IFRS™

STAFF PAPER

November 2013

IFRS Interpretations Committee Meeting

Project	IFRS Interpretations Committee Work In Progress		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Objective of this paper

1. The objective of this paper is to update the IFRS Interpretations Committee (the Interpretations Committee) on the current status of issues that are in progress but that are not to be discussed by the Interpretations Committee in the November 2013 meeting.
2. We have split the analysis of the work in progress into three broad categories:
   (a) **ongoing issues:** submissions that the Interpretations Committee is actively working on but the issue was not presented in this meeting;
   (b) **issues on hold:** submissions that the Interpretations Committee will discuss again at a future meeting but for some reason has decided to temporarily suspend work on the issue, for example, because there is an IASB project that might have a knock-on effect on the Interpretations Committee's discussions; and
   (c) **new issues:** submissions that have been received but have not yet been presented to the Interpretations Committee.
3. Submissions received since the September meeting relating to new issues are attached as appendices to this paper for information purposes only.

Ongoing issues

4. The following table summarises the work in progress that will be discussed at a future meeting:

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 5-3	*Non-current assets held for sale and discontinued operations:* Write-down of a disposal group	At its July 2012 meeting, the Interpretations Committee decided to revisit the two issues related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This issue is one of the two issues. The issue relates to write-down of a disposal group to the lower of its carrying amount and fair value less costs to sell ('FVLCTS') in accordance with IFRS 5 when the write-down exceeds the carrying amount of non-current assets in a disposal group.	At its September 2013 meeting, the Interpretations Committee could not reach a consensus on this issue. Some members observed that the requirements in paragraph 15 of IFRS 5 (ie to measure a disposal group at the lower of its carrying amount and fair value less costs to sell) sets out the principle. They also noted that the requirements in paragraph 23 of IFRS 5 (ie to allocate an impairment loss to the non-current assets in a disposal group that are within the scope of the measurement requirements of IFRS 5) provides guidance on applying the principle. Other members, however, thought that the requirements of paragraph 23 of IFRS 5 contradict the requirements of paragraph 15. The Interpretations Committee also noted that there are differing views among its members about whether the disposal group should be viewed as one single asset or one single liability instead of as a group of assets and liabilities (ie 'unit of account' issue). In the light of these differing views among its members, the Interpretations Committee asked the staff to: a. look at the issue along with other IFRS 5 issues that the IASB had previously considered but not addressed; b. consult current and former IASB staff and members who were involved with the development of IFRS 5; and c. analyse the issue discussed using more complex fact patterns that illustrate further the interaction between non-current assets, current assets and liabilities in the disposal group.

IFRS 5-4	*Non-current assets held for sale and discontinued operations: Reversal of impairment losses relating to goodwill recognised for a disposal group*	At its July 2012 meeting, the Interpretations Committee decided to revisit the two issues related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This issue is one of the two issues. The issue relates to a situation in which an impairment loss recorded for a disposal group that is classified as held for sale subsequently reverses. Specifically, the question focuses on whether an impairment loss relating to goodwill can be reversed.	At its September 2013 meeting, the Interpretations Committee had preliminary discussion on the this issue but identified differing views among the Interpretations Committee members. The Interpretations Committee asked that this issue be considered with the preceding item (IFRS 5-3) and with any other IFRS 5 issues that the IASB have considered but not addressed.
IAS 12-14	*Income Taxes:* Recognition of deferred tax for unrealised losses.	The Interpretations Committee received a request to clarify the accounting for deferred tax assets when an entity: • has deductible temporary differences relating to unrealised losses on debt instruments that are classified as available-for-sale financials assets and measured at fair value; • is not allowed to deduct unrealised losses for tax purposes; • has the ability and intention to hold the debt instruments until the unrealised loss reverses; and • has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise those deductible temporary differences.	At its meeting in May 2013, the Interpretations Committee decided to recommend to the IASB that it should amend IAS 12 to clarify that deferred tax assets for unrealised losses on debt instruments are recognised, unless recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses. The Interpretations Committee understood that its recommendation would not always achieve an outcome for deferred tax accounting that would be consistent with the one that was recently discussed and proposed by the FASB. It expects that this will be the case if recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses. The Interpretations Committee noted that: • its recommended amendment to IAS 12; and • an amendment that achieves an outcome for deferred tax accounting that would be consistent with the one that was recently discussed and proposed by the FASB would be significantly different. The Interpretations Committee decided to consult with the IASB on the approach that is to be the basis for the amendment before discussing further details and drafting a proposed amendment.

