IFRIC Update

From the IFRS Interpretations Committee

July 2012

Welcome to the IFRIC Update

IFRIC Update *is the newsletter of the IFRS Interpretations Committee and is published as a convenience for the IASB's constituents. All conclusions reported are tentative and may be changed or modified at future IFRS Interpretations Committee meetings.*

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

The IFRS Interpretations Committee met in London on 10 July 2012, when it discussed:

- Current agenda:
  - IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*—Accounting for the loss of control of a group of assets or a subsidiary between an investor and its associate or joint venture
  - IAS 19 *Employee Benefits*—Accounting for contribution-based promises–Reconsideration of *Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*
- IFRS Interpretations Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- IFRS Interpretations Committee work in progress

Contact us

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: ifric@ifrs.org
Website: www.ifrs.org

Future IFRS Interpretations Committee meetings

The next meetings are:
18 and 19 September 2012
13 and 14 November 2012
22 and 23 January 2013
12 and 13 March 2013
14 and 15 May 2013
16 and 17 July 2013
10 and 11 September 2013
12 and 13 November 2013 Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB website before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website here.

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Current agenda

The IFRS Interpretations Committee discussed the following issues, which are on its current agenda.

IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*—Accounting for the loss of control of a group of assets or a subsidiary between an investor and its associate or joint venture

The IFRS Interpretations Committee received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (2011) apply where a business is contributed to:

- a jointly controlled entity (JCE) as defined in IAS 31 *Interests in Joint Ventures*; or
- a joint venture (JV) as defined in IFRS 11 *Joint Arrangements*; or
- an associate

in exchange for an equity interest in that JCE/JV or associate.

At the January 2012 Committee meeting, the Committee noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 *Consolidated and Separate Financial Statements* (2008) and SIC-13, in dealing with the loss of control of a subsidiary that is contributed to a JCE/JV or an associate. SIC-13 restricts gains and losses arising from contributions of non-monetary assets to a JCE to the extent of the interest attributable to the other equity holders in the JCE. IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary.

This inconsistency between IAS 27 (2008) and SIC-13 will remain when IFRS 10 *Consolidated Financial Statements* replaces IAS 27 (2008) and when SIC-13 will be withdrawn. In fact, the requirements in IFRS 10 on the accounting for the loss of control of a subsidiary are similar to the requirements in IAS 27 (2008) and the requirements in SIC-13 are incorporated in IAS 28 (2011).

At the March 2012 Committee meeting, the Committee discussed various alternatives that would address the inconsistency that had been noted. The Committee decided to ask the IASB whether it wants the Committee to consider further how to resolve the inconsistency between the requirements in IAS 27 (2008) and those in SIC-13 on the basis of the different alternatives discussed.

At the May 2012 IASB meeting, the staff consulted the IASB on this matter. The IASB discussed three alternatives that would address the inconsistency:

- Alternative 1: account for all contributions in accordance with the rationale developed in IAS 27.
- Alternative 2: account for all contributions of businesses (whether housed in a subsidiary or not) in accordance with IAS 27 and account for all other contributions in accordance with SIC-13.
- Alternative 3: account for all contributions to a JCE/JV or an associate in accordance with SIC-13.

The majority of the IASB members considered Alternative 1 to be the most robust alternative from a conceptual point of view, but that it would require addressing multiple cross-cutting issues. Some IASB members were concerned that the Committee would not be able to address those cross-cutting issues on a timely basis. As a result, a majority of IASB members expressed support for Alternative 2.

At the July 2012 Committee meeting, the Committee was presented with, and decided to propose, some amendments to IAS 28 (2011) and IFRS 10 in accordance with Alternative 2. The Committee noted that IAS 27 (2008) and SIC-13 do not need to be amended, because IAS 27 (2008) and SIC-13 will be superseded by the time the proposed amendments would become effective. The Committee decided that the proposed amendments to IAS 28 (2011) should affect the sale or contribution of all types of assets (that do not constitute a business) between an investor and its associate or joint venture. The staff will present the revised proposed amendments to the IASB at the September 2012 IASB meeting.

