

IFRIC Update

From the IFRS Interpretations Committee



July 2014

Welcome to the IFRIC Update

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

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

The Interpretations Committee met in London on **15–16 July 2014**, when it discussed:

- **items on the current agenda:**
 - IFRS 11 *Joint Arrangements*—analysis of implementation issues
 - IAS 12 *Income Taxes*—measurement of current income tax on uncertain tax position
 - IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*—availability of refunds from a defined benefit plan managed by an independent trustee
- **issue recommended for Annual Improvements:**
 - IAS 19 *Employee Benefits*—remeasurement at a plan amendment or curtailment
- **Interpretations Committee agenda decisions:**
 - IFRS 2 *Share-based Payment*—price difference between the institutional offer price and the retail offer price for shares in an initial public offering
 - IAS 1 *Presentation of Financial Statements*—disclosure requirements relating to assessment of going concern
 - IAS 12 *Income Taxes*—recognition of current income tax on uncertain tax position
 - IAS 12 *Income Taxes*—recognition of deferred tax for a single asset in a corporate wrapper
 - IAS 34 *Interim Financial Reporting*—condensed statement of cash flows
 - IAS 39 *Financial Instruments: Recognition and Measurement*—classification of a hybrid financial instrument by the holder
- **Interpretations Committee tentative agenda decisions:**
 - IFRS 12 *Disclosure of Interests in Other Entities*—disclosure of summarised financial information about material joint ventures and associates
 - IAS 16 *Property, Plant and Equipment* and IAS 2 *Inventories*—'Core inventories'
 - IAS 16 *Property, Plant and Equipment*—accounting for proceeds and costs of testing on PPE
 - IAS 21 *The Effect of Changes in Foreign Exchange Rates*—foreign exchange restrictions and hyperinflation
 - IAS 39 *Financial Instruments: Recognition and Measurement*—holder's accounting for exchange of equity instruments
- **other matters:**
 - Interpretations Committee work in progress update

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Future IFRS Interpretations Committee meetings

The next meetings are:
16 and 17 September 2014
11 and 12 November 2014
27 and 28 January 2015
24 and 25 March 2015
12 and 13 May 2015
14 and 15 July 2015
8 and 9 September 2015
10 and 11 November 2015

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB [website](http://www.iasb.org) before the meeting. Further information about the activities of the IFRS Interpretations Committee can be found [here](http://www.iasb.org). Instructions for submitting requests for Interpretations are given on the IASB website [here](http://www.iasb.org).

Archive of IFRS Interpretations Committee Newsletter

For archived copies of past issues of IFRIC Update [click here](http://www.iasb.org).

Items on the current agenda

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

IFRS 11 *Joint Arrangements*—analysis of implementation issues (Agenda Paper 2)

Feedback from informal consultations with IASB members (Agenda Paper 2A)

The Interpretations Committee discussed feedback from the informal consultations with IASB members on the issue of how to prepare the (separate) financial statements of a joint operation that is a separate vehicle. The Interpretations Committee noted that the feedback is consistent with its view that:

- (a) IFRS 11 applies only to the accounting by the joint operators and not to the accounting by a separate vehicle that is a joint operation;
- (b) the financial statements of the separate vehicle would therefore be prepared in accordance with applicable Standards;
- (c) reporting the same financial statement items in the (separate) financial statements of both the joint operators and the joint operation could be appropriate and would not be in conflict with the Standards; however
- (d) it will be important to reflect the effect of the joint operators' rights and obligations in the accounting for the joint operation's assets and liabilities.

Consideration of a specific type of joint arrangement structure (Agenda Paper 2B)

The Interpretations Committee discussed the classification of a specific type of joint arrangement structure, established for a bespoke construction project for delivery of a construction service to a single customer. The Interpretations Committee noted that the features in the example included in this paper:

- (a) would not indicate that the parties to the joint arrangement have, in substance, direct rights to the assets of the joint arrangement; but
- (b) could indicate that the parties to the joint arrangement have, in substance, direct obligations for the liabilities of the joint arrangement, depending on the nature of the parties' obligations.