			The staff has consulted with the IASB and will present a recommendation and a draft proposed amendment to IAS 12 to the January 2014 meeting.
IAS 12-11	*Income Taxes:* Recognition of deferred tax for a single asset in a corporate wrapper.	Request for clarification of the calculation of deferred tax in circumstances in which the entity holds a subsidiary which has a single asset within it. Specifically, the question asked was whether the tax base that was described in paragraph 11 of IAS 12 and used to calculate the deferred tax should be the tax base of the (single) asset within the entity which holds it, or the tax base of the shares of the entity holding the asset.	At the May 2012 meeting, the Interpretations Committee noted significant diversity in practice in accounting for deferred tax when tax law attributes separate tax bases to the asset inside and the parent's investment in the shares and when each tax base is separately deductible for tax purposes. The Interpretations Committee also noted that the current IAS 12 requires the parent to recognise both the deferred tax related to the asset inside and the deferred tax related to the shares, if tax law considers them to be two separate assets and if no specific exceptions in IAS 12 apply. However, considering the concerns raised by commentators in respect of these requirements in the current IAS 12, the Interpretations Committee decided in the May 2012 meeting to not recommend the IASB to address this issue through an Annual Improvement, but instead to explore further options to address this issue that would result in a different accounting for this specific type of transaction. Consequently, the Interpretations Committee directed the staff to analyse whether the requirements of IAS 12 should be amended in response to the concerns raised by commentators. We plan to present this analysis at a future meeting.
IAS 28-11	IAS 28 *Investments in Associates and Joint Ventures* Inconsistency between paragraph 31 of IAS 28 and ED *Sale or Contribution of*	In its July 2013 meeting, the Interpretations Committee 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	We will bring this issue to a future meeting of the Interpretations Committee.

	Assets between an Investor and its Associate or Joint Venture	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.	

5. In July 2013, the Interpretations Committee discussed two issues related to how an issuer would classify particular financial instruments in accordance with IAS 32 *Financial Instruments: Presentation*—specifically, (1) an instrument that is mandatorily convertible into a variable number of the issuer's own shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares and (2) an instrument that is mandatorily convertible into a variable number of the issuer's own shares upon a contingent 'non-viability' event. In the light of existing guidance in IAS 32, the Interpretations Committee tentatively decided not to add these two issues to its agenda but also asked the staff to analyse the accounting under IAS 32 for a similar convertible financial instrument. We have received a number of comment letters on the Interpretations Committee's July tentative agenda decisions. We think it is important to consider these three instruments together and plan to bring our analysis to the January 2014 meeting.

Issues on hold

6. The following issues are on hold for the reasons stated:

Issues on hold			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 39-32	IAS 39 *Financial Instruments: Recognition and Measurement*—Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income	The demand of investors for 'safe harbour' assets has increased to a degree that the yield on some assets (on some of the remaining high quality government bonds) has turned negative. This raises the question of how the income or expense that results from negative interest rates should be presented in the statement of comprehensive income .	In September 2012 and January 2013, the IFRS Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income. In September 2012, the Interpretations Committee reached a tentative decision on how amounts of income and expense arising from a negative yield on a financial instrument should be presented in the Statement of Profit or Loss and published a tentative agenda decision for comment. In January 2013, the Interpretations Committee was concerned that finalising the tentative agenda decision could have unintended consequences on the classification of financial assets in accordance with IFRS 9 *Financial Instruments* which is currently subject to a project to consider limited scope amendments. The Interpretations Committee therefore decided to refrain from finalising the tentative agenda decision until the IASB has completed its redeliberations on the Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9.*