IAS 19 ***Employee Benefits***—Accounting for contribution-based promises–Reconsideration of ***Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions***

The IFRS Interpretations Committee decided at its last meeting to reconsider the work it had done when it issued *Draft Interpretation D9 Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*. The Committee had previously referred the issue to the IASB to be included in the IASB's project on post-employment benefits. Although the IASB had initially intended to address contribution-based promises in that project, it later decided to defer this work to a future broader project on employee benefits.

At this meeting the Committee was presented with the feedback received on D9 in 2005 and the feedback that the IASB received on its 2008 Discussion Paper *Preliminary Views on Amendments to IAS 19* Employee Benefits, especially the proposals on contribution-based promises. The Committee also discussed issues which had been raised by respondents on the scope of D9 and was presented with measurement options of plans covered by D9, which were developed by staff in 2005. The Committee had considered both scope and measurement in its redeliberations on D9 in 2005 without making any decisions on them at that time.

The Committee tentatively decided to continue working towards limited scope proposals on accounting for contribution-based promises. The Committee also tentatively decided that the scope of the proposals should be similar to the scope of D9, but clarified that an employee benefit plan would fall within the scope of the proposals if the employer has a legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay for all employee benefits relating to employee service in the current and prior periods in respect of:

- a promised return on actual or notional contributions; or
- any other benefit guarantee based on the value of one or more underlying assets.

The Committee acknowledged that the staff would undertake further outreach on scope and measurement and also noted its concern to ensure that the scope of the proposals was sufficiently narrow. The Committee also tentatively decided that the scope of its work should include not only post-retirement benefits but also other long-term benefits.

The Committee discussed measurement options for contribution-based promises and provided the staff with input for consideration, but did not make any decisions on this issue. Staff will bring proposals on measurement to the next Committee meeting in September 2012.

Go to the top of this page

IFRS Interpretations Committee agenda decisions

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

IAS 1 *Presentation of Financial Statements* and IAS 12 *Income Taxes*—Presentation of payments on non-income taxes

The IFRS Interpretations Committee received a request seeking clarification of whether production-based royalty payments payable to one taxation authority that are claimed as an allowance against taxable profit for the computation of income tax payable to another taxation authority should be presented as an operating expense or a tax expense in the statement of comprehensive income.

As the basis for this request, the submitter assumed that the production-based royalty payments are, in themselves, outside the scope of IAS 12 *Income Taxes* while the income tax payable to the other taxation authority is within the scope of IAS 12. On the basis of this assumption, the submitter asks the Committee to clarify whether the production-based royalty payments can be viewed as prepayment of the income tax payable. The Committee used the same assumption when discussing the issue.

The Committee observed that the line item of 'tax expense' that is required by paragraph 82(d) of IAS 1 *Presentation of Financial Statements* is intended to require an entity to present taxes that meet the definition of income taxes under IAS 12. The Committee also noted that it is the basis of calculation determined by the relevant tax rules that determines whether a tax meets the definition of an income tax. Neither the manner of settlement of a tax liability nor the factors relating to recipients of the tax is a determinant of whether an item meets that definition.

The Committee further noted that the production-based royalty payments should not be treated differently from other expenses that are outside the scope of IAS 12, all of which may reduce income tax payable. Accordingly, the Committee observed that it is inappropriate to consider the royalty payments to be prepayment of the income tax payables. Because the production-based royalties are not income taxes, the royalty payments should not be presented as an income tax expense in the statement of comprehensive income.

The Committee considered that, in the light of its analysis of the existing requirements of IAS 1 and IAS 12, an interpretation was not necessary and consequently decided not to add this issue to its agenda.

IAS 12 ***Income Taxes***—Accounting for market value uplifts on assets that are to be introduced by a new income tax regime

The IFRS Interpretations Committee received a request to clarify the accounting for market value uplifts introduced in a new income tax regime in a jurisdiction.

In calculating taxable profit under the tax regime, entities are permitted to calculate tax depreciation for certain mining assets using the market value of the assets as of a particular date as the 'starting base allowance', rather than the cost or carrying amount of the assets. If there is insufficient profit against which the annual tax depreciation can be used, it is carried forward and is able to be used as a deduction against taxable profit in future years.