Consequently, the Interpretations Committee noted that the joint arrangement having the features in the example would not be classified as a joint operation. This is because in order to classify a joint arrangement as a joint operation, IFRS 11 requires that the parties to the joint arrangement have, in substance, both direct rights to the assets and direct obligations for the liabilities relating to the joint arrangement.

The Interpretations Committee also noted that two joint arrangements with similar features can be classified differently depending on whether or not the joint arrangement is structured through a separate vehicle (in circumstances in which the legal form confers separation between the parties and the separate vehicle). This is because:

- (a) in the case of a joint arrangement that is structured through a separate vehicle, the legal form of the vehicle must be overcome by other contractual arrangements or specific 'other facts and circumstances' in order for the joint arrangement to be classified as a joint operation; but
- (b) in the case of a joint arrangement that is not structured through a separate vehicle, it is automatically classified as a joint operation.

The Interpretations Committee noted that this reflects the approach adopted in IFRS 11, which places importance on:

- (a) reflecting the rights and obligations of the parties to the joint arrangement; and
- (b) the presence of a separate vehicle affecting those rights and obligations.

The Interpretations Committee noted that the assessment of the classification of a joint arrangement depends on specific contractual terms and conditions and requires a full analysis of the features of the joint arrangement structure.

Accounting treatment when the joint operators' share of output purchased differs from their share of ownership interest in the joint operation (Agenda Paper 2C)

The Interpretations Committee discussed how the joint operators should recognise assets, liabilities,

revenues and expenses in relation to their interests in the joint operation. The Interpretations Committee discussed the issue by considering a circumstance in which the joint arrangement is classified as a joint operation because the assessment of 'other facts and circumstances' shows that:

- (a) the parties to the joint arrangement purchase all output from the joint arrangement; and
- (b) this fact, in addition to other facts, indicates that the parties have rights to the assets and obligations for the liabilities relating to the joint arrangement.

In this circumstance, the joint operators would not recognise any amount in relation to 'share of the revenue from the sale of the output by the joint operation' (paragraph 20(d) of IFRS 11). This is because the share of the revenue from the sale of the output to the joint operators by the joint operation would be eliminated against the share of the output purchased by the joint operators.

The Interpretations Committee discussed the accounting by the joint operators when the joint operators' share of the output purchased differs from their ownership interests in the joint operation. The Interpretations Committee noted that it is important to understand why the share of the output purchased differs from the ownership interests in the joint operation. The Interpretations Committee also noted that the accounting for the difference arising between the share of the output purchased and the ownership interest can vary depending on the details of the contractual agreement. Judgement will therefore be needed to determine the appropriate accounting.

Consideration of next steps (Agenda Paper 2D)

The Interpretations Committee considered the next steps with regard to various issues that it had identified at its November 2013 meeting. The Interpretations Committee noted that its discussion on joint arrangements in its meetings from November 2013 would help stakeholders to address implementation issues relating to IFRS 11. The Interpretations Committee therefore decided to discuss, at its next meeting, how it can best document its conclusions and observations from this work so that it will be helpful for stakeholders.

IAS 12 *Income Taxes*—measurement of current income tax on uncertain tax position (Agenda Papers 3 and 3A)

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

The Interpretations Committee discussed the issue in January, May and July 2014.

At this meeting the Interpretations Committee decided that it should consider separately the question of recognition and the question of measurement of assets and liabilities in the situation in which tax position is uncertain.

The results of the Interpretations Committee discussions on the question of recognition of assets and liabilities in the situation in which tax position is uncertain are included as an agenda decision below.

The Interpretations Committee noted that one of the principal issues in respect of uncertain tax positions is how to measure related assets and liabilities. The Interpretations Committee asked the staff to prepare a paper for discussion at a future meeting that analyses the question of how to measure assets and liabilities in the situation in which tax position is uncertain. In particular, the Interpretations Committee asked the staff to analyse how detection risk and probability should be reflected in the measurement of tax assets and liabilities in such situations.

IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*—availability of refunds from a defined benefit plan managed by an independent trustee (Agenda Paper 6)

The Interpretations Committee received a request to clarify the application of the requirements of IFRIC 14

regarding the availability of refunds from a defined benefit plan managed by an independent trustee.