Issues on hold			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 2-1	*Inventories:* Long-term prepayments in inventory supply contracts.	Request for clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make prepayments to the supplier. The question is whether the purchaser/supplier should accrete interest on long-term prepayments by recognising interest income/expense, resulting in an increase of the cost of inventories/revenue.	At the January 2012 Interpretations Committee meeting, the Interpretations Committee noted that the Exposure Draft (ED) *Revenue from Contracts with Customers*, published in November 2011, contains requirements regarding the time value of money. Provided that the requirements on the time value of money are not changed in the final revenue standard, this would apply in the seller's financial statements when prepayments are received. The Interpretations Committee observed that the principles regarding accounting for the time value of money in the seller's financial statements are similar to those in the purchaser's financial statements. The Interpretations Committee decided to ask the IASB whether it agrees with the Interpretations Committee's observation, and, if so, whether there should be amendments made in the IFRS literature in order to align the purchaser's accounting with the seller's accounting. At the February 2012 IASB meeting, the IASB agreed that a financing component contained in a purchase transaction should be identified and recognised separately. As a result, interest would be accreted on long-term prepayments made in a financing transaction. However, the IASB noted that payments made when entering into a long-term supply contract might include premiums paid for securing supply or for fixing prices. The IASB noted that in such cases, it is not appropriate to accrete interest on these payments. Consequently, the IASB tentatively decided that it should be made clear that the clarifications proposed should only apply to financing transactions, ie transactions in which prepayments are made for assets to be received in the future. The IASB asked the Interpretations Committee to consider addressing the diversity in accounting, not by amending the current literature as part of a separate IASB project, but by clarifying the purchaser's accounting through an interpretation. We will prepare a paper to be presented at a future IFRS Interpretations Committee meeting, where we will consider the result of the IASB's redeliberations on the ED on revenue.

New issues

7. This table summarises those issues that have been received but not yet presented to the Interpretations Committee:

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 12-16	Threshold for recognition of an asset on an uncertain tax position	The submitter requested the Interpretations Committee to clarify whether IAS 12 and a probable threshold is applied where an entity has paid cash to the tax authority but expects to recover some or all of that cash, or whether the guidance in IAS 37 for contingent assets should be applied. The question arises because some jurisdictions require an entity to make an immediate payment where a tax examination results in an additional charge, even when the entity intends to appeal against the charge. There is diversity in the approach used to determine whether an asset should be recognised for the amount potentially recoverable from the tax authority. Some argue that the 'virtually certain' recognition threshold in IAS 37 should be applied to the recognition of an asset in connection with an uncertain tax position. Others argue that the guidance in IAS 12 paragraph 46 that an asset should be recognised for the amounts an entity 'expects' to recover from the tax authorities should be applied, and the reference to 'probable' in IAS 12 paragraph 14 and 24 means that an asset should be recognised to the extent it is probable the tax will be recovered.	The original submission is included as **Appendix A** of this paper. We will bring this issue to a future meeting of the Interpretations Committee.
IAS 37-3	IAS 37	The submitter requests the	The original submission is

