IFRIC Update

From the IFRS Interpretations Committee

IFRS

September 2015

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 **8 and 9 September 2015**, when it discussed:

- **Items on the current agenda:**
- IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*—Impairment of long-term interests (Agenda Paper 10)
- IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests: Various transactions (Agenda Papers 5–5C)
- IAS 16 *Property, Plant and Equipment*—Accounting for proceeds and costs of testing of PPE: Should net proceeds reduce the cost of assets? (Agenda Papers 3–3A)
- IAS 16 *Property, Plant and Equipment,* IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangement*—Variable payments for asset purchases and payments made by an operator to a grantor in a service concession arrangement (Agenda Papers 6–6C)
- **Item recommended to the IASB for Annual Improvements:**
- IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests: Various transactions (Agenda Papers 5A and 5C)
- **Interpretations Committee's tentative agenda decisions:**
- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*—To what extent can an impairment loss be allocated to non-current assets within a disposal group? (Agenda Papers 2B)
- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*—How to present intragroup transactions between continuing and discontinued operation (Agenda Papers 2C)
- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*—Various IFRS 5-related issues (Agenda Papers 2D)
- IFRS 9 *Financial Instruments*—Transition for hedge accounting (Agenda Paper 7)
- IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests: Various transactions (Agenda Papers 5A and 5C)
- IAS 32 *Financial Instruments: Presentation*—Classification of the liability for a prepaid card in the issuer's financial statements (Agenda Paper 4)
- IAS 39 *Financial Instruments: Recognition and Measurement*—Separation of an embedded interest rate floor from a floating rate host contract in a negative interest rate environment (Agenda Paper 9)
- **Other matters:**
- 2015 Agenda Consultation (Agenda Paper 8)
- Interpretations Committee work in progress update (Agenda Paper 11)

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Future IFRS Interpretations Committee meetings

The next meetings are:

10 and 11 November 2015

13 January 2016

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 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*—Impairment of long-term interests (Agenda Paper 10)

The Interpretations Committee received a request related to the interaction between IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*.

The issue relates to whether the measurement, in particular relating to impairment, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. Specifically, the Interpretations Committee considered a long-term interest in the form of an interest-bearing loan that would meet the criteria for classification as amortised cost in accordance with IFRS 9.

The Interpretations Committee noted that:

(a) the feedback received from the outreach indicated that there are divergent views on how to account for the impairment of long-term interests and that the issue is widespread; and
(b) the interaction between the requirements of IFRS 9 and IAS 28 in relation to this issue was unclear.

Consequently, the Interpretations Committee considered that an amendment to IFRS would be required in order to clarify the interaction between the requirements in IFRS 9 and IAS 28 in the context of long-term interests that, in substance, form part of the 'net investment' and therefore decided to add the issue to its agenda.

Next steps

The staff will present a paper at a future meeting, which explores this issue in more detail in order to determine the most appropriate amendment to IFRS.

IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests: Various transactions (Agenda Papers 5–5C)

The Interpretations Committee received a request to clarify whether a previously held interest in the assets and liabilities of a joint operation is remeasured to fair value when the investor's acquisition of an additional interest results in the investor becoming a joint operator (ie assuming joint control) in the joint operation.

The Interpretations Committee observed at its meeting in May 2015 that it would be useful to analyse other transactions simultaneously with the fact pattern that had been submitted. At its meeting in July 2015, the Interpretations Committee agreed to include within the scope of its project the following transactions:

(a) obtaining control of a joint operation either from having joint control in, or being a party to, a joint operation prior to the transaction (Transaction 1);
(b) loss of control resulting in the party having joint control in, or being a party to, a joint operation subsequent to the transaction (Transaction 2); and
(c) change of interests resulting in a party to a joint operation obtaining joint control in a joint operation (Transaction 3).

At this meeting the staff presented an analysis of the existing guidance relating to the remeasurement of previously held interests. This analysis identified some general principles that were then applied to the analysis of the specific transactions identified as being within the scope of the project.

