IFRIC Update

From the IFRS Interpretations Committee

IFRS

July 2013

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 **16 and 17 July 2013**, when it discussed:

- the current agenda:
  - IAS 19 *Employee Benefits*—Employee benefit plans with a guaranteed return on contributions or notional contributions
- Interpretations Committee agenda decisions;
- Interpretations Committee tentative agenda decisions;
- deliberation of comments received on proposals for narrow-scope amendments;
- issues considered for Annual Improvements;
- Interpretations Committee work in progress; and
- Interpretations Committee other work.

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Future IFRS Interpretations Committee meetings

The next meetings are:
10 and 11 September 2013
12 and 13 November 2013
29 and 30 January 2014
25 and 26 March 2014
13 and 14 May 2014
15 and 16 July 2014
16 and 17 September 2014
11 and 12 November 2014

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB **website** before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website **here**.

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Current agenda

The Interpretations Committee discussed the following issue, which is on its current agenda.

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

At its previous meetings, the Interpretations Committee agreed on the scope of its work on employee benefit plans with a guaranteed return on contributions or notional contributions.

At this meeting, the Interpretations Committee was presented with an analysis of how the proposed scope would apply to various types of benefit promises, with a comparison to the scope proposed for contribution-based promises in the IASB's Discussion Paper published in 2008.

The Interpretations Committee observed that the agreed scope might be broader than it had envisaged because promises such as some current salary and career average promises would be included.

However, in the light of the ongoing concerns about how to account for employee benefit plans with a guaranteed return on contributions or notional contributions, and the resulting diversity in practice, the Interpretations Committee tentatively decided to proceed with this project on the basis of the agreed scope.

The Interpretations Committee will discuss the recognition and measurement of promises within the agreed scope at a future meeting.

Interpretations Committee agenda decisions

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

IAS 19 *Employee Benefits*—pre-tax or post-tax discount rate

The Interpretations Committee received a request for guidance on the calculation of defined benefit obligations. In particular, the submitter asked the Interpretations Committee to clarify whether, in accordance with IAS 19 *Employee Benefits* (2011), the discount rate used to calculate a defined benefit obligation should be a pre-tax or post-tax rate.

The tax regime in the jurisdiction of the submitter can be summarised as follows:

a. the entity receives a tax deduction for contributions that are made to the plan;
b. the plan pays tax on the contributions received and on the investment income earned; but
c. the plan does not receive a tax deduction for the benefits paid.

The Interpretations Committee noted that:

a. paragraph 76(b)(iv) of IAS 19 (2011) mentions only taxes on contributions and benefits payable within the context of measuring the defined benefit obligation;
b. paragraph 130 of IAS 19 (2011) states that: "in determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation"; and
c. according to paragraph BC130 of IAS 19 (2011) the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

Consequently, the Interpretations Committee observed that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate.

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

Interpretations Committee tentative agenda decisions

The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Interpretations Committee's 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 November 2013. 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 25 September 2013 to ifric@ifrs.org. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

IAS 19 *Employee Benefits*—Actuarial assumptions: discount rate

The Interpretations Committee discussed a request for guidance on the determination of the rate used to discount post-employment benefit obligations. The submitter stated that:

- according to paragraph 83 of IAS 19 *Employee Benefits* (2011) the discount rate should be determined by reference to market yields at the end of the reporting period on "high quality corporate bonds" (HQCB);
- IAS 19 does not specify which corporate bonds qualify to be HQCB;
- according to prevailing past practice, listed corporate bonds have usually been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (eg 'AAA' and 'AA'); and
- because of the financial crisis, the number of corporate bonds rated 'AAA' or 'AA' has decreased in proportions that the submitter considers significant.

In the light of the points above, the submitter asked the Interpretations Committee whether corporate bonds with a rating lower than 'AA' can be considered to be HQCB.

The Interpretations Committee observed that IAS 19 does not specify how to determine the market yields on HQCB, and in particular what grade of bonds should be designated as high quality. The Interpretations Committee considers that an entity should take into account the guidance in paragraphs 84 and 85 of IAS 19 (2011) in determining what corporate bonds can be considered to be HQCB.

Paragraphs 84 and 85 of IAS 19 (2011) state that the discount rate:

- reflects the time value of money but not the actuarial or investment risk;
- does not reflect the entity-specific credit risk;
- does not reflect the risk that future experience may differ from actuarial assumptions; and
- reflects the currency and the estimated timing of benefit payments.