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
	Provisions, Contingent Liabilities and Contingent Assets Clarification of measurement of liabilities under IAS 37 within the context of an emission trading scheme	Interpretations Committee to clarify the measurement of a liability related to an emission trading scheme under IAS 37. Specifically, the submitter asks whether the guidance for the measurement of emission trading liabilities in IFRIC 3 *Emission Rights*, which was withdrawn in June 2005, is still an appropriate interpretation of IAS 37. The submitter identified evidence of divergent practice around the world for the measurement of emission trading liabilities. In particular, the submitter is aware of two views on the measurement of emission trading liabilities under IAS 37. 1) a mixed measurement approach in which the emission trading liability is measured on the basis of the carrying amount of allowances held by the entity. If the allowances held by the entity are insufficient, the balance of the liability is measured on the basis of the present market price of allowances. 2) a current value measurement approach in which the emission trading liability is measured independently of the carrying amount of the allowances held by the entity at the present market price of the number of allowances required to cover emissions made.	included as **Appendix B** of this paper. We will bring this issue to a future meeting of the Interpretations Committee.
IAS 32-16	IAS 32 Classification of an instrument that is mandatorily converted, subject to a cap and floor	During the discussion of Agenda Paper 17 at the July 2013 meeting, the Interpretations Committee asked the staff to analyse the accounting for a financial instrument that is mandatorily convertible into a variable number of the issuer's own equity instruments, subject to a cap and a floor on the number of equity	This issue was identified by the Interpretations Committee at its July 2013 meeting for further analysis. We will bring this issue to a future Interpretations Committee meeting.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
		instruments to be delivered. The Interpretations Committee asked the staff to analyse how the issuer of such an instrument should classify it in accordance with IAS 32 *Financial Instruments: Presentation*. The Interpretations Committee noted that this instrument is similar to the instrument described in Agenda Paper 17, but excludes the issuer's option to settle early by delivering a fixed number of equity instruments.	
IFRS 3-24	IFRS 3 *Business Combinations* Identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 in a stapling arrangement	The submitter requests the Interpretations Committee to clarify the interaction of the requirements in IFRS 3 *Business Combinations* for identifying an acquirer with the requirements in IFRS 10 *Consolidated Financial Statements* for preparing consolidated financial statements when control exists. Paragraph 43of IFRS 3 lists a stapling arrangement as an example of business combinations in which an acquirer obtains control of an acquiree without transferring consideration, such as in a business combination achieved by contract alone. The submitter states in many of stapling arrangements no entity in the arrangement has 'control' over the other entities. However, the submitter argues that even in circumstances in which no entity in the stapling arrangement has 'control' over the other entities, when the stapling occurs, an acquirer should be identified for the purposes of IFRS 3 (paragraph 6 of IFRS 3 and the definition of 'business combination' in Appendix A of IFRS 3). On the basis of the above, the submitter asks for clarification about whether an 'acquirer' identified for the purpose of IFRS 3 is a 'parent'	The original submission is included as **Appendix C** of this Agenda Paper. We will bring this issue to a future Interpretations Committee meeting.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
		for the purpose of IFRS 10 in circumstances in which the business combination is achieved by contract alone, such as a stapling arrangement, with no entity in the business combination having control as defined in IFRS 10.	

8. This paper does not include requests or issues that are still at a preliminary research stage. It will exclude, therefore, those issues for which further information is being sought from the submitter or other parties to define the issue more clearly.
9. We have reproduced in **Appendices A-C** new requests that we have added to the above list since the September 2013 agenda paper was prepared. Appendix A has been copied without modification, but we have deleted details that would identify the submitter of that request to preserve their anonymity. Appendix B and Appendix C have been copied without modification, the submitter having waived anonymity.

Question

Does the Interpretations Committee have any questions or comments on the Interpretations Committee Outstanding Issues List?

Appendix A: IAS 12, Income Tax – Threshold of recognition of an asset on uncertain tax position

We suggest in this letter an issue that the IFRS Interpretation Committee might consider clarifying through an interpretation.

The issue
Income tax laws are often not clear or not consistently understood. This can cause a difference of view between an entity and the tax authority and uncertainty about the amount of tax owed. Some jurisdictions require an entity to make an immediate payment where a tax examination results in an additional charge, even when the entity intends to appeal against the charge. There is diversity in the approach used to determine whether an asset should be recognised for the amount potentially recoverable from the tax authority. Income taxes are excluded from the scope of IAS 37, *Provisions*. Some argue, however, that the 'virtually certain' recognition threshold in IAS 37 paragraph 35 should be applied to the recognition of an asset in connection with an uncertain tax position in the absence of specific guidance in IAS 12. Others argue that the guidance in IAS 12 paragraph 46 that an asset should be recognised for the amounts an entity 'expects' to recover from the tax authorities should be applied, and the reference to 'probable' in IAS 12 paragraph 14 and 24 means that an asset should be recognised to the extent it is probable the tax will be recovered.

Current practice

We understand that current practice is mixed where an entity has paid cash to the tax authority but expects to recover some or all of that cash. Some entities use a 'probable' threshold whereas other entities use a 'virtually certain' threshold.

- Application of a 'probable' threshold

Supporters of this view argue that IAS 12 addresses the accounting for income taxes and is therefore the relevant standard. Income taxes are specifically excluded from the scope of IAS 37 and it is not appropriate to apply the guidance in that standard to income taxes. Entities should apply IAS 12 which provides sufficient guidance for recognition and measurement of tax assets and liabilities that can be applied to tax uncertainties.
The following guidance in IAS 12 specifies that tax assets are recognised to the extent it is probable that they will be recovered.