The Interpretations Committee agreed that the key factors that should be used in assessing whether or not previously held interests should be remeasured are:

(a) the significance of the underlying economic event (for example, obtaining control of a business and loss of control of a subsidiary are characterised as a significant economic events); and
(b) the measurement model applicable to the recognition of the previously held/retained interests (for example, IFRS 3 *Business Combinations* and IFRS 9 *Financial Instruments* use fair value-based

measurement models which would indicate that previously held interests should be remeasured).

The Interpretations Committee decided that the accounting for previously held interests should be separately analysed for transactions involving assets, or groups of assets, that meet the definition of a business versus those that do not. Several members also noted that the structure of the investment may have a bearing on the analysis and should be a relevant consideration.

Where the asset or group of assets, involved in Transaction 1 and Transaction 3 meets the definition of a business, the Interpretations Committee decided to recommend amendments in the form of annual improvements to reflect its decisions. Accordingly, the details of the discussions on these transactions are presented in the section on *Item recommended to the IASB for Annual Improvements*.

The Interpretations Committee noted that Transaction 1 and Transaction 3 should not be included in the scope of the project where the asset or group of assets, involved in the transaction did not meet the definition of a business. See section on *Interpretations Committee tentative agenda decisions* for further information.

Transaction 2: loss of control resulting in the entity having joint control over, or being a party to, a joint operation subsequent to the transaction

The Interpretations Committee discussed whether retained interests should be remeasured in a loss of control transaction that results in an investor having joint control of, or being a party to, a joint operation subsequent to the transaction.

The Interpretations Committee observed that consistent with IFRS 10 *Consolidated Financial Statements,* loss of control is a significant economic event. A number of Interpretations Committee members expressed a preference for remeasurement of the retained interests in transactions in which the asset, or group of assets, met the definition of a business. However, the Interpretations Committee also noted that this transaction has similarities with a sale or contribution of assets to a joint venture or an associate, which has been the subject of recent discussions by the IASB. The Interpretations Committee therefore decided to consult with the IASB to assess if it should postpone further discussion on this transaction (both for transactions in which the asset, or group of assets, meets the definition of a business and for those where it does not) until the research project on the equity method of accounting is completed.

The staff will present a paper to the IASB at a future meeting to obtain its views on whether or not the Interpretations Committee should postpone further discussions on this transaction or complete its deliberations.

IAS 16 *Property, Plant and Equipment*—Accounting for proceeds and costs of testing of PPE: Should net proceeds reduce the cost of assets? (Agenda Papers 3–3A)

The Interpretations Committee received a request to clarify the accounting for the net proceeds from selling items produced while testing an item of property, plant and equipment (PPE) under construction, ie as part of the activities necessary to bring the item of PPE to the location and condition necessary for it to be capable of operating in the manner intended by management. The submitter has asked whether the amount by which the net proceeds received exceed the costs of testing should be recognised in profit or loss or as a deduction from the cost of the PPE.

In a previous meeting, the Interpretations Committee observed that the analysis should focus on the meaning of 'testing' the PPE, because the deduction of proceeds is stated only in relation to testing in paragraph 17(e) of IAS 16 *Property, Plant and Equipment*. On this basis, whether the proceeds should be deducted from the cost of the PPE would be affected by whether the activity that led to those proceeds was testing. The Interpretations Committee also observed that the disclosure about this issue is important and should be considered.

At this meeting, the Interpretations Committee discussed the issues identified during the course of developing a draft Interpretation on this issue.

Issues relating to extractive industries

The Interpretations Committee discussed issues relating to the extractive industries. The Interpretations Committee noted that some entities in the extractive industries deduct the proceeds from the cost of the PPE asset until the point at which the asset is capable of operating in the manner intended by management. These proceeds are not necessarily received from testing activities, but could arise from the sale of products produced from other activities necessary to construct the asset (a mine). A number of Interpretations Committee members noted that, if the deduction of the proceeds from the cost of a PPE asset is limited to those from the testing activities, proceeds received from activities other than testing would need to be recognised in profit or loss. The Interpretations Committee also noted that recognising such proceeds in profit or loss raises a question as to the corresponding cost to be recognised in profit or loss.