The Committee noted that the starting base allowance, including the part that is attributable to the market value uplift, is attributed to the related assets under the tax regime and will become the basis for depreciation expense for tax purposes. Consequently, the market value uplift forms part of the related asset's 'tax base', as defined in paragraph 5 of IAS 12. The Committee observed that IAS 12 requires an entity to reflect an adjustment to the tax base of an asset that is due to an increase in the deductions available as a deductible temporary difference. Accordingly, the Committee noted that a deferred tax asset should be recognised to the extent that it meets the recognition criteria in paragraph 24 of IAS 12.

The Committee considered that, in the light of its analysis of the existing requirements of IAS 12, an interpretation was not necessary and consequently decided not to add this issue to its agenda.

Go to the top of this page

IFRS Interpretations Committee tentative agenda decisions

The IFRS Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Committee's agenda. These tentative decisions, including recommended reasons for not adding the items to the Committee's agenda, will be reconsidered at the Committee meeting in November 2012. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by ***17 September 2012*** *to: ifric@ifrs.org. Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

IAS 18 ***Revenue***, IAS 37 ***Provisions, Contingent Liabilities and Contingent Assets*** and IAS 39 ***Financial Instruments: Recognition and Measurement***—Regulatory assets and liabilities

The IFRS Interpretations Committee received a request seeking clarification on whether a regulatory asset or regulatory liability should be recognised in a particular situation in which a regulated entity is permitted to recover costs, or required to refund some amounts, independently of the delivery of future services. Specifically, the submitter asked two questions for the accounting under this situation:

- Can the population of customers be regarded as a single unit of account?
- If the population is a single unit of account, is it acceptable to recognise an asset or liability?

The Committee did not address the two specific questions in the submission. However, regarding the question of the recognition of regulatory assets and liabilities generally, the Committee noted that it discussed in 2005 the subject of whether or not it would be appropriate to recognise a regulatory asset. At that time the Committee concluded that an entity should recognise only assets that qualify for recognition in accordance with the IASB's conceptual framework and with relevant IFRSs such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The Committee noted that there have been no major changes made to these IFRSs that warrant revisiting this issue since the Committee reached that conclusion.

The Committee also noted that, in the IASB's project on Rate-regulated Activities, the IASB had concluded that the issue could not be resolved quickly, and had therefore included requests for views on future plans for this project in its Agenda Consultation published in July 2011. In addition, the Committee noted that even though there is no active IASB project on Rate-regulated Activities, in the IASB's May 2012 meeting, the IASB unanimously supported giving priority to developing a standards-level proposal for Rate-regulated activities in its deliberation related to standards-level projects for the near future.

Given the position reached by the IASB in its last project on this subject, the Committee observed that this issue is too broad for the Committee to address within the confines of existing IFRSs and the conceptual framework. Consequently, for this reason, and because the IASB has recently expressed support for developing a standards-level project for Rate-regulated Activities in the near future, the Committee [decided] not to add this issue to its agenda

IAS 39 ***Financial Instruments: Recognition and Measurement***—Scope of paragraph AG5

The IFRS Interpretations Committee received a request for guidance on several accounting issues that resulted from the restructuring of Greek government bonds (GGBs) in 2012. At its May 2012 meeting, the Committee tentatively concluded that the GGBs surrendered in March 2012 should be derecognised, which means the new GGBs received as part of the debt restructuring are recognised as new assets. At this meeting, the Committee addressed the particular request to consider whether paragraph AG5 of IAS 39 could apply when determining the effective interest rate on initial recognition of those new GGBs. Applying paragraph AG5 of IAS 39 means that the effective interest rate would be determined at initial recognition using estimated cash flows that take into account incurred credit losses.

The Committee noted that paragraph AG5 of IAS 39 applies to acquired assets, which includes both purchased and originated assets.

The Committee also noted that even though an origination of a debt instrument with an incurred loss is rather unusual, there are situations in which such transactions occur. For example, in the context of significant financial difficulty of an obligor, transactions can arise that involve originations of debt instruments that are outside the normal underwriting process but instead forced upon already existing lenders by a restructuring process. This could include situations in which modifications of debt instruments result in derecognition of the original financial asset and the recognition of a new financial asset under IFRSs. In these circumstances, new financial assets could be recognised that have incurred losses on initial recognition. The Committee noted that whether an incurred loss exists on initial recognition of an asset is a factual matter and that the assessment requires judgement.

