

IFRIC Update

From the IFRS Interpretations Committee



May 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 **13–14 May 2014**, when it discussed:

- **items on the current agenda;**
- **issues considered for Annual Improvements;**
- **Interpretations Committee agenda decisions;**
- **work in progress; and**
- **other matters.**

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Future IFRS Interpretations Committee meetings

The next meetings are:
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 11 *Joint Arrangements*—analysis of implementations issues (Agenda Paper 2)

Feedback from the consultation with IASB members (Agenda Paper 2A)

At this meeting, the Interpretations Committee discussed feedback from the informal consultation with IASB members on the issue of how to apply the concept of 'substance over form' when assessing 'other facts and circumstances'. The Interpretations Committee noted that the IASB members consulted generally agree with the Interpretations Committee's view that the assessment of 'other facts and circumstances' should focus on whether the parties to the joint arrangement have rights and obligations that can be identified to be, in substance, direct rights to the assets and direct obligations for the liabilities of the joint arrangement.

Accounting by a joint operation that is a separate vehicle (Agenda Paper 2B)

The Interpretations Committee discussed the accounting by a joint operation that is a separate vehicle. It noted that IFRS 11 applies only to the accounting by the joint operators but not to the accounting by the separate vehicle that is a joint operation. It therefore noted that the financial statements of the separate vehicle would be prepared in accordance with applicable Standards. The Interpretations Committee also noted that it will be important to focus on the nature of the reporting entity when preparing the financial statements of the separate vehicle. The Interpretations Committee noted that when preparing these financial statements, it will be necessary to understand the joint operators' rights and obligations and account for the effects of those rights and obligations on the assets and liabilities of the separate vehicle. The Interpretations Committee decided to consult IASB members on this matter before progressing this issue further. The staff will report the result of the consultation with IASB members at a future meeting.

Consideration of next steps (Agenda Paper 2C)

The Interpretations Committee considered the next steps with regard to issues relating to the classification of joint arrangements. It noted that an issue (ie the classification of a common joint arrangement structure, so-called 'project entity'), is scheduled to be discussed at its July 2014 meeting and this discussion could affect the consideration of the next steps. Consequently, the Interpretations Committee noted that it will make a decision on the next steps after that discussion.

In addition, the Interpretations Committee noted that it plans to discuss an issue relating to the recognition and measurement of joint operations when the parties' interests in the assets and liabilities differ from their ownership interest in the joint operation at its July 2014 meeting.

IAS 12 *Income Taxes*—threshold of recognition of an asset in the situation in which the tax position is uncertain (Agenda Paper 5A)

The Interpretations Committee discussed 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 additional charge. In the situation described by the submitter, the entity expects, but is not certain, to recover some or all of the amount paid. The Interpretations Committee was asked to clarify whether IAS 12 (and a 'probable' threshold) is applied to determine whether to recognise an asset for the additional payment, 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 guidance on the recognition of current tax assets and current tax liabilities and that amounts receivable from tax authorities related to income tax are current tax amounts. The Interpretations Committee also observed that the timing of the additional payment should not affect the amount of current tax expense recognised. However, the Interpretations Committee noted that practice indicates that there is significant diversity on whether IAS 12 or IAS 37 should be applied to determine whether an asset should be recognised.

Consequently, the Interpretations Committee concluded that the issue should be added to its agenda. It tentatively decided to develop an Interpretation on the recognition of assets and liabilities in the situation in

which the tax position is uncertain. The staff will present further analysis for this project at a future meeting.

IAS 19 *Employee Benefits*—remeasurement at a plan amendment or curtailment (Agenda Paper 15)

The Interpretations Committee received a request to clarify the accounting treatment in accordance with IAS 19 for issues related to the remeasurement of the net defined benefit liability (asset) (hereafter 'net DBL') in the event of a plan amendment or curtailment in IAS 19.

The Interpretations Committee discussed two issues. If a significant plan amendment or curtailment of a defined benefit plan occurs, should an entity:

- (a) take account of the remeasurement of the net DBL at the event date when determining net interest for the post-event period? (Issue 1); and
- (b) revise any actuarial assumptions for the calculation of service cost and net interest in the post-event period? (Issue 2)

The Interpretations Committee noted that paragraph BC64 of IAS 19 implies that an entity should not revise any assumptions for the calculation of service cost and net interest in the post-event period, even if a significant event or change to the pension plan occurs. However, the Interpretations Committee raised a concern that this would result in presenting current service cost and net interest in the post-event period, ignoring the effects of the significant event or change.