The Interpretations Committee further noted that paragraph 83 of IAS 19 uses the term 'high quality' which reflects an absolute concept of credit quality and not a concept of credit quality that is relative to a given population of corporate bonds, which would be the case, for example, if the paragraph used the term 'the highest quality'.

The Interpretations Committee also observed that the entity's policy for determining the discount rate should be applied consistently over time. The Interpretations Committee does not expect that an entity's method for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate. Accordingly, a reduction in the number of HQCB should not result in a change to an entity's policy for determining the discount rate, provided that the relevant market in HQCB remains deep. Paragraph 83 of IAS 19 contains requirements if the market in HQCB is no longer deep.

The Interpretations Committee also noted that:

- paragraphs 144 and 145 of IAS 19 (2011) require an entity to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation and a sensitivity analysis for each significant actuarial assumption;
- typically the discount rate is a significant actuarial assumption; and
- an entity shall disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements in accordance with paragraph 122 of IAS 1 *Presentation of Financial Statements*.

The Interpretations Committee discussed this issue in several meetings and noted that issuing additional guidance on or changing the requirements for the determination of the discount rate would be too broad for it to address in an efficient manner. Consequently the Interpretations Committee [decided] not to add this issue to its agenda.

IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*—transitional

provisions in respect of impairment, foreign exchange and borrowing costs

The Interpretations Committee discussed a request to clarify the transitional provisions of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. The transitional provisions of IFRS 10 and IFRS 11 provide relief from retrospective application in specific circumstances. However, the submitter observes that IFRS 10 and IFRS 11 do not provide specific relief from retrospective application of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 23 *Borrowing Costs* or IAS 36 *Impairment of Assets*. The submitter thinks that retrospective application of these Standards could be problematic when first applying IFRS 10 and IFRS 11.

The Interpretations Committee noted that when IFRS 10 is applied for the first time, it must be applied retrospectively except for the specific circumstances for which transitional relief is given. It also noted that when IFRS 10 is applied retrospectively, relevant accounting requirements in other Standards (such as IAS 21, IAS 23 and IAS 36) must also be applied retrospectively in order to measure the investee's assets, liabilities and non-controlling interests, as described in paragraph C4 of IFRS 10, or the interest in the investee, as described in paragraph C5 of IFRS 10. The Interpretations Committee observed that if retrospective application of the requirements of those other Standards (that would have a material effect if applied retrospectively) is impracticable, then retrospective application of IFRS 10 should be considered impracticable. Thus, an entity in that situation would qualify for the relief from retrospective application provided by IFRS 10 (paragraphs C4A and C5A).

The Interpretations Committee noted that, although the definition of control provided in IFRS 10 has changed, the definition of joint control provided in IFRS 11 is similar to the definition provided in IAS 31 *Interest in Joint Ventures* (2003). It therefore thinks that the assessment of whether an investor has joint control of a joint arrangement would in most cases be the same when applying IFRS 11 as when applying IAS 31. As a result, the Interpretations Committee observed that the changes resulting from the initial application of IFRS 11 would typically be to change from proportional consolidation to equity accounting or from equity accounting to recognising shares of assets and liabilities. In those situations, IFRS 11 already provides relief from retrospective application. The Interpretations Committee concluded that the initial application of IFRS 11 is not expected to raise issues in respect of the retrospective application of other Standards in most cases.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing transitional requirements of IFRS 10 and IFRS 11, sufficient guidance or relief from retrospective application already exists and that neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.

IFRS 10 *Consolidated Financial Statements*—Classification of puttable instruments that are non controlling interests

The Interpretations Committee discussed a request for guidance on the classification, in the consolidated financial statements of a group, of puttable instruments that are issued by a subsidiary but that are not held, directly or indirectly, by the parent. The submitter asked about puttable instruments classified as equity instruments in the financial statements of the subsidiary in accordance with paragraphs 16A-16B of IAS 32 *Financial Instruments: Presentation* ('puttable instruments') that are not held, directly or indirectly, by the parent. The question asked was whether these instruments should be classified as equity or liability in the parent's consolidated financial statements.

