interest received.
- In the *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* project, the IASB tentatively decided that all sales and contributions of assets (that do not constitute a business) between an investor and its associate or joint venture should be accounted for consistently. A partial gain should be recognised in those cases (except when the contribution lacks commercial substance).

At this meeting, the Interpretations Committee considered further analysis of the issue and concluded that paragraph 31 of IAS 28 is not consistent with the forthcoming amendments to (and the existing requirements of) IAS 28. It also noted that the deletion of paragraph 31 of IAS 28 would not have significant unintended consequences. Consequently, the Interpretations Committee recommended that the IASB should delete this paragraph from IAS 28.

Interpretations Committee agenda decisions

The following explanations are published for information only and do not change existing IFRS requirements. *Interpretations Committee agenda decisions are not Interpretations. Interpretations are determined only after extensive deliberations and due process, including a formal vote, and become final only when approved by the IASB.*

IAS 29 *Financial Reporting in Hyperinflationary Economies*—applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units

The Interpretations Committee considered the following two questions:

- whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units that is described in the *Conceptual Framework for Financial Reporting* when the entity's functional currency is not the currency of a hyperinflationary economy as described in IAS 29 *Financial Reporting in Hyperinflationary Economies*; and
- if such use is permitted, whether the entity needs to apply IAS 29 to its financial statements prepared using a specific model of that concept of financial capital maintenance when it falls within the scope of IAS 29.

The Interpretations Committee observed that the guidance in the *Conceptual Framework* is written to assist the IASB in the development of Standards. It is also used in the development of an accounting policy only when no Standards specifically apply to a particular transaction, other event or condition, or deal with similar and related issues. Consequently the guidance in the *Conceptual Framework* relating to the use of a particular capital maintenance concept cannot be used to override the requirements of any Standard, and an entity is not permitted to apply a concept of capital maintenance that conflicts with the existing requirements in a particular Standard, when applying that Standard.

In addition, the Interpretations Committee noted that the results of the outreach indicate that these issues are not widespread. For this reason the Interpretations Committee decided not to add these issues to its agenda.

IAS 32 *Financial Instruments: Presentation*—a financial instrument that is mandatorily convertible into a variable number of shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares

The Interpretations Committee discussed how an issuer would assess the substance of a particular early settlement option included in a financial instrument in accordance with IAS 32 *Financial Instruments: Presentation*. The instrument has a stated maturity date and at maturity the issuer must deliver a variable number of its own equity instruments to equal a fixed cash amount, subject to a cap and a floor. The cap and the floor limit and guarantee, respectively, the number of equity instruments to be delivered. The issuer is required to pay interest at a fixed rate. The issuer has the contractual right to settle the instrument at any time before maturity. If the issuer chooses to exercise that early settlement option, it must:

(a) deliver the maximum number of equity instruments specified in the contract; and

(b) pay in cash all of the interest that would have been payable if the instrument had remained outstanding until its maturity date.

The Interpretations Committee noted that the definitions of *financial asset*, *financial liability* and *equity instrument* in IAS 32 are based on the financial instrument's contractual rights and contractual obligations. However, paragraph 15 of IAS 32 requires the issuer of a financial instrument to classify the instrument in accordance with the substance of the contractual arrangement. Consequently, the Interpretations Committee noted that if a contractual term of a financial instrument lacks substance, that contractual term would be excluded from the classification assessment of the instrument.

The Interpretations Committee noted that the issuer cannot assume that a financial instrument (or its components) meets the definition of an equity instrument simply because the issuer has the contractual right to settle the financial instrument by delivering a fixed number of its own equity instruments. The Interpretations Committee noted that judgement will be required to determine whether the issuer's early settlement option is substantive and thus should be considered in determining how to classify the instrument. If the early settlement option is not substantive, that term would not be considered in determining the classification of the financial instrument.

The Interpretations Committee noted that the guidance in paragraph 20(b) of IAS 32 is relevant because it provides an example of a situation in which one of an instrument's settlement alternatives is excluded from the classification assessment. Specifically, the example in that paragraph describes an instrument that the issuer will settle by delivering either cash or its own shares and states that one of the settlement alternatives should be excluded from the classification assessment in some circumstances.