The Interpretations Committee tentatively decided to develop an amendment to address this concern. It thought that updating the net DBL and any actuarial assumptions to determine current service cost and net interest in the post-event period if a significant event or change occurs would result in more relevant information.

It also thought that such an amendment would result in greater consistency between IAS 19 and paragraph B9 of IAS 34 *Interim Financial Reporting*. Paragraph B9 of IAS 34 explains that an entity adjusts pension cost for an interim period for significant market fluctuations and for significant one-off events, such as plan amendments, curtailments and settlements.

The Interpretations Committee's initial thoughts are that such an amendment should not result in considerable additional costs, because of the existing requirement to remeasure the net DBL as of the date of a plan amendment or curtailment for the purpose of determining the past service cost. However, the Interpretations Committee asked the staff to consider this further when developing the proposals. The staff will present proposals for the amendment at a future meeting.

IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*—availability of refunds from a defined benefit plan managed by an independent trustee (Agenda Paper 14)

The Interpretations Committee received a request to clarify the application of the requirements of IFRIC 14 regarding the availability of refunds from a defined benefit plan managed by an independent trustee.

Specifically, the Interpretations Committee discussed a question about whether an employer has an unconditional right to a refund of surplus in the following circumstances:

- (a) the trustee acts on behalf of the plan's members and is independent from the employer; and
- (b) the trustee has discretion in the event of a surplus arising in the plan to make alternative use of that surplus by augmenting the benefits payable to members or by winding up the plan through purchase of annuities, or both.

The question discussed related to a plan that is closed to accrual of future benefits, such that there will be no future service costs. The Interpretations Committee therefore noted that no economic benefit is available through a reduction in future contributions.

The Interpretations Committee also noted that:

- (a) the fact that an existing surplus at the balance sheet date could be decreased or extinguished by uncertain future events that are beyond the control of the entity is not relevant to the existence of the right to a refund, in accordance with paragraphs 11–12 and BC10 of IFRIC 14;
- (b) if the trustee can use a surplus by augmenting the benefits in the future, pursuant to the formal terms of a plan (or a constructive obligation that goes beyond those terms), this fact should be considered when the entity measures its defined benefit obligation (DBO), in accordance with paragraph 88 of IAS

- 19; and
- (c) the amount of surplus to be recognised could be zero, as a consequence of the measurement of the DBO.

The Interpretations Committee tentatively decided to develop either an amendment or an Interpretation to clarify these points.

In a future meeting, the staff will present further analysis to clarify how certain facts affect the measurement and how an entity should distinguish the facts that are relevant to the existence of the entity's right to a refund of a surplus from the facts that are relevant to measurement of the surplus.

IAS 16 Property, Plant and Equipment and IAS 2 Inventories—'core inventories'

The Interpretations Committee received a request for clarification of whether 'core inventories' held in an entity's own facilities are accounted for as inventories or as property, plant and equipment (PP&E).

The submitter defined core inventories as a minimum amount of material that:

- (a) is necessary to permit a production facility to start operating and to maintain subsequent production;
- (b) cannot be physically separated from other inventories; and
- (c) can be removed only when the production facility is finally decommissioned or at considerable financial charge.

The Interpretations Committee discussed the issue in March and tentatively decided to develop an Interpretation on this issue.

At the May 2014 meeting the staff gave an oral update to the Interpretations Committee on the feedback received from informal consultations with IASB members in April and on the status of the staff analysis of the issue. In particular, the staff highlighted concerns raised by some IASB members in respect of the classification of core inventories as PP&E.

The staff will present further analysis of the issue, including analysis of the feedback received from consultations with IASB members, at the July 2014 Interpretations Committee meeting.

Issues considered for Annual Improvements

The Interpretations Committee assists the IASB in Annual Improvements by reviewing proposed improvements to Standards and making recommendations to the IASB. Specifically, the Interpretations Committee's involvement includes reviewing and deliberating issues for their inclusion in future Exposure Drafts of proposed Annual Improvements to IFRSs and deliberating the comments received on the Exposure Drafts. When the Interpretations Committee has reached consensus on an issue included in Annual Improvements, the recommendation (including finalisation of the proposed amendment or removal from Annual Improvements) will be presented to the IASB for discussion, in a public meeting, before being finalised. Approved Annual Improvements to IFRSs (including Exposure Drafts and final Standards) are issued by the IASB.

