STAFF PAPER

September 2015

IFRS Interpretations Committee Meeting

Project	2015 Agenda Consultation		
Paper topic	Response to the IASB's Request for Views		
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Objective of this Agenda Paper

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

2. This Agenda Paper provides the IFRS Interpretations Committee with an update on the 2015 Agenda Consultation process and asks the Interpretations Committee for direction about what input, if any, it proposes in response to the IASB's Request for Views: *2015 Agenda Consultation* ('the RFV').

3. This Agenda Paper is structured as follows:

   (a) background;

   (b) the IASB's 2015 Agenda Consultation process;

   (c) issues submitted to the Interpretations Committee since January 2013;

   (d) the overall strategy and balance of the IASB's work plan;

   (e) Appendix A–Questions asked in the IASB's Request for Views;

   (f) Appendix B–some observations on the analysis of issues submitted by Standard;

(g) Appendix C–agenda decisions since the 2011-12 Agenda Consultation;

(h) Appendix D–extracts from IFRIC *Update* re specific agenda decisions; and

(i) Appendix E–The Interpretations Committee's 2011 Comment Letter

Background

4. The IASB published its first RFV on its work plan in July 2011. In December 2012, the IASB summarised its finding on this process and published its Feedback Statement: *Agenda Consultation 2011*. This Feedback Statement and full details of the 2011-12 Agenda Consultation process can be found on the IASB's website:

http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/Pages/IASB-agenda-consultation-2011-2012.aspx

5. The Interpretations Committee sent a comment letter as part of the 2011-12 Agenda Consultation process. That letter is Appendix E to this Agenda Paper.

The IASB's 2015 Agenda Consultation process

Summary of the 2015 Request for Views

6. On 11 August 2015 the IASB published its RFV for the 2015 Agenda Consultation. In the RFV, the IASB describes its current work plan, which is split into three main categories to reflect the different stages of the standard-setting process:

(a) research projects, which are designed to help the IASB better diagnose problem areas in financial reporting, and to consider whether change is warranted before proceeding;

(b) standard-setting projects, in which the IASB moves forward with a project to deliver fundamental improvements to IFRS—most likely resulting in amendments to existing requirements or the introduction of entirely new requirements; and

(c) maintenance and implementation projects, in which the IASB fine-tunes IFRS to deal with practical problems or a lack of consistency in applying the Standards.

7. The RFV contains seven questions about the IASB's work plan and a question about the timing of the agenda consultation process, which currently takes place every three years. The questions asked in the RFV are included as Appendix A to this Agenda Paper.

8. The full RFV is available on the IASB's website:

http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/2015-agenda-consultation/Documents/Request%20for%20Views_Agenda%20Consultation_AUG%202015.pdf

Timetable for the 2015 Agenda Consultation

9. The deadline for comments on the RFV is 31 December 2015.

10. The purpose of today's discussion is for the Interpretations Committee to consider whether it intends to submit a response to the RFV and, if so, what topics to include in that response. To aid that process, the staff provide information on the following topics:

(a) issues submitted to the Interpretations Committee since January 2013; and

(b) the overall strategy and balance of the IASB's work plan.

Issues submitted to the Interpretations Committee since January 2013

11. We include two analyses of the Interpretations Committee's activities since the 2011-12 Agenda Consultation process:

(a) an extract from the July 2015 Agenda Paper 10B *Review of the Activities of the Interpretations Committee*, analysing new submissions received to May 2015, arranged by Standard; and

(b) an analysis of the individual reasons why particular new submissions were not added to the Interpretations Committee's agenda since the 2011-12 Agenda Consultation.

12. The purpose of providing these analyses is to help the Interpretations Committee determine whether to submit a response to the RFV and, if so, what points should be included in that response arising from individual Standards or topics.