The submitter claims that paragraph 22 of IFRS 10 *Consolidated Financial Statements* is not consistent with paragraph AG29A of IAS 32, because:

a. IFRS 10 defines non-controlling interests (NCI) as equity in a subsidiary not attributable, directly or indirectly, to a parent;

b. according to paragraph 22 of IFRS 10 a parent shall present non-controlling interests (NCI) in the consolidated statement of financial position within equity; but

c. according to paragraph AG29A of IAS 32 instruments classified as equity instruments in accordance with paragraphs 16A-16D of IAS 32 in the separate or individual financial statements of the subsidiary that are NCI are classified as liabilities in the consolidated financial statements of the group.

The Interpretations Committee noted that paragraphs 16A-16D of IAS 32 state that puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation meet the definition of a financial liability. These instruments are classified as equity in the financial statements of the subsidiary as an exception to the definition of a financial liability if all relevant requirements are met. Paragraph AG29A clarifies that this exception applies only to the financial statements of the subsidiary and does not extend to the parent's consolidated financial statements. Consequently, these financial instruments should be classified as financial liabilities in the parent's consolidated financial statements.

The Interpretations Committee therefore concluded that in the light of the existing guidance in IAS 32, neither an interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.

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

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

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

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

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

The Interpretations Committee noted that the issuer cannot assume that a financial instrument (or its components) meets the definition of an equity instrument simply because the issuer has the contractual right to settle the financial instrument by delivering a fixed number of its own equity instruments. The Interpretations Committee noted that judgement will be required to determine whether the issuer's early settlement option is substantive and thus should be considered in determining how to classify the instrument. If the early settlement option is not substantive, that term would not be considered in determining the classification of the financial instrument. To determine whether the early settlement option is substantive, the issuer will need to understand whether there are actual economic or business reasons that the issuer would exercise the option. For example, among other factors, the issuer could consider whether the instrument would have been priced differently if the issuer's early settlement option had not been included in the contractual terms.

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

However, the Interpretations Committee asked the staff to analyse the accounting for a mandatorily convertible instrument that obliges the issuer to settle the instrument by delivering a variable number of its own equity instruments, subject to a cap and a floor; ie the instrument described above excluding the issuer's option to settle early by delivering a fixed number of equity instruments. The staff will bring that analysis to a future meeting.

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

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

The Interpretations Committee noted that IAS 32 sets out the relevant requirements for classifying financial instruments (or their components), from the perspective of the issuer, into financial assets, financial liabilities, and equity instruments.

The Interpretations Committee noted that the instrument is a compound instrument that is composed of the following two components:

a. a liability component, which reflects the issuer's obligation to deliver a variable number of its own equity instruments if the contingent non-viability event occurs; and
b. an equity component, which reflects the issuer's discretion to pay interest.

Paragraph 11 of IAS 32 states that a financial instrument meets the definition of a *financial liability* if the issuer is obliged to deliver a variable number of its own equity instruments. Paragraph 25 of that Standard provides guidance on applying that definition to an instrument with a contingent settlement provision and clarifies that a financial liability exists if the settlement of the obligation is contingent upon the occurrence of an uncertain future event that is beyond the control of both the issuer and the holder (subject to particular limitations, which are not relevant to this instrument). The Interpretations Committee noted that the contingent non-viability event is beyond the control of both the issuer and the holder.

To measure the liability component, the Interpretations Committee noted that the issuer must consider the fact that the contingent non-viability event could occur immediately because it is beyond the control of the issuer and there is no contractual minimum time period that must elapse before the contingent non-viability event could occur. Hence the Interpretations Committee noted that the liability component must be measured at the full amount that the issuer could be required to pay immediately. The Interpretations Committee noted that this measurement is consistent with paragraph 23 of IAS 32, which sets out the requirements for an issuer's obligation to purchase its own equity instruments for cash or another financial asset, including those obligations that are conditional on the holder exercising its right; eg particular put options written on the issuer's own equity instruments. The Interpretations Committee noted that paragraph BC12 in the Basis for Conclusions on IAS 32 discusses the IASB's view that a financial liability must be measured at the full amount of the obligation if the occurrence of the contingent event is beyond the control of the issuer, irrespective of whether that event is within the control of the holder.

The equity component would be measured as a residual and thus would be measured at zero in the fact pattern discussed, because the instrument is issued at par and the value of the variable number of shares that will be delivered at conversion is equal to that fixed par amount. Nevertheless, the Interpretations Committee noted that the equity component exists and therefore, consistently with paragraph AG37 of IAS 32, if the issuer pays any interest on the instrument, those payments relate to the equity component and would be recognised in equity.