Annual Improvements to IFRSs 2012–2014 Cycle—comment letter analysis

The Interpretations Committee deliberated upon the comments received on five proposed amendments that had been included in the Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013.

Annual Improvements recommended for finalisation (Agenda Paper 17)

The Interpretations Committee recommended the following proposed amendments for finalisation and submitted these proposed amendments to the IASB for approval at a future IASB meeting. Subject to that approval, the IASB will include these amendments in the *Annual Improvements to IFRSs 2012–2014 Cycle*, which is expected to be issued in the second half of 2014. The five proposed amendments recommended for finalisation are:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—changes in methods of disposal (Agenda Paper 17A)

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to IFRS 5 with some minor edits. This amendment:

- (a) clarifies the accounting for a change in a disposal plan from a plan to sell a non-current asset (or disposal group) to a plan to distribute a non-current asset (or disposal group); and
- (b) provides guidance in IFRS 5 for the discontinuation of held for distribution accounting.

The Interpretations Committee recommends that the IASB should:

- (a) clarify that a change from held for sale (HFS) to held for distribution (HFD) (or vice versa):
 - (i) does not change the 'date of classification' as determined in paragraphs 8 and 12A of IFRS 5; and
 - (ii) should not be considered to be an event or circumstance that may extend the period to complete a sale (in accordance with paragraph 9 and Appendix B of IFRS 5) or a distribution.
- (b) clarify that if an entity reclassifies an asset (or a disposal group) directly from being HFS to HFD (or vice versa), the value of the asset (or the disposal group) is updated in accordance with paragraph 15 or 15A of IFRS 5. Any write down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5.
- (c) explain that a 'direct reclassification' means that an entity moves the disposal group from one method of disposal to another without any time lag, so that there is no interruption of the application of the requirements in IFRS 5 for HFS and HFD disposal methods; judgement may be required to determine if there was a 'direct reclassification'.
- (d) revise paragraphs 27(b), 28 and 29 to include references to 'HFD' or 'costs to distribute'.
- (e) explain that the proposed transition (ie prospective application) is in line with the transition that was required by IFRIC 17 *Distributions of Non-cash Assets to Owners* when it amended IFRS 5. The Interpretations Committee observed that prospective application is required to avoid the potential use of hindsight in connection with the judgement required.

IFRS 7 *Financial Instruments: Disclosures*—servicing contracts (Agenda Paper 17B)

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to IFRS 7. This amendment clarifies how an entity should apply the guidance in paragraph 42C of IFRS 7 to a servicing contract in order to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7.

Having considered the comments received, the Interpretations Committee recommended to the IASB that:

- (a) it should not include the presumption that the right to earn a fee for servicing the financial asset is generally continuing involvement; and
- (b) it should clarify that the term 'continuing involvement' in IFRS 7 is used in a different way from that term in IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*).

The Interpretations Committee also recommended the IASB to retain the proposed transition provision that an entity need not apply the proposed amendment to any period presented that begins before the annual period for which the entity first applies those amendments.

IFRS 7 *Financial Instruments: Disclosures*—applicability of the amendments to IFRS 7 to condensed interim financial statements (Agenda Paper 17C)

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to paragraph 44R of IFRS 7 as exposed. The proposed amendment clarifies that the additional disclosure required by the amendments to IFRS 7 *Disclosure—Offsetting Financial Assets and Financial Liabilities* ('Amendments to IFRS 7') is not specifically required in condensed interim financial statements that are prepared in accordance with IAS 34 *Interim Financial Reporting* for all interim periods. However, the additional disclosure is given when its inclusion would be required in accordance with the general principles of IAS 34.

IAS 19 *Employee Benefits*—discount rate: regional market issue (Agenda Paper 17D)

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to paragraph 83 of IAS 19 as exposed. The proposed amendment clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

The Interpretations Committee recommended that the amendment should be applied from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the

amendment, with any cumulative catch up adjustment recognised in opening retained earnings.