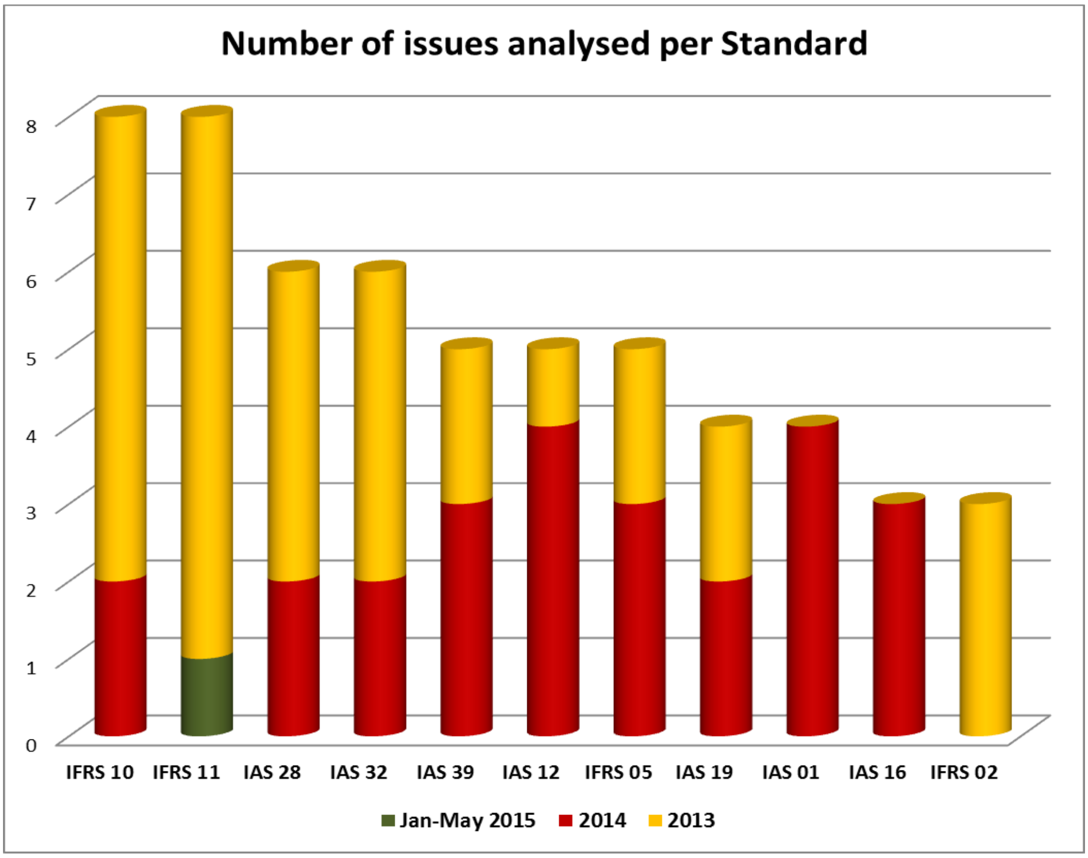
Submissions analysed by Standard

13. The analysis of submissions by Standard shows that some Standards give rise to more submissions than others. For example, since January 2013, the Interpretations Committee has received eight submissions on IFRS 10 *Consolidated Financial Statements* and eight submissions on IFRS 11 *Joint Arrangements*. Both are recently issued Standards with a 2013 effective date, so a higher level of submissions might be expected.

14. Both will also be subject to a Post-implementation Review (PIR) in the near future. For information, the IASB has published plans to carry out the following PIRs:

Standard	Effective date	PIR planned:
IFRS 10 *Consolidated Financial Statements*	1 January 2013	2016
IFRS 11 *Joint Arrangements*	1 January 2013	2016
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013	2016
IFRS 13 *Fair Value Measurement*	1 January 2013	2016

15. An analysis of issues submitted since the 2011-12 Agenda Consultation is included in the following chart:



16. A fuller discussion of submissions analysed by Standard, extracted from the July 2015 Agenda Paper, is included as Appendix B to this Agenda Paper for convenience.

Submissions analysed by basis of rejection

17. Since the 2011-12 Agenda Consultation, the Interpretations Committee has rejected 54 issues. These agenda decisions are listed in Appendix C to this Agenda Paper and have been analysed by the reason for rejection.

18. The majority of these issues were rejected because the issue was not widespread, or there was no evidence of diversity or because the guidance in IFRS was sufficient. Some issues were rejected, however, either because the topic was too broad for the Interpretations Committee to deal with it in a timely manner or because the IASB already had the topic under consideration.

19. Items that were rejected because they were too broad to be resolved are shown in the following table. Where there is now an IASB research project that might be expected to consider the issue, that is also noted in the table.