A number of Interpretations Committee members suggested that the staff should consider developing an allocation model to allocate cost between the PPE asset and inventory. The Interpretations Committee noted that the issue in the extractive industries is that activities to create PPE could also result in the production of inventory. Accordingly, guidance could be developed on the allocation of costs between PPE and inventory. Some Interpretations Committee members noted that IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* deals with the accounting for a similar issue in the production phase of a surface mine and applies a cost allocation model. However, the Interpretations Committee also noted that the scope of IFRIC 20 was narrowly defined and it may not be applicable to other circumstances.

Guidance on the timing of when the asset becomes capable of operating in the manner intended by management

Some Interpretations Committee members suggested that the Interpretation should focus on the judgement about when a PPE asset becomes capable of operating in the manner intended by management as referred to in paragraph 20 of IAS 16.

Next steps

The Interpretations Committee did not reach any consensus and directed staff to work on the following areas:
(a) develop guidance that makes clear the narrowness of the scope of paragraph 17(e) of IAS 16 and the treatment of proceeds of testing in excess of the costs of testing;
(b) develop guidance on the timing of when an asset becomes capable of operating in the manner intended by management in paragraph 20 of IAS 16;
(c) consider the relevance to the issue of the guidance in paragraph 21 of IAS 16, which refers to income generated by operations that occur in connection with the construction or development of an item of PPE but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management;
(d) consider an allocation model for cost for circumstances in which PPE and inventory are produced concurrently, before the PPE becomes capable of operating in the manner intended by management; and
(e) develop a quantitative disclosure requirement for the amount of proceeds that has been deducted from the cost of PPE, in order to provide transparency of practice.

The staff will present a further analysis at a future meeting.

IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements*—Variable payments for asset purchases and payments made by an operator to a grantor in a service concession arrangement (Agenda Papers 6–6C)

The Interpretations Committee received a request to clarify the accounting for contractual payments that are to be made by an operator under a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*. Specifically, the submitter asked the Interpretations Committee to clarify in what circumstances (if any) those payments should:

(a) be included in the measurement of an asset and a liability at the start of the concession; or
(b) be accounted for as executory in nature (ie be recognised as expenses as they are incurred over the term of the concession arrangement).

The Interpretations Committee had noted that when the payments to be made by the operator are variable, the issue is linked to the broader issue of variable payments for the purchase of property, plant and equipment (PPE) and intangible assets outside of a business combination. The Interpretations Committee discussed both these issues (ie accounting for payments made by an operator and variable payments for the acquisition of PPE and intangible assets) over several meetings between 2011 and 2013.

In its previous discussions on this issue, the Interpretations Committee could not reach a consensus on whether variable payments that are dependent on the purchaser's future activity should be excluded from the initial measurement of the liability until that activity is performed. As accounting for variable payments is a topic that was discussed as part of the *Leases* and *Conceptual Framework* projects, a decision was made to reconsider this issue after the proposals in the Exposure Draft *Leases* (the 'Leases ED') had been redeliberated. Accordingly, the discussion on both these issues was put on hold.

The redeliberations of the technical proposals in the Leases ED have been substantially completed. At this meeting, the Interpretations Committee was presented with a summary of:

(a) previous discussions and tentative decisions;
(b) updates for recent developments in IFRS;
(c) outreach activities; and
(d) explanations of the consequences of applying the principles developed in the Leases project to the accounting for variable payments in asset acquisitions.

At this meeting, members of the Interpretations Committee expressed mixed views on applying the principles developed in the Leases project to the accounting for variable payments for asset purchases. Some members of the Interpretations Committee expressed concerns with applying those principles and noted that lease accounting is a specific accounting regime and the rationale for some of the decisions made in the Leases project may not be directly applicable to asset purchases. The Interpretations Committee directed the staff to provide an analysis of the conceptual arguments underlying the principles in accounting for variable payments in lease contracts and their applicability to accounting for variable payments for asset purchases. The Interpretations Committee also asked the staff to consider whether service concession arrangements represented a distinct and specific type of transaction that could be analysed separately.