The Committee considered that in the light of its analysis of the existing requirements of IAS 39 an interpretation was not necessary and consequently [decided] not to add the issue to its agenda.

Go to the top of this page

IFRS Interpretations Committee work in progress

IFRS 3 ***Business Combinations***—Continuing employment

In January 2012 the IFRS Interpretations Committee received a request for guidance on the accounting in accordance with IFRS 3 *Business Combinations* for contingent payments to selling shareholders in circumstances in which those selling shareholders become employees. The submitter asked the Committee to clarify whether paragraph B55(a) of IFRS 3 is conclusive in determining that an arrangement in which payments to an employee that are forfeited upon termination of employment is remuneration for post-combination services and not part of the consideration for an acquisition.

The Committee in the May 2012 meeting asked the staff to consult the IASB and the FASB on whether they think that paragraph B55(a) of IFRS 3 and the equivalent guidance in US GAAP should be conclusive when analysing the contingent payments described.

In the July 2012 meeting, the Committee was advised that the preliminary view of many IASB members is that they would prefer that IFRS 3 be amended such that the guidance in paragraph B55(a) of IFRS 3 should be indicative and that many IASB members shared the Committee's concern that they should not create divergence with US GAAP on a Standard that had previously achieved convergence.

The Committee will be updated on the results of the consultation with FASB members in the September 2012 meeting.

IAS 7 ***Statement of Cash Flows***—Examples illustrating the classification of cash flows

At the March 2012 meeting the IFRS Interpretations Committee observed that the primary principle behind the classification of cash flows in IAS 7 is that cash flows should be classified in accordance with the nature of the activity in a manner that is most appropriate to the business of the entity, in accordance with the definitions of operating, investing and financing activities in paragraph 6 of IAS 7. The Committee noted that it would use this as a guiding principle when analysing future requests on the classification of cash flows.

At the July 2012 meeting the Committee discussed some fact patterns to illustrate the application of the identified primary principle behind the classification of the cash flows in an attempt to consider how to develop further guidance on the application of the primary principle. Those discussions revealed that the existing guidance did not lead to consistent applications of the principle.

The Committee directed the staff to consider how the description of operating, investing and financing cash flows can be made clearer and thus lead to more consistency in the application of the primary principle. The Committee asked the staff to consider the relevance of the counterparty and the timing of the cash flows to their classification. The Committee also asked the staff to consider the feedback received through the outreach performed on the Financial Statement Presentation Project and also the comments received on the IASB's 2011 agenda consultation that relate to IAS 7.

The staff will present the results of this further work at a future meeting.

Review of issues previously referred to the IASB

The IFRS Interpretations Committee received an updated report on the issues that have been referred to the IASB and have not yet been addressed, except for those addressed through the annual improvements process. These issues were referred to the IASB between January 2008 and May 2012.

The Committee asked the staff to update the analysis and outreach on the following issues so that they can discuss, at future meetings, as to whether or not the Committee should add these to its agenda:

- IAS 28 *Investments in Associates*: to consider whether guidance was needed on how impairment of investment in associates should be determined in the separate financial statements of the investor.
- IFRS 2 *Share-based Payments*: to clarify how to classify and measure share-based payment transactions for which the manner of settlement is contingent on either: (i) a future event that is outside the control of the entity and/or the counterparty; or (ii) a future event that is within the control of the counterparty.
- IFRS 2 *Share-based Payments*: to clarify how to classify a share-based payment transaction in which the entity is required to withhold a specified portion of the shares that would otherwise be issued to the counterparty upon exercise (or vesting) of the share-based payment award in order to settle the counterparty's tax obligation.
- IFRS 2 *Share-based payments*: to clarify how to measure and account for a share-based payment in situations in which a cash-settled award is cancelled and is replaced by a new equity-settled award and the replacement award has a higher fair value than the original award.
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: to clarify how a disposal group should be recognised when the difference between the carrying amount and fair value less costs to sell exceed the carrying amount of non-current assets.
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: to clarify whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill.

In addition, the Committee discussed issues previously raised relating to IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*. The Committee directed the staff to further discuss with the Financial Instruments team whether it might be appropriate for the Committee to address any of these issues at future meetings.

IFRS Interpretations Committee work in progress update

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

Go to the top of this page