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

Deliberation of comments received on proposals for narrow-scope amendments

IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*—Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

In December 2012, the IASB published for comment the Exposure Draft ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*—Proposed amendments to IFRS 10 and IAS 28. The comment period ended on 23 April 2013.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the 65 comment letters received on the Exposure Draft. Two-thirds of the respondents broadly support the proposals. They think that the proposed amendments are a short-term pragmatic solution that will address the diversity in practice resulting from the conflict between the requirements in IFRS 10 and those in IAS 28 (2011).

However, a majority of those respondents observe that the proposed amendments will require an entity to determine whether the sale or contribution of assets meets the definition of a 'business' (as defined in IFRS 3 *Business Combinations*). As a result, they note that the proposals put more emphasis on the definition of a business. They consider that the current definition of a business is not sufficiently clear and they suggest that the IASB should provide additional guidance on this topic.

One-third of the respondents disagree with the proposals. Some of those respondents think that:

a. The proposals are not operational because the definition of a business is not sufficiently clear.
b. The proposals are not conceptually sound. They think that all sales or contributions should be dealt with the same way irrespective of whether the assets sold or contributed meet the definition of a business.
c. Introducing short-term solutions is not the way forward. They think that the IASB should instead perform a broad review of the equity method of accounting and clarify its conceptual basis.
d. This issue should not be finalised before the IASB has fully considered the results of its forthcoming Post-implementation Review (PIR) of IFRS 3 (which they think should also include the review of the revised IAS 27 *Consolidated and Separate Financial Statements* (2008) that was developed as part of the Business Combinations project).

The Interpretations Committee decided that it should recommend that the IASB should proceed with the amendments to IFRS 10 and IAS 28 (2011). It thinks that the proposed amendments would reduce diversity even if judgement will still be required in some cases to determine whether the assets sold or contributed constitute a business. Although it agrees that the definition of a business should be discussed as part of the PIR of IFRS 3, it thinks that the IASB should not wait for this review and should proceed with the proposed amendments. It thinks that the proposed amendments are still the best way forward in the meantime in order to resolve the conflict, reduce diversity and minimise structuring opportunities.

However, the Interpretations Committee decided to propose changes to the wording of the proposed amendments to IFRS 10 in the light of individual comments received. It also decided to:

a. propose that the IASB should permit early adoption of the amendments to IFRS 10 and IAS 28; and
b. propose a consequential amendment to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* that provides relief from retrospective application of the amendments to IFRS 10 and IAS 28 for first-time adopters.

The staff will bring the Interpretations Committee's recommendations to a future IASB meeting.

The Interpretations Committee also decided that further analysis and discussion is needed before proposing whether the IASB should amend or delete paragraph 31 of IAS 28, which is perceived as conflicting with the proposed amendments to IFRS 10 and IAS 28 (2011). Paragraph 31 of IAS 28 specifies that an investor recognises in full in profit or loss the portion of the gain or loss on a contribution relating to monetary or non-monetary assets received, if they are received in addition to receiving an equity interest in an associate or joint venture. The staff will bring a paper to a future meeting of the Interpretations Committee regarding this issue.

Finally, the Interpretations Committee decided to recommend that the IASB should address the following topics as part of other projects:

a. sales and contributions of assets between an investor and its associate or joint venture in the investor's separate financial statements;
b. sales and contributions of assets between an investor and its joint operation; and

c. review of the principles underlying equity method accounting.

IFRS 11 *Joint Arrangements*—Exposure Draft *Acquisition of an Interest in a Joint Operation*

In December 2012, the IASB published for comment the Exposure Draft ED/2012/7 *Acquisition of an Interest in a Joint Operation*—Proposed amendment to IFRS 11. The comment period ended on 23 April 2013.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the 70 comment letters received on the Exposure Draft with the aim of making a recommendation to the IASB on how to proceed with the amendment.

A large majority of the commentators on the Exposure Draft agreed with the proposal that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles on business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information for business combinations required by those Standards. Only a few commentators consider the application of the relevant principles on business combinations accounting in IFRS 3 and other Standards to be inappropriate when accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business.

Furthermore, a majority of commentators on the Exposure Draft think that further guidance should be given. Additional guidance was requested a number of times on the following issues:

a. accounting for the acquisition of an additional interest in a joint operation without acquiring control; and
b. whether a joint operator recognises the full, partial or no gain or loss on the sale or contribution of assets to a joint operation.