The Interpretations Committee noted that to determine whether the early settlement option is substantive, the issuer will need to understand whether there are actual economic or other business reasons that the issuer would exercise the option. In making that assessment, the issuer could consider, along with other factors, whether the instrument would have been priced differently if the issuer's early settlement option had not been included in the contractual terms. The Interpretations Committee also noted that factors such as the term of the instrument, the width of the range between the cap and the floor, the issuer's share price and the volatility of the share price could be relevant to the assessment of whether the issuer's early settlement option is substantive. For example, the early settlement option may be less likely to have substance—especially if the instrument is short-lived—if the range between the cap and the floor is wide and the current share price would equate to the delivery of a number of shares that is close to the floor (ie the minimum). That is because the issuer may have to deliver significantly more shares to settle early than it may otherwise be obliged to deliver at maturity.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, neither an interpretation nor an amendment to a Standard was necessary and consequently decided not to add the issue to its agenda.

IAS 32 *Financial Instruments: Presentation*—classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent 'non-viability' event

The Interpretations Committee discussed how an issuer would classify a particular mandatorily convertible financial instrument in accordance with IAS 32 *Financial Instruments: Presentation*. The financial instrument did not have a stated maturity date but was mandatorily convertible into a variable number of the issuer's own equity instruments if the issuer breached the Tier 1 Capital ratio (ie described as a 'contingent non-viability event'). The financial instrument is issued at par and the value of the equity instruments that will be delivered at conversion is equal to that fixed par amount. Interest payments on the instrument are payable at the discretion of the issuer.

Specifically the Interpretations Committee discussed the following issues:

a. Whether the financial instrument meets the definition of a financial liability in its entirety or must be classified as a compound instrument comprised of a liability component and an equity component (and, in the latter case, what those components reflect); and

b. How the financial liability (or liability component) identified above in bullet a. would be measured.

The Interpretations Committee decided not to add this issue to its agenda. The Interpretations Committee noted that the scope of the issues raised in the submission is too broad for it to address in an efficient manner.

Interpretations Committee tentative agenda decisions

*The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to its agenda. These tentative decisions, including recommended reasons for not adding the items to the Interpretations Committee's agenda, will be reconsidered at the Interpretations Committee meeting in May 2014. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to email those concerns by 14 April 2014 to **ifric@ifrs.org**. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

IFRS 3 *Business Combinations*—identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 *Consolidated Financial Statements* in a stapling arrangement

The Interpretations Committee received a request to clarify the interaction of the requirements in IFRS 3 *Business Combinations* (as revised in 2008) for identifying an acquirer with the requirements in IFRS 10 *Consolidated Financial Statements* for deciding whether control exists. More specifically, the submitter is seeking clarification of whether an acquirer identified for the purpose of IFRS 3 (as revised in 2008) is a parent for the purpose of IFRS 10 in circumstances in which a business combination is achieved by contract alone, such as a stapling arrangement, with no combining entity obtaining control of the other combining entities.

IFRS 3 (as revised in 2008) defines a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses". In addition, IFRS 3 (as revised in 2008) refers to IFRS

10 for the meaning of the term ‘control’. IFRS 10 states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Hence, the Interpretations Committee observed that an investment is not needed in order for an entity to control another entity.

The definition of a business combination in IFRS 3 (as revised in 2008) includes transactions in which an acquirer obtains control of one or more businesses. It also includes transactions that are sometimes referred to as ‘true mergers’ or ‘mergers of equals’. In other words, it includes transactions in which none of the combining entities obtains control of the other combining entities. The Interpretations Committee discussed a stapling arrangement and noted that if the stapling arrangement combines separate entities and businesses by the unification of ownership and voting interests in the combining entities, then such a transaction is a business combination as defined by IFRS 3 (as revised in 2008).

Notwithstanding the fact that IFRS 3 (as revised in 2008) includes business combinations in which none of the combining entities obtains control of the other combining entities, the Interpretations Committee noted that paragraph 6 of the Standard requires that one of the combining entities in a business combination is identified as the acquirer. Paragraphs B14–B18 of IFRS 3 (as revised in 2008) provide additional guidance for identifying the acquirer if the guidance in IFRS 10 does not clearly indicate which combining entity is the acquirer.

The Interpretations Committee also noted that paragraph B15(a) of the Standard provides guidance on identifying the acquirer by assessing the relative voting rights in the combined entity after the combination – this guidance explains that the acquirer is usually the combining entity whose owners as a group receive the largest portion of the voting rights in the combined entity. This guidance is consistent with the Interpretations Committee’s observation that the definition of a business combination includes transactions in which none of the combining entities or businesses is identified as having control of the other combining entities. The Interpretations Committee thought that this guidance would be relevant to identifying which of the combining entities is the acquirer in the stapling transaction considered.