Payments made by an operator to a grantor in a service concession arrangement in the scope of IFRIC 12

In its previous discussions on this issue, the Interpretations Committee had noted that:

(a) if the concession fee arrangement gives the operator a right to a good or service that is distinct from the service concession arrangement, the operator should account for that distinct good or service in accordance with the applicable Standard.
(b) when the concession payments are linked to the right of use of a tangible asset, judgement should be used to determine whether the operator obtains control of the right of use of the asset. If the operator controls the right of use of the asset, the arrangement would be considered to be within the scope of the leases Standard.
(c) when the payments are linked to the right of use of a tangible asset, but the arrangement does not represent an embedded lease, the payment should be analysed in the same way as a concession fee.
(d) if the concession fee arrangement does not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, the type of service concession arrangement should determine the accounting for the contractual payments to be made by the operator to the grantor:
    (i) if the service concession results in the operator having only a contractual right to receive cash from the grantor (ie the financial asset model in IFRIC 12 applies), then the concession payment is an adjustment to the overall revenue consideration;
    (ii) if the service concession arrangement results in the operator having only a right to charge users of the public service (ie the intangible asset model in IFRIC 12 applies), then the concession payment represents consideration for the concession right (ie part of the cost of the intangible asset recognised); and
    (iii) if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor, then the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator's services to determine whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset.

At this meeting several members of the Interpretations Committee expressed a preference for retaining the previous tentative decisions on accounting for payments made by an operator to a grantor subject to resolving the broader issue of accounting for variable payments for asset purchases.

Next steps

The staff will present a paper at a future meeting analysing conceptual arguments underlying the principles in accounting for variable payments in lease contracts and their applicability to accounting for variable payments for asset purchases.

Item recommended to the IASB 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 IFRS *and deliberating the comments received on the Exposure Drafts. When the Interpretations Committee has reached consensus on an issue included in* Annual Improvements to IFRS*, 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 IFRS *(including Exposure Drafts and final Standards) are issued by the IASB.*

IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests: Various transactions (Agenda Papers 5A and 5C)

The Interpretations Committee discussed some transactions involving previously held interests in order to determine whether or not previously held/retained interests should be remeasured (see section on *Items on the current agenda* for a summary of the discussion). This section presents the items that the Interpretations Committee decided to recommend to the IASB for Annual Improvements.

Obtaining control of a joint operation either from having joint control in, or being a party to, a joint operation prior to the transaction (Agenda Paper 5A)

The Interpretations Committee discussed whether previously held interests in the assets and liabilities of a joint operation should be remeasured when the acquisition of an additional interest results in the acquirer obtaining control over the joint operation. In this specific fact pattern, the activities of the joint operation constituted a business as defined by IFRS 3 *Business Combinations*.

The Interpretations Committee understood that there are different views on whether or not the previously held interests in the assets and liabilities of the joint operation should be remeasured.

The Interpretations Committee tentatively decided that for transactions in which the joint operation meets the definition of a business, the previously held interests should be remeasured. It noted that the transaction results in a significant economic event. The remeasurement of previously held interests is also consistent with the fair value measurement requirements of IFRS 3. However, the Interpretations Committee noted that the wording in paragraphs 41–42 of IFRS 3 could be understood as not requiring the remeasurement of previously held interests. Consequently, it tentatively decided to recommend an amendment to IFRS 3 in the form of an annual improvement to reflect its conclusion.

The Interpretations Committee agreed that the proposed amendment met the criteria for Annual Improvements and that it should be applied prospectively to transactions occurring on or after the effective date. The staff will present the proposed annual improvement to the IASB at a future meeting.