IAS 34 *Interim Financial Reporting*—disclosure of information ‘elsewhere in the interim financial report’ (Agenda Paper 17E)

The Interpretations Committee recommended that the IASB should finalise the proposed amendment to IAS 34. This amendment clarifies the meaning of disclosure of information ‘elsewhere in the interim financial report’ in paragraph 16A of IAS 34 and requires the inclusion of a cross-reference from the interim financial statements to the location of this information.

The Interpretations Committee recommends the IASB to further clarify that:

- (a) the amendment is not extending the scope of the interim financial report, because the disclosures required in paragraph 16A(a)–(k) of IAS 34 are part of the selected explanatory notes (and, consequently, part of the interim financial report) despite those disclosures being presented in another location outside the financial statements. Without these disclosures, the interim financial report would be incomplete.
- (b) users should have access to the referenced material on the same basis and on the same terms as they have for accessing the financial statements where the reference is made from.

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.

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 (Agenda Paper 8)

The Interpretations Committee received a request to clarify the interaction of the requirements in IFRS 3 (as revised in 2008) for identifying an acquirer with the requirements in IFRS 10 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 IFRS 3 (as revised in 2008) requires that one of the combining entities in a business combination must be 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 IFRS 3 (as revised in 2008) 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 are 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 the IASB Update for 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 (Agenda Paper 13)

The interpretations Committee received a request to clarify how the assessment of ‘other facts and circumstances’ described in IFRS 11 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 focus on whether those facts and circumstances create 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 (Agenda Paper 12)

The Interpretations Committee received a request to clarify the application of some of the presentation requirements in IAS 1. 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:

- (a) presentation of expenses by function;
- (b) presentation of additional lines, headings and subtotals;

- (c) presentation of additional statements or columns in the primary statements; and
- (d) application of the materiality and aggregation requirements.

The Interpretations Committee observed that a complete set of financial statements is comprised of items recognised and measured in accordance with IFRS.

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. It 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 financial statements present information that is relevant, reliable, comparable and understandable.

The Interpretations Committee observed that securities regulators, as well as some members of the Interpretations Committee, were concerned about the presentation of information in the financial statements that is not determined in accordance with IFRS. They were particularly concerned when such information is presented on the face of the primary statements. The Interpretations Committee noted that it would be beneficial if the IASB's Disclosure Initiative considered what guidance should be given for the presentation of information beyond what is required in accordance with IFRS.

Consequently, the Interpretations Committee determined that it should not propose an Interpretation nor an amendment to a Standard and consequently decided not to add this issue to its agenda.

IAS 12 *Income Taxes*—Impact of an internal reorganisation on deferred tax amounts related to goodwill (Agenda Paper 6)

The Interpretations Committee received a request for guidance on the calculation of deferred tax following 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 Combinations*. 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:

- (a) Entity H set up a new wholly-owned subsidiary (Subsidiary A);
- (b) Entity H transfers Business C, including the related (accounting) goodwill to Subsidiary A; however,
- (c) 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 following this internal reorganisation transaction in its consolidated financial statements in accordance with IAS 12.

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:

- (a) the amount used as the carrying amount by the 'receiving' entity (in this case, Subsidiary A that receives the (accounting) goodwill) for an asset or a liability is the amount recognised in the consolidated financial statements; and
- (b) 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 paragraphs 15 and 24 of IAS 12 in the consolidated financial statements. Consequently, it noted that deferred tax would be recognised in the consolidated financial statements 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) in the consolidated financial statements, 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 also noted that transferring assets between the entities in the consolidated group would affect the consolidated financial statements in terms of recognition, measurement and presentation of deferred tax, if the transfer affects the tax base of assets or liabilities, or the tax rate applicable to the recovery or settlement of those assets or liabilities. The Interpretations Committee also noted that such a transfer could also affect:

- (a) the recoverability of any related deductible temporary differences and thereby affect the recognition of deferred tax assets; and
- (b) the extent to which deferred tax assets and liabilities of different entities in the group are offset in the consolidated financial statements..