The Interpretations Committee noted that the IASB stated in September 2004 that the intended interaction between IFRS 3 (issued in 2004) and IAS 27 *Consolidated and Separate Financial Statements* is that an entity that is identified as the ‘acquirer’ of another entity in accordance with IFRS 3 (issued in 2004) is a ‘parent’ for the purposes of IAS 27. The Interpretations Committee noted that the meaning of the term ‘acquirer’ has not changed since 2004 and that the term ‘control’ is used consistently between IFRS 3 (as revised in 2008) and IFRS 10. It also noted that the notion in IFRS 3 (as revised in 2008) that a business combination could occur even if none of the combining entities obtains control of the other combining entities has not changed from IFRS 3 (issued in 2004). Accordingly, the Interpretations Committee observed that the IASB’s statement on the interaction between IFRS 3 (issued in 2004) and IAS 27 remains valid in respect of the interaction between IFRS 3 (as revised in 2008) and IFRS 10. Consequently, the Interpretations Committee observed that the combining entity in the stapling arrangement that is identified as the acquirer for the purpose of IFRS 3 (as revised in 2008) should prepare consolidated financial statements of the combined entity in accordance with IFRS 10.

The Interpretations Committee noted that there is little diversity in practice for the accounting for business combinations achieved by contract alone. It further noted that it does not expect diversity to emerge in the future on the basis of the analysis on the requirements and guidance in IFRS 3 (as revised in 2008) and IFRS 10.

Accordingly, the Interpretations Committee [decided] not to add this issue to its agenda.

IFRS 11 Joint Arrangements—Classification of joint arrangements

The interpretations Committee received a request to clarify how the assessment of ‘other facts and circumstances’ described in IFRS 11 *Joint Arrangements* affects the classification of a joint arrangement as a joint operation or a joint venture.

The Interpretations Committee considered whether the assessment of ‘other facts and circumstances’ should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities or whether that assessment should also consider the design and purpose of the joint arrangement, the entity’s business needs and the entity’s past practices.

The Interpretations Committee noted that paragraph 14 of IFRS 11 requires the classification of a joint arrangement as a joint operation or a joint venture to depend on rights to the assets and obligations for the liabilities of the parties to the arrangement, and that rights and obligations, by nature, are enforceable.

The Interpretations Committee noted that paragraph B30 of IFRS 11 describes that when 'other facts and circumstances' give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement, the assessment of 'other facts and circumstances' would lead to the joint arrangement being classified as a joint operation. Consequently, the Interpretations Committee noted that the assessment of 'other facts and circumstances' should be focused on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, no Interpretation or amendment to the Standard was required. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IAS 1 *Presentation of Financial Statements*—issues related to the application of IAS 1

The Interpretations Committee received a request to clarify the application of some of the presentation requirements in IAS 1 *Presentation of Financial Statements.* The submitter expressed a concern that the absence of definitions in IAS 1 and the lack of implementation guidance give significant flexibility that may impair the comparability and understandability of financial statements. The submitter provided examples in the following areas:

- presentation of expenses by function;
- presentation of additional lines, headings and subtotals;
- presentation of additional statements or columns in the primary statements; and
- application of the materiality and aggregation requirements.

The Interpretations Committee noted that IAS 1 addresses the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The Interpretations Committee also noted that while IAS 1 does permit flexibility in presentation, it also includes various principles for the presentation and content of financial statements as well as more detailed requirements. These principles and more detailed requirements are intended to limit the flexibility such that these principles and requirements provide transparency in the financial statements. The Interpretations Committee identified some of the principles and guidance in IAS 1 that are relevant to the submitter's concerns. In particular paragraph 15 of IAS 1 sets out the overall requirement for a fair presentation. Among other things, this requires an entity to comply with applicable IFRSs and, in accordance with paragraph 17 of IAS 1:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors;*
(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Regarding the more specific issues raised:

- *presentation of expenses by function:* the Interpretations Committee noted that paragraph 99 of IAS 1 requires an entity to choose between presenting an analysis of expenses, by a classification based on either their nature or their function, on the basis of whichever provides information that is reliable and more relevant. The Interpretations Committee further noted the requirements of paragraph 104 of IAS 1 for entities classifying expenses by function to disclose additional information on the nature of the expense and observed that, when items of income and expense are material, an entity shall disclose their nature and amount separately in accordance with paragraph 97 of IAS 1.
- *presentation of additional lines, headings and subtotals:* the Interpretations Committee noted that paragraphs 85 and 86 of IAS 1 require an entity to present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance and assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity also considers factors including materiality and the nature and function of the items of income and expense.
- *presentation of additional statements or columns in the primary statements:* the Interpretations

Committee noted that IAS 1 requires the presentation of additional information in the notes when this information is not presented elsewhere in the financial statements and it is relevant to an understanding of any of the financial statements (as set out in paragraph 112(c) of IAS 1). The Interpretations Committee noted that the addition of pro forma columns to the primary statements would be unlikely to meet this requirement.

- *materiality and aggregation:* the Interpretations Committee noted in accordance with paragraph 29 of IAS 1, "An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial". It also observed that in accordance with paragraph 31 of IAS 1, "an entity need not provide a specific disclosure required by an IFRS if the information is not material".

The Interpretations Committee further noted that the IASB's Disclosure Initiative project is currently discussing some proposed amendments to IAS 1 that would clarify the presentation of totals and subtotals and the concept of materiality in the context of specific disclosure requirements.

On the basis of the existing principles in IAS 1 and the fact that some of the issues raised have been brought to the attention of the IASB during the agenda consultation and have been discussed as part of the IASB's Disclosure Initiative project, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard should be made and consequently [decided] not to add this issue to its agenda.
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IAS 12 *Income Taxes*—recognition and measurement of deferred tax assets when an entity is loss-making

The Interpretations Committee received a request for guidance on the recognition and measurement of deferred tax assets when an entity is loss-making. The Interpretations Committee was asked to clarify two issues:

- whether IAS 12 *Income Taxes* requires that a deferred tax asset is recognised for the carry forward of unused tax losses when there are suitable reversing taxable temporary differences regardless of an entity's expectations of future tax losses; and
- how the guidance in IAS 12 is applied when tax laws limit the extent to which tax losses brought forward can be recovered against future taxable profits.

In the tax systems considered for the second issue the amount of tax losses brought forward that can be recovered in each tax year is limited to a specified percentage of the taxable profits of that year.

The Interpretations Committee noted that according to paragraphs 28 and 35 of IAS 12:

- a deferred tax asset is recognised for the carry forward of unused tax losses to the extent of the taxable temporary differences, of an appropriate type, that reverse in an appropriate period. The reversal of those taxable temporary differences enables the utilisation of the unused tax losses and justifies the recognition of deferred tax assets. Consequently, future tax losses are not considered.
- when tax laws limit the extent to which unused tax losses can be recovered against future taxable profits in each year, the amount of deferred tax assets recognised from unused tax losses as a result of suitable taxable temporary differences is restricted as specified by the tax law. This is because, when the suitable taxable temporary differences reverse, the amount of tax losses that can be utilised by that reversal is reduced as specified by the tax law.
- in both cases, if the unused tax losses exceed the amount of suitable taxable temporary differences (after taking into account any restrictions), an additional deferred tax asset is recognised only if the requirements in paragraphs 29 and 36 of IAS 12 are met (ie to the extent that it is probable that the entity will have appropriate future taxable profit, or to the extent that tax planning opportunities are available to the entity that will create appropriate taxable profit).

On the basis of the analysis above the Interpretations Committee concluded that neither an Interpretation nor an amendment to the Standard was needed and consequently [decided] not to add these issues to its agenda.

IAS 12 *Income Taxes*—impact of an internal reorganisation on deferred tax amounts related to

goodwill

The Interpretations Committee received a request for guidance on the calculation of deferred tax as a consequence of an internal reorganisation of an entity. The submitter describes a situation in which an entity (Entity H) recognised goodwill that had resulted from the acquisition of a group of assets (Business C) that meets the definition of a business in IFRS 3 *Business Combination*. Entity H subsequently recorded a deferred tax liability relating to goodwill deducted for tax purposes. Against this background, Entity H effects an internal reorganisation in which:

- Entity H set up a new wholly-owned subsidiary (Subsidiary A);
- Entity H transfers Business C, including the related (accounting) goodwill to Subsidiary A; however,
- for tax purposes, the (tax) goodwill is retained by Entity H and not transferred to Subsidiary A.