- IAS 12 paragraph 14 – recognise the benefit as an asset in the period in which it arises because it is probable that a benefit will flow to the entity…

- IAS 12 paragraph 24 and 34 - A deferred tax asset shall be recognised… to the extent that it is probable that future taxable profit will be available….

Supporters of this view also note that IAS 12 paragraph 46 requires that current tax assets are measured at the amount 'expected' to be recovered from the tax authorities. An expectation that the asset will be recovered is a 'probable' or 'more likely than not' threshold and does not require that recovery is 'virtually certain'.

They also note that there are often situations in which a tax uncertainty affects both current and deferred tax assets and that it is counter intuitive and confusing for users of the financial statements to apply a different recognition threshold to current and deferred taxes. This will result in an asset being derecognised when a temporary difference reverses and tax is paid to the tax authority, although there is no change in management's expectations of recovery.

It is also counter intuitive to apply a probable threshold to the recognition of a liability for a tax uncertainty and a virtually certain threshold to the recognition of an asset. This approach could result in an entity concluding that it should not recognise an expense or a liability for an uncertainty it believed would be resolved in its favour, but then being required to recognise an expense simply because the tax authority required a payment before the uncertainty was resolved.

The probable threshold is also consistent with paragraph 4.44 of the Framework, which requires that an asset is recognised when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. The guidance in IAS 37 that contingent assets are recognised when they are virtually certain is an exception to the general principle in the Framework and should not be applied beyond contingent assets in the scope of IAS 37.

- Application of 'Virtually certain' threshold according to IAS 37

Supporters of this view argue that IAS 12 does not specifically address the accounting for dispute with taxation authorities. IAS 8 paragraphs 10 and 11 require management to first refer to guidance in another IFRS dealing with similar and related issues in the absence of an IFRS that specifically applies to a transaction. The guidance in IAS 37 for the recognition of contingent assets is the guidance that most closely matches this situation. The asset and the related tax benefit are recognised only when it is virtually certain that an inflow of economic benefit will arise. Where the inflow of economic benefit is probable, an entity shall disclose the contingent asset (IAS 37 paragraph 35).

Supporters of this view also argue that it is not clear whether the entity is entitled to a refund and therefore whether an asset exists. The guidance for contingent assets is more appropriate when the existence of an asset is not certain. They also point out that there is diversity in practice and that regulators in some jurisdictions require that the guidance in IAS 37 is applied.

Question for the Committee

The Committee is asked to clarify whether IAS 12 and a probable threshold is applied where an entity has paid cash to the tax authority but expects to recover some or all of that cash, or whether the guidance in IAS 37 for contingent assets should be applied.

Reasons for the IFRIC IC to address the issue

We set out below consideration of this issue against the IFRS IC criteria for a potential agenda item.

Criteria	**Assessment**
Is the issue widespread and practical?	Yes. The issue affects all entities.
Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?	Yes. There is diversity in practice and there are some jurisdictions where local regulators require that the guidance in IAS 37 is applied by analogy.
Would financial reporting be improved through elimination of the diversity?	Yes.
Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process?	Yes. The issues relate to a specific and narrow application of specific paragraphs in IAS 12.
If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?	Not applicable.

Appendix B: IAS 37-3 – Clarification of measurement of liabilities within the context of an emission trading scheme

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6 September 2013
Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM
Dear Wayne

Clarification of measurement of liabilities under IAS 37 in the context of ETSs

We are writing to seek clarification of the IFRS Interpretation Committee's position on an aspect of measuring liabilities under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. We note that the issue has previously been discussed in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and (the now withdrawn) IFRIC 3 *Emission Rights*.

IFRIC 1, paragraph BC3, notes that IAS 37 requires provisions to be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Thus in regard to changes in liabilities addressed by IFRIC 1, when the effect of a change in estimated outflows of resources embodying economic benefits and/or the discount rate is material, that change should be recognised based on a current value measurement of those liabilities involving the application of a current market-based discount rate.

IFRIC 3, paragraph BC24, reflected the then IFRIC's view that the obligation to deliver allowances for past emissions would normally be measured at the present market price of the number of allowances required to cover emissions made at the balance sheet date and noted that this view arose from paragraph 36 of IAS 37, which requires a provision to be measured at the 'best estimate of the expenditure required to settle the present obligation at the balance sheet date'.