The Interpretations Committee discussed this issue at its May 2014 meeting. Specifically, it discussed a question about whether an employer has an unconditional right to a refund of surplus in the following circumstances:

- (a) the trustee acts on behalf of the plan's members and is independent from the employer;
- (b) the trustee has discretion in the event of a surplus arising in the plan to make alternative use of that surplus by augmenting the benefits payable to members or by winding up the plan through purchase of annuities, or both; and
- (c) the trustee has not exercised such a power at the end of the reporting date.

The issue discussed related to a plan that is closed to the accrual of future benefits, so that there will be no future service costs. Consequently, no economic benefit is available through a reduction in future contributions.

At its May 2014 meeting, the Interpretations Committee noted that the fact that an existing surplus at the balance sheet date could be decreased or extinguished by uncertain future events that are beyond the control of the entity is not relevant to the existence of the right to a refund but it also noted that it would affect the measurement of the asset recognised.

At this meeting, the Interpretations Committee considered the informal feedback received from the IASB members and discussed this matter further. The Interpretations Committee noted the difficulty associated with assessing the consequences of the trustee's future actions and its effect on the entity's ability to estimate reliably the amount to be received by the entity. Consequently a majority of the Interpretations Committee members observed that no asset should be recognised in this circumstance. However, some Interpretations Committee members were concerned about the consequences that this conclusion could have on the accounting for a minimum funding requirement and the consistency of this conclusion with the recognition and measurement requirements of IAS 19.

Consequently, the Interpretations Committee requested the staff to perform further analyses on the interaction of this tentative decision with the requirement to recognise an additional liability when a minimum funding requirement applies and the relationship with the general requirements of IAS 19.

The staff will present these additional analyses with a new proposal at a future meeting.

Issue recommended 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*—remeasurement at a plan amendment or curtailment (Agenda Paper 5)

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

The Interpretations Committee discussed this issue at its May 2014 meeting. At that meeting it tentatively agreed to develop an amendment to require an entity to:

- (a) take account of the remeasurement of the net DBL at the event date when determining net interest for the post-event period; and
- (b) use the updated actuarial assumptions for the calculation of current service cost and net interest for

the post-event period.

The Interpretations Committee thought that this would result in more relevant information and greater consistency between IAS 19 and paragraph B9 of IAS 34 *Interim Financial Reporting*, if an entity remeasures the net DBL during a period because of a significant event (plan amendment, curtailment or settlement) or a significant market fluctuation.

At this meeting, the Interpretations Committee reaffirmed that the benefits expected from the proposed amendment are clear: it would provide more relevant information and enhance comparability and understandability. It noted that additional costs resulting from the proposal would not outweigh the expected benefits, because of the existing requirement to remeasure the net DBL in IAS 19 and IAS 34 when significant events or changes occur.

The Interpretations Committee noted that the proposal would not change how frequently an entity should remeasure the net DBL during a period. The frequency of remeasurement is determined in accordance with the existing guidance such as paragraphs 58 and 99 of IAS 19 and paragraph B9 of IAS 34. This proposal intends to clarify that an entity should determine current service cost and net interest for the remaining portion of the reporting period after a remeasurement, using the updated assumptions and taking account of significant changes in the net DBL.

The Interpretations Committee noted that the requirement to remeasure the net DBL is determined on a plan-by-plan basis (not a country basis or an overall entity basis). The Interpretations Committee also noted concerns with the wording in paragraphs BC58–BC64 of IAS 19 and asked that the proposed amendment should address these points.

The Interpretations Committee concluded that the proposed amendment to IAS 19 meets the criteria for Annual Improvements. It requested the staff to revise its proposed amendment to IAS 19 to clarify the intended requirements and to reflect the points raised during this meeting.

Interpretations Committee agenda decisions

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

IFRS 2 *Share-based Payment*—price difference between the institutional offer price and the retail offer price for shares in an initial public offering (Agenda Paper 10)

The Interpretations Committee received a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO).

The submitter refers to the fact that the final retail price could be different from the institutional price because of:

- (a) an unintentional difference arising from the book-building process; or
- (b) an intentional difference arising from a discount given to retail investors by the issuer of the equity instruments as indicated in the prospectus.