The submitter asked how Entity H should calculate deferred tax on this internal reorganisation transaction in its consolidated financial statements in accordance with IAS 12 *Income Taxes*.

The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, the Interpretations Committee noted that when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.

The Interpretations Committee also noted that when calculating the deferred tax amount for the consolidated financial statements:

- the amount used as the carrying amount for an asset or a liability is the amount included in the consolidated financial statements; and
- the assessment of whether an asset or a liability is being recognised for the first time for the purpose of applying the initial recognition exception described in paragraphs 15 and 24 of IAS 12 is made from the perspective of the consolidated financial statements.

The Interpretations Committee noted that transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12. Consequently, it noted that deferred tax would be recognised for any temporary differences arising in each separate entity by using the applicable tax rates for each entity's tax jurisdiction (subject to meeting the recoverability criteria for recognising deferred tax assets described in IAS 12).

The Interpretations Committee also noted that if there is a so-called 'outside basis difference' (ie a temporary difference between the carrying amount of the investment in Subsidiary A and the tax base of the investment), deferred tax for such a temporary difference would also be recognised subject to the limitations and exceptions applying to the recognition of a deferred tax asset (in accordance with paragraph 44 of IAS 12) and a deferred tax liability (in accordance with paragraph 39 of IAS 12).

The Interpretations Committee considered that, in the light of its analysis, the existing IFRS requirements and guidance were sufficient and therefore, an Interpretation was not necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IAS 12 *Income Taxes*—threshold of recognition of an asset in the situation in which the tax position is uncertain

The Interpretations Committee received a request for guidance on the recognition of a tax asset in the situation in which tax laws require an entity to make an immediate payment when a tax examination results in an additional charge, even if the entity intends to appeal against the charge. In the situation described by the submitter the entity expects, but is not certain, to recover some or all of that cash. The Interpretations Committee was asked to clarify whether IAS 12 *Income Taxes* (and a 'probable' threshold) is applied to determine whether to recognise an asset, or whether the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (and a 'virtually certain' threshold) should be applied.

The Interpretations Committee noted that paragraph 12 of IAS 12 provides sufficient guidance on the recognition of current tax assets and current tax liabilities. It states that: current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.

The Interpretations Committee observed that, in this specific fact pattern, an asset is recognised if the amount of cash paid (which is a certain amount) exceeds the amount of tax expected to be due (which is an uncertain amount).

On the basis of the analysis above the Interpretations Committee [decided] not to add these issues to its agenda.

IAS 16 *Property, Plant and Equipment*—disclosure of carrying amounts under the cost model

The Interpretations Committee received a request for clarification about IAS 16 *Property, Plant and Equipment*. The submission relates to whether an entity is required to reflect the capitalisation of borrowing costs to meet the disclosure requirement in paragraph 77(e) of IAS 16 for assets stated at revalued amounts.

The submitter asserted that the capitalisation of borrowing costs for these assets to meet disclosure requirements is burdensome, and suggested that it should not be a requirement of IAS 16 to capitalise these costs for the note disclosure.

The Interpretations Committee noted, as acknowledged by the submitter, that the requirements in paragraph 77(e) of IAS 16 are clear. This paragraph requires an entity to disclose the amount at which assets stated at revalued amounts would have been stated at had those assets been carried under the cost model. The amount to be disclosed includes borrowing costs capitalised in accordance with IAS 23.

The Interpretations Committee determined that, in the light of the existing IFRS requirements, neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.

IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions

The Interpretations Committee continued its discussion of employee benefit plans with a guaranteed return on contributions or notional contributions.

The Interpretations Committee observed that the accounting for the plans that fall within the scope of the project is an important issue. These plans are part of a growing range of plan designs that incorporate features that were not envisaged when IAS 19 was first developed. The accounting for these plans in accordance with IAS 19 is problematic and has resulted in diversity in practice.

The Interpretations Committee attempted to develop a solution to improve the financial reporting for such plans. However the Interpretations Committee was unable to reach a consensus in identifying a suitable scope for an amendment that would both:

- improve the accounting for a sufficient population of plans such that the benefits would exceed the costs; and

- limit any unintended consequences that would arise from making an arbitrary distinction between otherwise similar plans.