However, the view that further guidance should be given led the commentators to very different conclusions on how to proceed with the proposed amendment:

a. some think that the proposed amendment should not be finalised without this additional guidance in the same project;
b. others think that the proposed amendment should be finalised but ask the IASB to give additional guidance in a separate project; and
c. still others express no opinion on whether additional guidance should be provided in the same or in a separate project.

In the light of the comments received, a majority of the Interpretations Committee members agreed that the amendment should be finalised and that the request for additional guidance should be brought to the IASB's attention. This is because they think that:

a. applying the relevant principles on business combinations accounting in IFRS 3 and other IFRSs is the most appropriate approach to account for the acquisition of an interest in a joint operation in which the activity constitutes a business; and
b. the amendment will significantly reduce diversity in practice on a timely basis.

Most of the Interpretations Committee members who disagreed with the proposal to finalise the amendment did not do so because they viewed applying the relevant principles on business combinations accounting as being inappropriate in accounting for the transactions being addressed. Instead, they think that further research and analysis should be done on the issue to develop more comprehensive and detailed guidance.

The staff will present a summary of the Interpretations Committee's discussions and views on the Exposure Draft and the comments received to the IASB at a future meeting.

IAS 28 *Investments in Associates and Joint Ventures*—Exposure Draft *Equity Method: Share of Other Net Asset Changes*

In November 2012, the IASB published for comment the Exposure Draft ED/2012/3 *Equity Method: Share of Other Net Asset Changes*—Proposed amendments to IAS 28. The comment period ended on 22 March 2013.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the 78 comment letters received on the Exposure Draft.

The IASB proposed in the Exposure Draft that:

a. an investor should recognise, in the investor's equity, its share of the changes in the net assets of the investee that are not recognised in profit or loss or other comprehensive income (OCI) of the investee, and that are not distributions received ('other net asset changes'); and
b. the investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.

A considerable number of respondents disagreed with the IASB's proposals, for various reasons, but there was no dominant view of how to account for the other net asset changes.

The Interpretations Committee observed that, under the equity method, the investor accounts for the share of the other net asset changes in carrying amount of its investment if such changes arise. A change in the carrying amount of the investment caused by the other net asset changes is an increase or decrease in the investor's assets and is not related to contributions from, or distributions to, equity participants. Consequently, the Interpretations Committee noted that, from an investor's perspective, other net asset changes of an investee meet the definition of income and expenses as set out in the *Conceptual Framework*. In addition, the Interpretations Committee noted that the other net asset changes represent performance of the investor's investments.

Furthermore, the Interpretations Committee observed that the other net asset changes of the investee are economically similar to direct acquisitions or disposals of investments and thus they should be accounted for similarly. The Interpretations Committee noted that its original proposal to the IASB in June 2012 was based on such notions. At that time the Interpretations Committee proposed to the IASB that:

a. where an investor's ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for as a partial disposal and recognised in profit or loss of the investor;
b. where an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as an incremental purchase of the investment and recognised at cost; and
c. call option transactions entered into by an investee over its own equity (such as share-based payments) would be excluded from the scope of the proposal.

The Interpretations Committee tentatively decided to resubmit its original proposal to the IASB. If the IASB was not persuaded by the original proposal again, the Interpretations Committee's preference is to recognise all types of other net asset changes in the investor's profit or loss, because in its view they are income and expenses.

The staff will present the Interpretations Committee's recommendation to a future IASB meeting.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*— Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation*

In December 2012, the IASB published for comment the Exposure Draft ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation*—Proposed amendments to IAS 16 and IAS 38. The comment period ended on 2 April 2013.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the 98 comment letters received on the Exposure Draft. The members of the Interpretations Committee expressed mixed views on the proposed amendments. However, they agreed that the focus of the amendments should remain on the principle that the method used for depreciation or amortisation should reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

The Interpretations Committee directed the staff to develop the proposed amendment further to clarify the principle for depreciating assets in paragraph 60 of IAS 16 and the principle for amortising intangible assets in paragraph 97 of IAS 38. This proposal should clarify that a depreciation or amortisation method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. As a consequence, a method whose objective is to reflect the pattern in which the asset's future economic benefits are expected to be generated should be prohibited.