The submitter described a situation in which the issuer needs to fulfil a minimum number of shareholders to qualify for a listing under the stock exchange's regulations in its jurisdiction. In achieving this minimum number the issuer may offer shares to retail investors at a discount from the price at which shares are sold to institutional investors.

The submitter asked the Interpretations Committee to clarify whether the transaction should be analysed within the scope of IFRS 2.

The Interpretations Committee considered whether the transaction analysed involves the receipt of identifiable or unidentifiable goods or services from the retail shareholder group and, therefore, whether it is a share-based payment transaction within the scope of IFRS 2. Paragraph 13A of IFRS 2 requires that if consideration received by the entity appears to be less than the fair value of the equity instruments granted

or liability incurred, then this situation typically indicates that other consideration (ie unidentified goods or services) has been (or will be) received by the entity. The Interpretations Committee noted that applying this guidance requires judgement and consideration of the specific facts and circumstances of each transaction.

In the circumstances underlying the submission, the Interpretations Committee observed that the entity issues shares at different prices to two different groups of investors (retail and institutional) for the purpose of raising funds, and that the difference, if any, between the retail price and the institutional price of the shares in the fact pattern appears to relate to the existence of different markets (one that is accessible to retail investors only and another one accessible to institutional investors only) instead of the receipt of additional goods or services, because the only relationship between the entity and the parties to whom the shares are issued is that of investee-investors.

Consequently, the Interpretations Committee observed that the guidance in IFRS 2 is not applicable because there is no share-based payment transaction.

The Interpretations Committee also noted that the situation considered is different to the issue on which it had issued an agenda decision in March 2013 ('Accounting for reverse acquisitions that do not constitute a business'). In that fact pattern the Interpretations Committee observed that the accounting acquirer received a stock exchange listing from the listed non-operating entity, which the listed non-operating entity had previously possessed and was able to transfer to the accounting acquirer. In that agenda decision the Interpretations Committee concluded that any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer.

The Interpretations Committee observed that in the fact pattern considered in this submission the listing is not received from the institutional or retail shareholders. It further observed that the fair value of the shares issued to retail investors is different from the fair value of the shares issued to institutional investors. The fact that a regulatory requirement is met by virtue of issuing the retail shares does not indicate that unidentifiable goods or services were received from the purchasers.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, 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.

IAS 1 *Presentation of Financial Statements*—disclosure requirements relating to assessment of going concern (Agenda Papers 7, 7A and 7B)

The Interpretations Committee received a submission requesting clarification about the disclosures required in relation to material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The Interpretations Committee proposed to the IASB that it should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue. At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments and removed this topic from its agenda. Consequently, the Interpretations Committee removed the topic from its agenda.

The staff reported the results of the IASB's discussion to the Interpretations Committee. When considering this feedback about the IASB's decision, the Interpretations Committee discussed a situation in which management of an entity has considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However, reaching the conclusion that there was no material uncertainty involved significant judgement.

The Interpretations Committee observed that paragraph 122 of IAS 1 requires disclosure of the judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The Interpretations Committee also observed that in the circumstance discussed, the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

IAS 12 *Income Taxes*—recognition of current income tax on uncertain tax position¹ (Agenda Papers 3 and 3A)

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

The Interpretations Committee noted that:

- (a) paragraph 12 of IAS 12 provides guidance on the recognition of current tax assets and current tax liabilities. In particular, it states that:
 - (i) current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability; and
 - (ii) if the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.
- (b) in the specific fact pattern described in the submission, an asset is recognised if the amount of cash paid (which is a certain amount) exceeds the amount of tax expected to be due (which is an uncertain amount).
- (c) the timing of payment should not affect the amount of current tax expense recognised.

The Interpretations Committee understood that the reference to IAS 37 in paragraph 88 of IAS 12 in respect of tax-related contingent liabilities and contingent assets may have been understood by some to mean that IAS 37 applied to the recognition of such items. However, the Interpretations Committee noted that paragraph 88 of IAS 12 provides guidance only on disclosures required for such items, and that IAS 12, not IAS 37, provides the relevant guidance on recognition, as described above.