Standard	Issue	IASB project
IFRS 2	Timing of the recognition of intercompany charges	The share-based payment research project is not expected to address this issue.
IAS 12	Recognition of deferred tax for a single asset in a corporate wrapper	The income taxes research project is expected to consider this, and other, practice issues.
IAS 19	Employee benefit plans with a guaranteed return on contributions	The post-employment benefits research project has identified this as a main issue for consideration.
	Actuarial assumptions and the determination of the discount rate	The research project on discount rates is not expected to address this issue.
IAS 21	Foreign exchange restrictions and hyperinflation	The research project on foreign currency translation is considering this issue as part of its assessment process.
IAS 32	Classification of a financial instrument that is mandatorily convertible upon a contingent non-viability event	The research project on financial instruments with the characteristics of equity will consider this issue, together with a number of other issues submitted to the Interpretations Committee in previous periods.
IAS 37	Measurement of liabilities arising from emissions trading schemes	This topic will be considered as part of the research project on pollutant pricing mechanisms.
IAS 41	Valuation of biological assets using a residual method	The PIR of IFRS 13 is expected to consider this issue.
IFRIC 21	Levies raised on PPE	Although the work planned in the *Conceptual Framework* project will not address the debit side of the levy transaction, it may change the timing of recognition of the liability which, if subsequent changes are made to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, may reduce pressure on this issue.

20. Items that were rejected because they were already covered by an IASB project were:

Standard	Issue	IASB project
IFRS 3	Contingent payments to a shareholder who is now an employee	PIR IFRS 3 has identified this as a potential follow-up project
	Definition of a business (IFRS 3 Post-implementation Review)	PIR IFRS 3 – now added as a research project for follow-up
IAS 28	Associates and common control	Although the research project on business combinations under common control will not consider this point, the equity accounting team have yet to assess the effect of this submission on their project.

21. The Agenda Decision from IFRIC *Update* relating to each of these issues is included in Appendix D to this Agenda Paper for convenience.

Questions 1-2 to the Interpretations Committee
1. Would you like to recommend any topics for further investigation by the IASB? 2. The IASB asks a question in the RFV about the composition and prioritisation of its research programme. Would you like to comment on that programme?

The overall strategy and balance of the IASB's work plan

22. In its RFV, the IASB also asks broader questions about:

(a) whether the IASB and the Interpretations Committee provide the right mix of implementation support and whether that support is sufficient; and

(b) whether the IASB's work plan delivers change at the right pace and at a level of detail that is appropriate to principle-based standard-setting.

23. To aid discussion, an extract from the RFV section on maintenance and implementation projects is included below:

> 50. As at 31 July 2015 the IASB has on its maintenance and implementation agenda 13 projects to develop Interpretations, annual improvements or other narrow-scope amendments. Most of those projects are likely to be completed before the period covered by this Agenda Consultation, but new projects are likely to replace them.
>
> 51. Since publishing the 2012 Feedback Statement, the IASB has issued 15 annual improvements, or other narrow-scope amendments, and Interpretations relating to 21 Standards. In addition, the Interpretations Committee has issued 54 agenda decisions (ie decisions not to take an issue onto its work plan), many of which include educational guidance.

Questions 3-4 for the Interpretations Committee
3. Do you have any comments on the mix of the IASB's implementation support activities? 4. Do you have any comments on the balance of the IASB's work plan?

Question 5 for the Interpretations Committee
5. Do you have any other comments or questions on the IASB's 2015 Agenda Consultation?

APPENDIX A–Questions asked in the IASB's Request for Views

The balance of the IASB's projects

1. The IASB's work plan includes five main areas of technical projects:
   (a) its research programme;
   (b) its Standards-level programme;
   (c) the *Conceptual Framework*;
   (d) the Disclosure Initiative; and
   (e) maintenance and implementation projects.

   What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

Research projects

2. The IASB's research programme is laid out in paragraph 32 [in the RFV] and a further potential research topic on IFRS 5 is noted in paragraph 33 [in the RFV].

   Should the IASB:
   (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.
   (b) remove from its research programme the projects on foreign currency translation (see paragraphs 42-43 [in the RFV] and high inflation (see paragraphs 39-41 [in the RFV])? Why or why not?
   (c) remove any other projects from its research programme?

3. For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low).

   Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

Major projects

4. Do you have any comments on the IASB's current work plan for major projects?

Maintenance and implementation projects

5. Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs19-23 and 50-53 [in the RFV])?

Level of change

6. Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

Any other comments

7. Do you have any other comments on the IASB's work plan?

Frequency of Agenda Consultations

8. Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?

   If not, what interval do you suggest? Why?