The staff will bring this proposal for an amendment to IAS 16 and IAS 38 to a future 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*.

IAS 19 *Employee Benefits*—Discount rate: regional market issue

The Interpretations Committee was asked to clarify the application of the requirements of IAS 19 *Employee Benefits* (2011) on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency (eg the Eurozone). The issue arose because some think that the assessment of whether there is a deep market in high quality corporate bonds, and the bonds to be included in determining market yields on such bonds, should be made at a country level and not at a currency zone level. Paragraph 83 of IAS 19 states that in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used.

The Interpretations Committee noted that paragraph 83 of IAS 19 states that the currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The Interpretations Committee therefore recommended that the IASB should amend paragraph 83 of IAS 19 through Annual Improvements in order to clarify that in determining the discount rate an entity shall include high quality corporate bonds issued by entities operating in other countries, provided that these bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at the currency level and not at the country level.

The Interpretations Committee requested the staff to ask the IASB whether it wants to clarify which government bonds should be used in a multi-country regional market sharing the same currency. This issue could arise in the absence of a deep market in high quality corporate bonds issued in such a currency.

IAS 1 *Presentation of Financial Statements*—presentation of items of other comprehensive income arising from equity-accounted investments

The Interpretations Committee was asked to clarify the requirements in paragraph 82A of IAS 1 for presenting an entity's share of the other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method. This issue arose because there was confusion about how the wording in the Standard was to be interpreted. In particular, questions were raised about whether the IASB intended in its June 2011 amendments to IAS 1 to require the presentation of the share of the OCI arising from equity method investments separately by nature, or in aggregate as a single line item.

The Interpretations Committee noted that the 2011 amendments to IAS 1 introduced the requirement to classify items of OCI, including the share of OCI of associates and joint ventures accounted for using the equity method, by whether or not the items will be reclassified (recycled) to profit or loss. It was observed that the IASB did not, however, discuss changing the requirement for presenting components of other comprehensive income by nature. Prior to the June 2011 amendments, the share of OCI of associates and joint ventures accounted for using the equity method had been excluded from the requirement for presenting components of other comprehensive income by nature. The Interpretations Committee also noted that it appeared inconsistent to require disaggregation by nature for an entity's share of OCI of equity-accounted investments when its share of the profit and loss of such investments was required to be presented in a single line item.

The Interpretations Committee therefore recommended that the IASB should amend paragraph 82A of IAS 1 to clarify that entities shall present the share of the OCI of associates and joint ventures accounted for using the equity method in aggregate as a single line item. This share should be classified between whether those items will or will not be subsequently reclassified to profit or loss. In addition, the Interpretations Committee recommended amending the Implementation Guidance in IAS 1 to reflect that change.

IFRS 7 *Financial Instruments: Disclosures*: applicability of the amendments to IFRS 7 to condensed interim financial statements

The Interpretations Committee was asked to clarify the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* issued in December 2011 ('Amendments to IFRS 7') to condensed interim financial statements. In particular, it was asked to clarify the meaning of "interim periods within those annual periods" as used in paragraph 44R of IFRS 7. There was uncertainty about whether the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 should be included in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. If they are, there was uncertainty about whether these should be presented in every set of condensed interim financial statements or only in those in the first year in which the disclosure requirements are effective. IAS 34 was not changed as a consequence of the amendments to IFRS 7.

The Interpretations Committee noted that IAS 34 was not consequentially amended upon issue of the *Amendments to IFRS 7* and that when the IASB wants to explicitly require an entity to provide a disclosure in condensed interim financial statements in all circumstances it amends IAS 34. Consequently the Interpretations Committee recommended that the IASB should propose an amendment to IFRS 7 to clarify that the additional disclosure required by the *Amendments to IFRS 7* is not required in condensed interim financial statements for all interim periods, either in the first year of application of the amendments or in any subsequent year, unless its inclusion would be required in accordance with the requirements of IAS 34.

Interpretations Committee's work in progress

IAS 40 *Investment Property*—Accounting for a structure that appears to lack the physical characteristics of a building

The Interpretations Committee discussed a request to clarify whether telecommunication towers should be accounted for as property, plant and equipment, in accordance with IAS 16 *Property, Plant and Equipment*, or as an investment property, in accordance with IAS 40 *Investment Property*. The request describes a circumstance in which an entity owns telecommunication towers and leases spaces in the towers to telecommunication operators to which the operators attach their own devices. The entity provides some basic services to the telecommunication operators such as maintenance services. The leasing of spaces in such towers is an emerging business model. In this request, the submitter is specifically seeking a clarification on:

a. whether a telecommunication tower should be viewed as a 'building' and thus as 'property', as described in paragraph 5 of IAS 40; and
b. how the service element in the leasing agreement and business model of the entity should be taken into consideration when analysing this issue.