On the basis of this analysis, the Interpretations Committee noted that sufficient guidance exists. Consequently, the Interpretations Committee concluded that the agenda criteria are not met and decided to remove from its agenda the issue of how current income tax, the amount of which is uncertain, is recognised.

IAS 12 *Income Taxes*—recognition of deferred tax for a single asset in a corporate wrapper (Agenda Paper 11)

The Interpretations Committee received a request to clarify the accounting for deferred tax in the consolidated financial statements of the parent, when a subsidiary has only one asset within it (the asset inside) and the parent expects to recover the carrying amount of the asset inside by selling the shares in the subsidiary (the shares).

The Interpretations Committee noted that:

- (a) paragraph 11 of IAS 12 requires the entity to determine temporary differences in the consolidated financial statements by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. In the case of an asset or a liability of a subsidiary that files separate tax returns, this is the amount that will be taxable or deductible on the recovery (settlement) of the asset (liability) in the tax returns of the subsidiary.
- (b) the requirement in paragraph 11 of IAS 12 is complemented by the requirement in paragraph 38 of IAS 12 to determine the temporary difference related to the shares held by the parent in the subsidiary by comparing the parent's share of the net assets of the subsidiary in the consolidated financial statements, including the carrying amount of goodwill, with the tax base of the shares for purposes of the parent's tax returns.

The Interpretations Committee also noted that these paragraphs require a parent to recognise both the deferred tax related to the asset inside and the deferred tax related to the shares, if:

¹ The question of measurement of assets and liabilities in the situation in which the tax position is uncertain is included as an item on the current agenda above.

- (a) tax law attributes separate tax bases to the asset inside and to the shares;
- (b) in the case of deferred tax assets, the related deductible temporary differences can be utilised as specified in paragraphs 24–31 of IAS 12; and
- (c) no specific exceptions in IAS 12 apply.

The Interpretations Committee noted that several concerns were raised with respect to the current requirements in IAS 12. However, analysing and assessing these concerns would require a broader project than the Interpretations Committee could perform on behalf of the IASB.

Consequently, the Interpretations Committee decided not to take the issue onto its agenda but instead to recommend to the IASB that it should analyse and assess these concerns in its research project on Income Taxes.

IAS 34 *Interim Financial Reporting*—condensed statement of cash flows (Agenda Paper 9)

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

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

The Interpretations Committee noted that a condensed statement of cash flows is one of the primary statements that is included as part of an interim financial report as prescribed by paragraph 8 of IAS 34. Paragraph 10 of IAS 34 specifies that each of the condensed statements shall include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements. Paragraph 10 of IAS 34 also requires additional line items to be included if their omission would make the interim financial statements misleading.

The Interpretations Committee also noted that in an interim financial report:

- (a) an entity shall include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report (see paragraph 15 of IAS 34).
- (b) the overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period (see paragraph 25 of IAS 34). The Interpretations Committee further noted that in accordance with paragraph OB20 of the IASB's *Conceptual Framework*, information about cash flows helps users to understand a reporting entity's operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance.

In this respect, the Interpretations Committee noted that to meet the requirements in paragraphs 10, 15 and 25 of IAS 34 a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows. It also noted that it did not expect that a three-line presentation alone would meet the requirements in IAS 34.

On the basis of this analysis, the Interpretations Committee determined that an Interpretation or an amendment to a Standard was not necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement*—classification of a hybrid financial instrument by the holder (Agenda Papers 8 and 8A)

The Interpretations Committee received a request to clarify the classification by the holder of a hybrid financial instrument with a revolving maturity option, an early settlement option and a suspension of interest payments option (all at the option of the issuer). Specifically, the submitter raised the question of whether the host of such a financial instrument should be classified by the holder as equity, or as a debt instrument under IAS 39.

On the basis of the responses to the outreach request, the Interpretations Committee observed that the issue is not widespread. The Interpretations Committee also noted that the financial instrument described in the submission is specific and it would not be appropriate to provide guidance on this particular issue.