Based on the above, our understanding is that the amount required to settle an obligation at the balance sheet date should reflect current values, being the amount that an entity would rationally pay to settle the obligation or transfer it to a third party.

However, there is some published evidence of divergent practice around the world in recognising and measuring emission liabilities1. Some of that evidence suggests variable application of IAS 37. In particular, a mixed measurement approach has been adopted by some entities for

measuring emission liabilities in which the value of the emission obligation is based on the carrying value of allowances already granted (which may be recognised at a nil value) and the purchase price of other allowances. Where the allowances granted or purchased are insufficient, the balance of the liability is measured at the prevailing market price of allowances. Other entities have adopted a current value measurement basis for the entire emission liability. Incidentally, paragraph BC25 of IFRIC 3 guarded against such a treatment by noting that the cost of allowances (or their initial fair value, if issued for less than fair value) was not the amount that the participant would rationally pay to settle its obligation, rather, the amount required to settle an obligation at the balance sheet date would reflect current values. IFRIC 3 also noted that liabilities are measured independently of how those liabilities would be funded.

Although the evidence referred to above relates to the divergent practices developed in regard to measuring liabilities in the context of ETSs, we believe the issue is relevant to how to account for liabilities under IAS 37 more broadly. We think the issue may also have raised concerns in other jurisdictions internationally that would need to apply IAS 37 in recognising and measuring liabilities, whether in the context of ETSs or otherwise.

We are aware that the IFRS Interpretations Committee has transferred the issue of accounting for ETSs to the IASB, which has a planned research project to deal with it in a comprehensive way. This letter is written with a view to seeking confirmation from the Committee on the previous positions taken in various IFRICs in regard to measurement of liabilities under IAS 37. The confirmation sought is of a general and fundamental nature and is in the context of existing IFRS. It should not be seen only as an ETS-specific issue although it could be beneficial to jurisdictions that have such schemes in operation or planned.

The clarification would also provide a context for those who are developing approaches for accounting for ETSs for possible consideration by the IASB (eg. the French standard setter ANC, EFRAG) and those developing approaches under existing IFRSs (i.e before any IASB developments on the topic of ETS).

We have written before about Australian carbon tax in relation to IFRIC 21 *Levies* but we may also face the prospect of an ETS. This letter is written in relation to the latter as a separate matter.

If you require further information on the matters raised above, please contact me or Ahmad Hamidi (ahamidi@aasb.gov.au).

Yours sincerely

Kevin M. Stevenson

Chairman and CEO

1 See for example, *Accounting for Carbon*, The Association of Chartered Certified Accountants (UK), 2010 and *Trouble-Entry Accounting – Revisited*, *Uncertainty in accounting for the EU Emissions Trading Scheme and Certified Emission Reductions*, PricewaterhouseCoopers (PwC) and International Emissions Trading Association (IETA), 2007. IFRS Interpretations Committee Page 2

Appendix C: IFRS 3-24 – Identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 in a stapling arrangement

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11 September 2013

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Wayne

Clarification of accounting for a business combination achieved by contract alone

We are writing to seek clarification of the IFRS Interpretation Committee's position on the interaction of the IFRS 3 *Business Combinations* requirement for entities to identify an acquirer, with the requirement in IFRS 10 *Consolidated Financial Statements* for entities to prepare consolidated financial statements when control exists.

Specifically, we are seeking clarification as to whether, in circumstances where an acquirer has been identified for a business combination achieved by contract alone, such as in a stapling arrangement, with no entity/party to the business combination having 'control' over the other entities, the 'acquirer' is the parent for the purposes of preparing consolidated financial statements under IFRS 10.

Consistent with the Committee's process for considering issues, we have provided a more detailed explanation of the issue, possible alternative accounting treatments and reasons for the Committee to address this issue as a potential agenda request in Appendix A to this letter.

We seek your clarification on this issue urgently to help avoid diversity in practice arising on this issue in financial statements for the period ending 31 December 2013.

If you require further information on the matters raised above or in Appendix A, please contact me or Kala Kandiah (kkandiah@aasb.gov.au).