Change of interests resulting in a party to a joint operation obtaining joint control in a joint operation (Agenda Paper 5C)

The Interpretations Committee discussed whether previously held interests in the assets and liabilities of a joint operation should be remeasured to fair value when the acquisition of an additional interest results in the investor becoming a joint operator (ie assuming joint control) in the joint operation. In this fact pattern, the activities of the joint operation constituted a business as defined by IFRS 3. Prior to the acquisition of additional interests, the investor participated in, but did not have joint control of, the joint operation and the investor had rights to the assets and obligations for the liabilities of the joint operation. The Interpretations Committee understood that there are different views on whether or not the previously held interests in the assets and liabilities of the joint operation should be remeasured.

The Interpretations Committee tentatively decided that the previously held interests should not be remeasured. It noted that the transaction does not result in a significant economic event. It noted that not remeasuring previously held interests is also consistent with the requirements of IFRS 11 *Joint Arrangements*, which requires an entity to account for the assets and liabilities relating to its interest in the joint operation in accordance with the applicable Standards.

However, the Interpretations Committee observed that the wording in IFRS 11 could be understood to require the remeasurement of previously held interests and, therefore, tentatively decided to recommend an amendment to IFRS 11 in the form of an annual improvement to reflect its conclusion.

The Interpretations Committee agreed that the proposed amendment met the criteria for Annual Improvements and that it should be applied prospectively to transactions occurring on or after the effective date. The staff will present the proposed annual improvement to the IASB at a future meeting.

Interpretations Committee's 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 January 2016. 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 23 November 2015 t*o* ***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 5 *Non-current Assets Held for Sale and Discontinued Operations*—To what extent can an impairment loss be allocated to non-current assets within a disposal group? (Agenda Paper 2B)

The Interpretations Committee received a request to clarify a measurement requirement of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Specifically, the question is whether, in a situation in which the carrying amount of those assets exceeds the amount of the impairment loss, the allocation of an impairment loss recognised for a disposal group can reduce the carrying amount of non-current assets that are within the measurement requirements of IFRS 5 to an amount that is lower than their fair value less costs of disposal or their value in use,. In analysing this issue, the Interpretations Committee did not consider the implications for allocation of an impairment loss if that loss exceeds the carrying value of the non-current assets that are within the measurement requirements of IFRS 5.

The Interpretations Committee noted that paragraph 23 of IFRS 5 addresses the recognition of impairment losses for a disposal group. It also noted that in determining the order of allocation of impairment losses to non-current assets, paragraph 23 refers to paragraphs 104 and 122 of IAS 36 *Impairment of Assets*, which relate to the order of allocation of impairment losses. However, it does not refer to paragraph 105 of IAS 36, which restricts the impairment losses allocated to individual assets by requiring that an asset is not written down to less than the higher of its fair value less costs of disposal, its value in use and zero. Consequently, the Interpretations Committee observed that the restriction in paragraph 105 of IAS 36 does not apply when allocating an impairment loss for a disposal group to the non-current assets that are within the scope of the measurement requirements of IFRS 5. The Interpretations Committee understood this to mean that the amount of impairment that should be recognised for a disposal group would not be restricted by the fair value less costs of disposal or value in use of those non-current assets that are within the measurement requirements of IFRS 5.

On the basis of this analysis, the Interpretations Committee concluded that, in the light of the existing requirements of IFRS 5, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—How to present intragroup transactions between continuing and discontinued operation (Agenda Paper 2C)

The Interpretations Committee received a request to clarify how to present intragroup transactions between continuing and discontinued operations.

The submitter points out that paragraph 30 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups). However, IFRS 5 does not provide specific guidance on how to eliminate intragroup transactions between continuing and discontinued operations.

The Interpretations Committee noted that there are no requirements or guidance in IFRS 5 or IAS 1 *Presentation of Financial Statements* in relation to the presentation of discontinued operations that override the consolidation requirements in IFRS 10 *Consolidated Financial Statements*. The Interpretations Committee also noted that paragraph B86(c) of IFRS 10 requires eliminations of, among other things, income and expenses relating to intragroup transactions, and not merely intragroup profit. The Interpretations Committee understood this to mean that an entity needs to eliminate intragroup sales against the internal selling party and intragroup purchases against the internal purchasing party.