The Interpretations Committee considered that its agenda criteria are not met. Consequently, 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 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 November 2014. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to email those concerns by 29 September 2014 to ifric@ifrs.org. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.

IFRS 12 *Disclosure of Interests in Other Entities*—disclosure of summarised financial information about material joint ventures and associates (Agenda Paper 13)

The Interpretations Committee received a request to clarify the requirement to disclose summary financial information on material joint ventures and associates in paragraph 21(b)(ii) of IFRS 12 and its interaction with the aggregation principle in paragraphs 4 and B2-B6 of IFRS 12.

The submitter asserts that there are two ways to interpret the application of those paragraphs. Either the information required in paragraph 21(b)(ii) of IFRS 12 can be disclosed in aggregate for all material joint ventures or such information should be disclosed individually for each material joint venture or associate.

The submitter also asked the Interpretations Committee to clarify the requirements in paragraph 21(b)(ii) of IFRS 12 when the information relates to a listed joint venture or associate, and local regulatory requirements would prevent the investor from disclosing such information until the joint venture or associate has released its own financial statements. Would the investor be excused from disclosing the information?

The Interpretations Committee noted that it expected the requirement in paragraph 21(b)(ii) of IFRS 12 to lead to the disclosure of summarised information on an individual basis for each joint venture or associate that is material to the reporting entity. The Committee observed that this reflects the IASB's intentions as described in paragraph BC50 of IFRS 12's Basis for Conclusions.

The Interpretations Committee also noted that there is no provision in IFRS 12 that permits non-disclosure of the information required in paragraph 21(b)(ii) of IFRS 12.

The Interpretations Committee analysed the results of the outreach request performed by the staff. This outreach indicated that there was no significant diversity observed in practice on this issue.

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

IAS 16 *Property, Plant and Equipment* and IAS 2 *Inventories*—'Core inventories' (Agenda Papers 4, 4A and 4B)

The Interpretations Committee received a request to clarify the accounting for 'core inventories'. The submitter defined core inventories as a minimum amount of material that:

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

The issue is whether core inventories should be accounted for under IAS 2 or IAS 16.

The Interpretations Committee discussed the issue at the March 2014 meeting and tentatively decided to develop an interpretation. The Interpretations Committee further directed the staff to define the scope of what is considered to be core inventories and to analyse the applicability of the concept to a range of industries.

At the July 2014 meeting, the Interpretations Committee discussed the feedback received from the informal consultations with IASB members, the proposed scope of core inventories and the staff analysis of the applicability of the issue to a range of industries. In its redeliberations, the Interpretations Committee observed that the fact patterns in different industries can vary significantly. The Interpretations Committee further noted that, although the diversity in practice was noted between industries, there was no, or only limited, diversity in practice within the industries for which the issue is significant.

In the light of the additional analysis of the different fact patterns that arise in practice, the Interpretations Committee [decided] not to continue with the development of an interpretation, and to remove this item from its agenda.

IAS 16 *Property, Plant and Equipment*—accounting for proceeds and costs of testing on PPE (Agenda Paper 14)

The Interpretations Committee received a request to clarify accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment (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. The submitter also expressed concern about the lack of disclosure requirements about the accounting for the net proceeds from selling items produced and the costs of testing.

The Interpretations Committee noted that paragraph 17 of IAS 16 states that directly attributable costs include the costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (necessary for it to be capable of operating in the manner intended by management). Consequently, the Interpretations Committee considered that the amount by which net proceeds received exceed the costs of testing would be recognised in profit and loss and not against the cost of the asset.

The Interpretations Committee considered that an additional disclosure requirement is not necessary for the net proceeds and the costs of testing. If the net proceeds and the costs of testing are material, paragraph 17(c) of IAS 1 *Presentation of Financial Statements* would require additional disclosure if that information is necessary to enable users to understand the impact on the financial statements.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, IAS 16 and IAS 1 contain sufficient guidance and neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add the issue to its agenda.

IAS 21 *The Effect of Changes in Foreign Exchange Rates*—foreign exchange restrictions and hyperinflation (Agenda Paper 16)

The Interpretations Committee received a request for guidance on the translation and consolidation of the results and financial position of foreign operations in Venezuela. The issue arises because of strict foreign exchange controls in Venezuela. This includes the existence of several official exchange rates that may not fully reflect the local rate of hyperinflation and of restrictions over the amount of local currency that can be exchanged.