In the discussions in September 2012 and January 2013, the Interpretations Committee noted that the telecommunication tower in the submission has some of the characteristics of investment property, in that spaces in the tower are let to tenants to earn rentals. However, the Interpretations Committee expressed concern as follows:

a. it is questionable whether the tower qualifies as a 'building' because it lacks the features usually associated with a building, such as walls, floors and a roof; and
b. the same question could arise about other structures, such as gas storage tanks and advertising billboards.

It observed that there is merit in exploring approaches to amending IAS 40 to help the IASB to decide whether the scope of IAS 40 should be expanded to also include a structure that lacks the physical characteristics associated with a building. This would be in order to accommodate emerging business models such as leasing of spaces in telecommunication towers.

However, the Interpretations Committee also noted that under the new proposed lease accounting model, the guidance for deciding (a) how a lessor accounts for a lease; and (b) how a lessee recognises lease-related expenses in profit or loss depends, to a large extent, on whether the lease is a lease of property. In this regard, the Interpretations Committee was concerned about whether the meaning of the term 'property' should be consistent with that under the new proposed lease accounting model.

Consequently, the Interpretations Committee directed the staff to inform the IASB of the views expressed in the meetings of the Interpretations Committee, and to seek the IASB's views as to what extent the IASB thinks the definition of the term 'property' in IAS 40 should be aligned with that in the new proposed lease accounting model.

In this meeting, the staff provided the Interpretations Committee with updates on the interaction between this issue and the new proposed lease accounting model in the *Leases* Exposure Draft published in May 2013, and presented a proposed approach to amending the definition of the term 'investment property' in IAS 40. In the discussions, the Interpretations Committee expressed general support for broadening the scope of IAS 40 to also include a structure such as a telecommunication tower, but to do so by focusing on the way the asset is used rather than by focusing on the physical characteristics of the structure or on whether it is fixed to land.

Notwithstanding the above, the Interpretations Committee noted that the IASB tentatively decided to use the same definition of 'property' in the *Leases* Exposure Draft as that in the existing definition of 'investment property' in IAS 40. Because of the linkage between IAS 40 and the proposed lease accounting model, the Interpretations Committee observed that it is difficult for the Interpretations Committee to recommend an approach to amending the definition of 'investment property' in IAS 40 only within the context of IAS 40. The Interpretations Committee noted that this issue should be analysed within the context of both IAS 40 and the Leases project.

Accordingly, the Interpretations Committee decided to report back to the IASB the views and concerns expressed in this meeting so that the IASB can consider this issue when finalising the Leases Standard, and to ask for the IASB's guidance on whether the Interpretations Committee should do any further work on this topic.

Interpretations Committee's other work

IAS 7 *Statement of Cash Flows*—Classification of expenditures in the statement of cash flows

At the March 2013 meeting the Interpretations Committee recommended to the IASB that it should delete the guidance in paragraph 16 of IAS 7, which makes explicit that "only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities". This amendment was proposed by the Interpretations Committee because it observed that some had read the guidance in paragraph 16 of IAS 7 as giving precedence to the classification of cash flows consistently with the classification of the related or underlying item in the statement of financial position.

The staff informed the Interpretations Committee that at the April 2013 meeting the IASB discussed the proposal made by the Interpretations Committee. At this meeting the IASB decided not to remove the guidance from paragraph 16 of IAS 7 because it noted that this guidance has potentially reduced diversity in practice in the classification of cash flows relating to exploration and evaluation activities.

During its deliberations in April 2013, the IASB observed that the guidance in paragraph 16 of IAS 7 had been introduced as part of the Annual Improvements project in 2009 to clarify the classification of expenditures for exploration and evaluation activities. IFRS 6 *Exploration for and Evaluation of Mineral Resources* permits such expenditures to be recognised as either an asset or an expense and some entities classified such expenditures as cash flows from operating activities, but others classified them as investing activities.

Interpretations Committee work in progress update

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

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