Paragraph 30 of IFRS 5 requires an entity to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposal activity. In the light of this objective, the Interpretations Committee observed that, depending on an entity's facts and circumstances, it may have to provide additional disclosures in the notes to the financial statements, in order to enable users to evaluate the financial effects of discontinued operations.

Although the Interpretations Committee observed some diversity in practice, it concluded on the basis of this analysis that, in the light of the existing requirements of IFRS 5, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Various IFRS 5-related issues (Agenda Paper 2D)

The Interpretations Committee has received and discussed a number of issues relating to the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requirements over a number of its meetings. Those issues relate to various aspects of the IFRS 5 requirements and include the following:

Scope

(a) the scope of the held-for-sale classification—paragraph 6 of IFRS 5 requires a non-current asset (or disposal group) to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The issue relates to whether certain types of planned loss of control events, besides loss of control through sale or distribution, can result in a held-for-sale classification, such as loss of control of a subsidiary due to dilution of the shares held by the entity, call options held by a non-controlling shareholder or a modification of a shareholders' agreement. Should planned loss of control events in any of these circumstances fall within the scope of IFRS 5?

(b) accounting for a disposal group consisting mainly of financial instruments—paragraph 5 of IFRS 5 exempts from the measurement requirements of IFRS 5, among other things, financial assets within the scope of IFRS 9 *Financial Instruments*. The issue relates to whether IFRS 5 applies to a disposal group that consists mainly, or entirely, of financial instruments. Should such a disposal group be within the scope of IFRS 5 in terms of the classification and/or measurement requirements of IFRS 5?

Measurement

(c) impairment of a disposal group—paragraph 15 of IFRS 5 requires a disposal group to be measured at the lower of its carrying amount and its fair value less costs to sell, whereas paragraph 23 requires the impairment loss recognised for a disposal group to be allocated to the carrying amount of the non-current assets that are within the scope of the measurement requirements of IFRS 5. The issue relates to a situation in which the difference between the carrying amount and the fair value less costs to sell of a disposal group exceeds the carrying amount of non-current assets in the disposal group. Should the amount of impairment losses be limited to the carrying amount of:
    (i) non-current assets that are within the scope of the measurement requirements of IFRS 5;
    (ii) the net assets of a disposal group;
    (iii) the total assets of a disposal group; or
    (iv) the non-current assets and recognise a liability for the excess, if any?

(d) reversal of an impairment loss relating to goodwill in a disposal group—paragraph 22 of IFRS 5 requires the recognition of a gain for a subsequent increase in fair value less costs to sell of a disposal group. The issue relates to a situation in which goodwill that is included in the disposal group has previously been impaired. Specifically, the question focuses on whether an impairment loss previously allocated to goodwill can be reversed. Should the allocation of all or part of a previous impairment loss to goodwill limit the amount of impairment reversal that can be recognised against other assets in the disposal group?

Presentation

(e) how to apply the definition of 'major line of business' in presenting discontinued operations—in accordance with paragraph 32 of IFRS 5, if a component of an entity has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, it is a discontinued operation. The issue is how to interpret the definition of 'discontinued operation', especially with regard to the notion of 'separate major line of business or geographical area of operations' as described in paragraph 32 of IFRS 5.

(f) how to apply the presentation requirements in paragraph 28 of IFRS 5—paragraph 28 requires the effects of a remeasurement (upon ceasing to be classified as held for sale) of a disposal group that is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, to be recognised retrospectively, whereas it requires the effects of such a remeasurement of non-current assets to be recognised in the current period. The issue relates to a situation in which there has been a change to a plan to dispose of a disposal group that consists of both a subsidiary and other non-current assets, and that such a change results in the disposal group no longer being classified as held for sale. In such a situation, should the remeasurement adjustments relating to the subsidiary and the other non-current assets be recognised in different accounting periods, and should any retrospective amendment apply to presentation as well as to measurement?