Concerns were raised that using an official exchange rate to translate an entity's net investment in a foreign operation in Venezuela appeared not to appropriately reflect the financial performance and position of the foreign operation in the group's consolidated financial statements.

The Interpretations Committee identified two primary accounting issues:

- (a) which rate should be used to translate the entity's net investment in the foreign operation when there are multiple exchange rates?

- (b) what rate should be used when there is a longer-term lack of exchangeability?

With respect to the first issue, the Interpretations Committee observed very little diversity in practice regarding the principle to use when determining which of multiple rates should be used to translate an entity's net investment in a foreign operation. The Interpretations Committee noted that predominant practice is to apply by extension the principle in paragraph 26 of IAS 21, which gives guidance on which exchange rate to use when reporting foreign currency transactions in the functional currency when several exchange rates are available. Hence, despite the widespread applicability, the Interpretations Committee [decided] not to take the first issue onto its agenda.

With respect to the second issue, the Interpretations Committee observed that this issue is widespread and has led to some diversity in practice. A longer-term lack of exchangeability is not addressed by the requirements in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations. However, the Interpretations Committee thought that addressing this issue is a broader-scope project than it could address (because of related cross-cutting issues). Accordingly the Interpretations Committee [decided] not to take this issue onto its agenda.

However, the Interpretations Committee noted that several existing disclosure requirements in IFRS would apply when the impact of foreign exchange controls is material to understanding the entity's financial performance and position. Relevant disclosure requirements in IFRS include:

- (a) disclosure of significant accounting policies and significant judgements in applying those policies (paragraphs 117–124 of IAS 1);
- (b) disclosure of sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include a sensitivity analysis (paragraphs 125–133 of IAS 1); and
- (c) disclosure about the nature and extent of significant restrictions on an entity's ability to access or use assets and settle the liabilities of the group, or its joint ventures or associates (paragraphs 10, 13, 20 and 22 of IFRS 12).

IAS 39 *Financial Instruments: Recognition and Measurement*—holder's accounting for exchange of equity instruments (Agenda Paper 15)

The Interpretations Committee received a request about the accounting by the holder of equity instruments in the circumstance in which the issuer exchanges its original equity instruments for new equity instruments in the same entity but with different terms. Specifically, this transaction involved equity instruments issued by a central bank and the exchange of instruments was imposed on the holders as a consequence of a change in legislation.

The submitter asked whether the holders of the equity instruments should account for this exchange under IAS 39 as a derecognition of the original equity instruments and the recognition of new instruments.

The Interpretations Committee observed that:

- (a) because of the unique nature of the transaction, the issue is not widespread; and
- (b) the submitter had not identified significant diversity in accounting for this transaction among the holders of the equity instruments in question.

For these reasons, the Interpretations Committee [decided] not to add this issue to its agenda.

Other matters

Interpretations Committee work in progress update (Agenda Papers 12 and 12A)

The Interpretations Committee received a report on three new issues and two ongoing issues for consideration at future meetings. The report also included two issues that are on hold and that will be considered again at future meetings.

The Interpretations Committee also enquired about an issue relating to accounting for variable payments for the separate acquisition of property, plant and equipment and intangible assets outside a business

combination. This issue has been discussed by the Interpretations Committee in past meetings and it made a recommendation to the IASB that amendments should be made to IFRS to provide guidance on the accounting for such items. The Interpretations Committee's recommendations were presented to the IASB at its July 2013 meeting. At that meeting the IASB noted that the accounting for variable payments is a topic that was discussed as part of the Leases and Conceptual Framework projects. The IASB decided that it would reconsider the accounting for variable payments for the acquisition of tangible and intangible assets after the proposals in the Exposure Draft *Leases* (published in May 2013) have been redeliberated. The Interpretations Committee was informed that this project will therefore be revisited once these redeliberations are complete.

Except for these issues, all requests received and considered by the staff were discussed at this meeting.

[Go to the top of this page](#)

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