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*—recognition and measurement of deferred tax assets when an entity is loss-making (Agenda Paper 5)

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:

- (a) whether IAS 12 requires that a deferred tax asset is recognised for the carryforward of unused tax losses when there are suitable reversing taxable temporary differences, regardless of an entity's expectations of future tax losses; and
- (b) 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) a deferred tax asset is recognised for the carryforward of unused tax losses to the extent of the existing 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.
- (b) 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 existing 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. Also, in this case future tax losses are not considered.
- (c) in both cases, if the unused tax losses exceed the amount of suitable existing 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 this analysis, 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 16 *Property, Plant and Equipment*—disclosure of carrying amounts under the cost model (Agenda Paper 11)

The Interpretations Committee received a request for clarification about IAS 16. 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 for which borrowing costs

are not capitalised in accordance with paragraph 4(a) of IAS 23 *Borrowing Costs*.

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.

The Interpretations Committee noted 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 (Agenda Paper 9)

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, it was unable to reach a consensus in identifying a suitable scope for an amendment that would both:

- (a) improve the accounting for a sufficient population of plans such that the benefits would exceed the costs; and
- (b) 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. The Interpretations Committee notes the importance of this issue because of the increasing use of these plans. Consequently, the Interpretations Committee would welcome progress on the IASB's research project on post-employment benefits.

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 (Agenda Paper 10)

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 issuer's obligation to deliver a variable number of the entity's own equity instruments is a non-derivative that meets the definition of a financial liability in paragraph 11(b)(i) of IAS 32 in its entirety. Paragraph 11(b)(i) of the definition of a liability does not have any limits or thresholds regarding the degree of variability that is required. Therefore, the contractual substance of the instrument is a single obligation to deliver a variable number of equity instruments at maturity, with the variation based on the value of those equity instruments. Such a single obligation to deliver a variable number of own equity instruments cannot be subdivided into components for the purposes of evaluating whether the instrument contains a component that meets the definition of equity. Even though the number of equity instruments to be delivered is limited and guaranteed by the cap and the floor, the overall number of equity instruments that the issuer is obliged to deliver is not fixed and therefore the entire obligation meets the definition of a financial liability.

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 features and account for the embedded derivative features separately from the host liability contract 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 (Agenda Paper 7)

The Interpretations Committee received a request to clarify the measurement of a liability under IAS 37 that arises from an obligation to deliver allowances in an emission trading scheme.

The request asked whether 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 had 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 to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances related to an emission trading scheme would be too broad an issue for it to deal with.

On the basis of this analysis, the Interpretations Committee decided not to add this issue to its agenda.

Work in progress

IFRS 2 Share-based Payment—price difference between the institutional offer price and the retail offer price for shares in an initial public offering (Agenda Paper 4)

In November 2013 the Interpretations Committee published a tentative agenda decision not to add to its agenda a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO).

At the May 2014 meeting the Interpretations Committee discussed the comments received on this tentative agenda decision.

The Interpretations Committee confirmed its decision not to take this issue onto its agenda and confirmed that IFRS 2 is not applicable to the transaction analysed.

However, the Interpretations Committee decided that the agenda decision should contain more explanations about the reasons why the guidance in IFRS 2 is not applicable to the transaction analysed, including discussion of factors that distinguish the transaction analysed from other transactions that the Interpretations Committee has analysed to which paragraph 13A of IFRS 2 applies. In this respect the Interpretations Committee considered that the agenda decision should explain that:

- (a) the existence of different prices for shares issued to retail versus institutional investors in the transaction analysed could be an indication of the existence of two different markets: one accessible to retail investors only and the other one accessible to institutional investors only;
- (b) the only relationship between the entity and the parties to whom the shares are issued is that of investee-investors such that it is clear that the investors are acting in their capacity as shareholders and there is no receipt of an additional good or service from these investors in accordance with IFRS 2; and
- (c) in the fact pattern analysed by the Interpretations Committee in March 2013 regarding the 'accounting for reverse acquisitions that do not constitute a business', the accounting acquirer receives a stock exchange listing from the listed non-operating entity; whereas in the fact pattern analysed, the entity

issues shares to two classes of shareholders acting in their capacity as shareholders and, in doing so, meets a regulatory requirement to obtain a listing (which is to attain a minimum number of shareholders). The Interpretations Committee noted that the listing is not received from those shareholders.

The Interpretations Committee directed the staff to bring back a new draft of the final agenda decision at a future meeting that will reflect the conclusions mentioned above.

Other matters

Interpretations Committee work in progress update (Agenda Paper 16)

The Interpretations Committee received a report on two new issues and two 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. All requests received and considered by the staff were discussed at this meeting except for the six issues included in the work in progress report.

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