The Interpretations Committee noted that the IASB has recently published a Request for Views *2015 Agenda Consultation* to gather views on the strategic direction and the balance of the work plan of the IASB, and that IFRS 5 was described as a possible research project in that document. The Interpretations Committee concluded that it was better to wait until the *2015 Agenda Consultation* is completed before further discussing any of these issues.

Consequently, the Interpretations Committee [decided] not to add these issues to its agenda.

IFRS 9 *Financial Instruments*—Transition for hedge accounting (Agenda Paper 7)

The Interpretations Committee received a request for guidance in respect of two issues pertaining to hedge designation and hedge accounting in situations in which an entity makes the transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments*.

More specifically, the Interpretations Committee has been asked to consider:

(a) whether an entity can treat a hedging relationship as a continuing hedging relationship on transition from IAS 39 to IFRS 9 if that entity changes the hedged item in a hedging relationship from an entire non-financial item (as permitted by IAS 39) to a component of the non-financial item (as permitted by IFRS 9) in order to align the hedge with the entity's risk management objective (Issue 1); and
(b) whether an entity can continue with its original hedge designation of the entire non-financial item under IFRS 9 (Issue 2).

In relation to Issue 1, the Interpretations Committee noted that when an entity changes the hedged item in a hedging relationship from an entire non-financial item to a component of the non-financial item upon transition to IFRS 9, it is required to do so on a prospective basis as described in paragraph 7.2.22 of IFRS 9. The Interpretations Committee also noted that changing the hedged item while continuing the original hedge relationship would be equivalent to the retrospective application of the hedge accounting requirements in IFRS 9, which is prohibited except in the limited circumstances described in paragraph 7.2.26 of IFRS 9. The Interpretations Committee observed that in the example presented in Issue 1, the exceptions in paragraph 7.2.26 did not apply and therefore the original hedge relationship could not be treated as a continuing hedge relationship on transition to IFRS 9.

In relation to Issue 2, the Interpretations Committee observed that:

(a) paragraphs BC6.97, BC6.98 and BC6.100 of IFRS 9 support the use of hedge designations that are not exact copies of actual risk management ('proxy hedging') as long as they reflect risk management in that they relate to the same type of risk that is being managed and the same type of instruments that are being used for that purpose; and
(b) the use of proxy hedging in cases in which it reflects the entity's risk management (that is, where it relates to the same type of risk that is being managed and the same type of instruments that are being used for that purpose) did not appear to be restricted to instances in which IFRS 9 had prohibited an entity from designating hedged items in accordance with its actual risk management.

As a result, the Interpretations Committee noted that hedge designations of an entire non-financial item could continue on transition to IFRS 9 as long as they meet the qualifying criteria in IFRS 9.

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

IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests: Various transactions (Agenda Papers 5A and 5C)

The Interpretations Committee discussed whether previously held interests in the assets and liabilities of a joint operation should be remeasured in the following transactions when the asset or group of assets involved in such transactions do not meet the definition of a business in accordance with IFRS 3 *Business Combinations:*

(a) obtaining control of a joint operation, either from having joint control in, or being a party to a joint operation prior to the transaction; and
(b) a change of interests resulting in a party to a joint operation obtaining joint control over the joint operation.

The party to the joint operation had rights to the assets and obligations for the liabilities relating to the joint operation prior to the transaction.

The Interpretations Committee noted that paragraph 2(b) of IFRS 3 provides guidance on the typical accounting for an asset acquisition where the asset or group of assets do not meet the definition of a business. The Interpretations Committee also observed that it was not aware of significant diversity in practice and therefore [decided] not to add the accounting for these transactions to its agenda.

IAS 32 *Financial Instruments: Presentation*—Classification of the liability for a prepaid card in the issuer's financial statements (Agenda Paper 4)

The Interpretations Committee discussed how an entity would classify the liability when it issues a prepaid card and how the entity would account for the unspent balance of such a card. Specifically, the Interpretations Committee discussed a prepaid card with the following features:

(a) no expiry date.
(b) cannot be refunded, redeemed or exchanged for cash.
(c) redeemable only for goods or services.
(d) redeemable only at selected merchants (which may include the entity, however, is not redeemable only with the entity), and depending upon the card programme, ranges from a single merchant to all merchants that accept a specific card network. Upon redemption by the cardholder at a merchant(s) to purchase goods or services, the entity has a contractual obligation to pay cash to the merchant(s).
(e) no back-end fees, which means that the balance on the prepaid card does not reduce unless spent by the cardholder.
(f) is not issued as part of a customer loyalty programme.