In the Interpretations Committee's view, developing accounting requirements for these plans would be better addressed by a broader consideration of accounting for employee benefits, potentially through the research agenda of the IASB. The Interpretations Committee acknowledged that reducing diversity in practice in the short term would be beneficial. However, because of the difficulties encountered in progressing the issues, the Interpretations Committee [decided] to remove the project from its agenda.

IAS 32 *Financial Instruments: Presentation*—accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor

The Interpretations Committee discussed how an issuer would account for a particular mandatorily convertible financial instrument in accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. The financial instrument has a stated maturity date and at maturity the issuer must deliver a variable number of its own equity instruments to equal a fixed cash amount—subject to a cap and a floor, which limit and guarantee, respectively, the number of equity instruments to be delivered.

The Interpretations Committee noted that the instrument is a non-derivative instrument that meets the definition of a financial liability in paragraph 11(b)(i) of IAS 32 because the issuer has a contractual obligation to deliver a variable number of its own equity instruments. Although the variability is limited by the cap and the floor, the number of equity instruments that the issuer is obliged to deliver is not fixed and therefore the instrument does not meet the definition of equity. The Interpretations Committee noted that it is inappropriate to consider that there are separate conversion features for each of the scenarios in which the issuer will deliver a different number of its own equity instruments because the conversion outcomes are mutually exclusive. That is, IAS 32 does not permit an issuer to divide a conversion feature into multiple outcomes for the purposes of evaluating whether the instrument contains a component that meets the definition of equity in that Standard.

Furthermore, the Interpretations Committee noted that the cap and the floor are embedded derivative features whose values change in response to the price of the issuer's equity share. Therefore, assuming that the issuer has not elected to designate the entire instrument under the fair value option, the issuer must separate those embedded derivative features from the host liability contract and account for them at fair value through profit or loss in accordance with IAS 39 or IFRS 9.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, an Interpretation was not necessary and consequently [decided] not to add the issue to its agenda.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—measurement of liabilities arising from emission trading schemes

The Interpretations Committee received a request to clarify the measurement of a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that arises from an obligation to deliver allowances in an emission trading scheme.

The request asked if the measurement of the liability for the obligation to deliver allowances should reflect current values of allowances at the end of each reporting period if IAS 37 was applied to the liability. The request noted that this was the basis required by IFRIC 3 *Emission Rights*, which was withdrawn in June 2005.

The Interpretations Committee noted that when the IASB withdrew IFRIC 3, it affirmed that IFRIC 3 was an appropriate interpretation of existing IFRS for accounting for the emission trading schemes that were within the scope of IFRIC 3. However, the IASB acknowledged that, as a consequence of following existing IFRS, IFRIC 3 created unsatisfactory measurement and reporting mismatches between assets and liabilities arising from emission trading schemes.

In 2012, the IASB added to its agenda a research project on the accounting for emissions trading schemes. The Interpretations Committee noted that one of the main issues in the IASB's project on emission trading schemes was whether the accounting for the liabilities arising from emission trading schemes should be considered separately from the accounting for the assets. Consequently the Interpretations Committee noted that it would be difficult for it to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances without also considering the accounting for the allowances.

On the basis of the analysis above, the Interpretations Committee [decided] not to add this issue to its agenda because this issue is too broad for it to deal with.

Other matters

IAS 1 *Presentation of Financial Statements*—disclosure requirements about an assessment of going concern

Update on the IASB's decision not to proceed

The Interpretations Committee received a request for clarification about disclosures relating to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern. In January 2013 it recommended that the IASB should make a narrow-scope amendment to IAS 1 that would address when these disclosures should be made and what information should be disclosed in accordance with these requirements. These proposals were discussed by the IASB at its March 2013 and November 2013 meetings.

The IASB acknowledged that the proposed disclosures would provide useful information to investors and creditors. However, some members of the IASB thought that the proposed amendment would result in boilerplate disclosures about a range of risks that would obscure relevant disclosures about going concern and would contribute to disclosure overload. Some were not persuaded that further guidance was needed and that this is a topic that is better handled through local regulatory or audit guidance.

The Interpretation Committee was informed of the IASB's decision not to proceed with the proposed amendment and noted the reasons given by the IASB for its decision. Many members of the Interpretation Committee expressed concerns about the implications of the IASB's decision and asked the staff to report those concerns to the IASB leadership.

Interpretations Committee work in progress update

The Interpretations Committee received a report on three new issues and three ongoing issues for consideration at future meetings. The report also included two issues that are on hold, and that will be considered again at future meetings. With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

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