Yours sincerely

Kevin M. Stevenson
Chairman and CEO

Appendix A: Potential agenda item request

When two or more entities and their businesses are brought together by contract alone, with no transfer of consideration or exchange of equity interests, the combination is accounted for as a business combination, where an acquirer is identified and the acquisition method of accounting is applied, even in circumstances where no entity/party to the business combination has 'control' over the other entity/entities. . This approach is based on the following guidance in IFRS 3:

- paragraph 43 "An acquirer sometimes obtains control of an acquiree without transferring consideration. The acquisition method of accounting for a business combination applies to those combinations. Such circumstances include*:*

  ...

  (c) The acquirer and acquiree agree to combine their businesses by contract alone.

  The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously. Examples of business combinations achieved by contract alone include bringing two businesses together in a stapling arrangement or forming a dual listed corporation";

- the definition of business combination in Appendix A "….Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in this Standard"; and

- paragraph 6 "For each business combination, one of the combining entities shall be identified as the acquirer. … If a business combination has occurred but applying the guidance in IFRS 10 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14-B18 shall be considered in making that determination."

As mentioned in paragraph 43(c) of IFRS 3, a stapling arrangement is an example of a business combination achieved by contract alone. A stapling arrangement is a contractual arrangement between two or more entities or their shareholders, typically without the transfer of consideration, where the equity securities of the entities in a stapling arrangement are stapled together and the entities each have the same owners. The stapled securities are quoted as a single security and cannot be traded or transferred independently. Generally a stapling transaction is entered into for tax reasons and in many of these arrangements, no entity/party to the stapling arrangement has 'control' over the other entities.

Question

Where an acquirer has been identified for a business combination achieved by contract alone, such as in a stapling arrangement, with no entity/party to the business combination having 'control' over the other entities, is the 'acquirer' the parent for the purposes of preparing consolidated financial statements under IFRS 10?

We are aware of two views on the issue:

View 1

If a business combination has been achieved by contract alone between two or more entities, with no entity having control, IFRS 3 paragraph 6 requires one of the entities to be identified as the acquirer for the purposes of acquisition accounting. That same entity would be identified as the parent for the purposes of preparing consolidated financial statements under IFRS 10.

In other words, there is no need to go through the criteria in paragraph 7 of IFRS 10 to determine the parent entity for a business combination achieved by contract alone where in substance there is no control by one entity over the others. In such circumstances, the acquirer identified in accordance with the guidance in paragraph B14–B18 of IFRS 3 would be the parent for the purposes of preparing consolidated financial statements in accordance with
IFRS 10.

View 2

IFRS 10 requires an entity that is a parent to present consolidated financial statements. IFRS 10 defines a parent as an entity that controls one or more other entities. For the purposes of IFRS 10, an investor controls an investee if and only if the investor has all of the following: (a) power over the investee;
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's returns.

In a business combination achieved by contract alone where there is no controlling entity, the acquirer identified under IFRS 3 would not necessarily be the parent under IFRS 10. 'Control' and 'parent' would need to be identified based on the guidance in IFRS 10 and if there is no control, there would be no parent entity identified under IFRS 10 and consolidated financial statements cannot be presented.

Reasons for IFRS IC to address the issue

Criteria	**Assessment**
The issue is widespread and has practical relevance.	Yes – Business combinations achieved by contract alone are relatively common in many parts of the world. Examples of such business combinations are stapling arrangements (prevalent in Australia and Canada) and forming dual listed entities (such entities exist in Europe and Australia). In most such business combinations, there is no controlling entity/party.

The issue indicates that there are significantly emerging divergent interpretations in practice.	Yes – IFRS 10 is applicable from 1 January 2013 and we are currently aware of divergent views on the issue as articulated above.
Financial reporting would be improved through the elimination of the diversity.	Yes – reducing diversity on this issue would help comparability of financial statements, particularly as the diverse views on this issue would result in completely different sets of financial statements.
The issue is a narrow implementation or application issue that can be resolved efficiently within the confines of existing IFRSs and the *Framework for the Preparation and Presentation of Financial Statements,* but not so narrow that it is inefficient to apply the interpretation process.	Yes – it requires a clarification of whether the acquirer identified in accordance with IFRS 3 for business combinations achieved by contract alone (with no controlling entity/party) would be the parent entity for the purposes of preparing consolidated financial statements under IFRS 10.
If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance on a more timely basis than would be expected from that project.	There is no current relevant IASB project (on the active or research work plans).