The Interpretations Committee was asked to consider whether the liability for the prepaid card is a non-financial liability, because the entity does not have an obligation to deliver cash to the cardholder.

The Interpretations Committee observed that the liability of the entity for the prepaid card meets the definition of a financial liability, because the entity has a contractual obligation to deliver cash to the merchants on behalf of the cardholder, which is conditional upon the cardholder using the prepaid card to purchase goods or services, and the entity does not have an unconditional right to avoid delivering cash to settle this contractual obligation. The Interpretations Committee decided that even if redemption with the entity is one possibility, the entity's obligation is still a financial liability because the entity does not have an unconditional right to avoid delivering cash when the cardholder redeems the prepaid card at a third party merchant(s). Consequently, an entity that issues such a card would apply the guidance in IFRS 9 *Financial Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*) to determine whether and when to derecognise the liability for a prepaid card.

The Interpretations Committee therefore concluded that in the light of the existing guidance in IAS 32 *Financial Instruments: Presentation* and IFRS 9 (IAS 39), neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement*—Separation of an embedded interest rate floor from a floating rate host contract in a negative interest rate environment (Agenda Paper 9)

The Interpretations Committee received a request to clarify the application of the embedded derivative requirements of IAS 39 *Financial Instruments: Recognition and Measurement* in a negative interest rate environment. Specifically, the Interpretations Committee considered
(a) whether paragraph AG33(b) of IAS 39 should apply to an embedded interest rate floor in a floating rate host debt contract in a negative interest rate environment; and
(b) how to determine the 'market rate of interest' referred to in that paragraph.

The Interpretations Committee observed that:
(a) paragraph AG33(b) of IAS 39 should be applied to an interest rate floor in a negative interest rate environment in the same way that it would be applied in a positive interest rate environment; and
(b) in order to determine the appropriate market rate of interest when the contract is issued for the purposes of applying paragraph AG33(b) of IAS 39, an entity is required to consider the specific terms of the contract, including the relevant credit or other spreads appropriate for the counterparty and the market in which it is operating.

In drawing this conclusion, the Interpretations Committee noted the following:
(a) paragraph AG33(b) of IAS 39 makes no distinction between positive and negative interest rates and, therefore, the requirements of that paragraph should be applied consistently in both cases; and
(b) the term market rate of interest is linked to the concept of fair value as defined in IFRS 13 *Fair Value Measurement* and is described in paragraph AG64 of IAS 39 as the rate of interest 'for a similar

instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating'.

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

Other matters

2015 Agenda Consultation (Agenda Paper 8)

The IASB is required to carry out a public consultation on its work plan every three years. The primary objective of that review is to seek formal public input on the strategic direction and balance of the IASB's work plan.

The staff gave the Interpretations Committee an update on the 2015 Agenda Consultation process. The Interpretations Committee then discussed the nature of its response, if any, to the IASB's Request for Views *2015 Agenda Consultation*.

The Interpretations Committee noted that the current regular communication between it and the IASB means that the IASB is kept informed of the nature and extent of issues that were discussed by the Interpretations Committee. Nevertheless, the Interpretations Committee concluded that it would be helpful to inform the IASB of its views on the relative priorities of the issues that it has previously discussed.

Accordingly, the Interpretations Committee asked the staff to draft a comment letter for further discussion at its November meeting that prioritises topics for the IASB's consideration.

Interpretations Committee work in progress update (Agenda Paper 11)

The Interpretations Committee received a report on one new issue and one ongoing issue for consideration at future meetings. The report also included an issue that is on hold and that will be considered again at future meetings.

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