Appendix B Some observations on the analysis of issues submitted by Standard:

The July 2015 Agenda Paper 10B *Review of the IFRS Interpretations Committee's activity during January –May 2015* included the following comments about individual Standards with respect to new submissions that have arisen since January 2013:

(a) IFRS 10 and IFRS 11—became effective in 2013, so it is understandable that we saw a peak in submissions around the time of implementation:

   (i) three of the eight IFRS 10 issues raised relate specifically to the Investment Entities amendment, which was issued at the end of 2012 and is effective from 2014 (these three issues are among the ones raised in 2013).

   (ii) the Interpretations Committee discussed various implementation issues relating to IFRS 11 from November 2013 to March 2015. At its March 2015 meeting, the Interpretations Committee published seven separate agenda decision on these issues in *IFRIC Update.* In May 2015, the Interpretations Committee discussed another issue on IFRS 11 regarding a joint operator in a joint operation.

(b) IAS 28—in September 2014 the IASB finalised an amendment to IAS 28 regarding sales or contributions of assets between an investor and its associate or joint venture investment entities. During 2013 and 2014, the IASB analysed three proposals to amend IAS 28 (the first two as narrow-scope amendments and the third one as an annual improvement), regarding the:

(i) elimination of gains or losses arising from transactions between an entity and its associate or joint venture;

(ii) application of the equity method by a non-investment entity investor to an investment entity; this issue relates to the Investment Entities amendment and has been approved by the IASB;

(iii) measurement of investees at fair value: an investment-by-investment choice or a consistent policy choice? and

(iv) assessment of significant influence: fund manager acting as an agent and holding its own investment in the fund.

(c) IAS 32 *Financial Instruments: Presentation*—four of the five IAS 32 issues relate to debt/equity classification issues (the fifth is a question about financial vs non-financial liability classification).

(d) IAS 39 *Financial Instruments: Recognition and Measurement*—The IAS 39 issues included in 2014 are the classification of a hybrid financial instrument by the holder, the holder's accounting for exchange of equity instruments and the accounting for embedded foreign currency derivatives in host contracts. In 2013 two issues were analysed that were related to IAS 39; one was on the accounting for a term-structured repo transaction, and the other was about the novation of derivatives. In June 2013 the IASB published the amendment *Novation of Derivatives and Continuation of Hedge Accounting* (Proposed amendments to IAS 39 and IFRS 9).

(e) IAS 12—two of the 2014 IAS 12 issues related to the recognition and measurement of income tax payable (recoverable) when there are uncertainties about income taxes. These issues led to the Interpretations

Committee's decision to develop a draft Interpretation on IAS 12 on *uncertainty in income taxes.*

(f) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—one the issues discussed in 2013 was on the accounting for changes in the methods of disposal, which was finalised as an annual improvement to IFRS 5 in 2014. Other issues discussed in 2014 and 2015 relate to the requirements for scope and presentation in IFRS 5 and are part of the group of IFRS 5 issues that are currently held within our work in progress.

(g) IAS 19—a significant amendment was made to IAS 19 in 2011 that became effective in 2013; two of the issues received relate to this 2011 amendment. The decline in market interest rates because of the global financial crisis led to a further two issues asking about the appropriate discount rate to use when discounting the pension liability.

(h) IAS 1 *Presentation of Financial Statements*—in 2014, the Interpretations Committee discussed four new issues relating to IAS 1. All four issues were included in a single letter from ESMA, which had identified these issues following a review of financial statements.

(i) IAS 16 *Property, Plant and Equipment*—one of the issues has led the Interpretations Committee to develop a draft Interpretation (accounting for net proceeds and costs of testing on property, plant and equipment).

(j) IFRS 2—this includes one issue that is part of the Exposure Draft *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) issued in November 2014 (ie the issue on the effects of vesting conditions on the measurement of a cash-settled share-based payment).

APPENDIX C Agenda decisions since the 2011-12 Agenda Consultation

Agenda decisions	*Description*	*No diversity*	*Sufficient guidance*	*Too broad*	*Existing IASB project*
IFRS 2 *Share-based Payment*	Price difference between the institutional offer price and the retail offer price for shares in an initial public offering (July 2014)		*		
	Timing of the recognition of intercompany recharges (May 2013)			*	
IFRS 3 *Business Combinations*	Contingent payments to a selling shareholder when the shareholder becomes, or continues to be, an employee (January 2013)				*
	Definition of a business (May 2013)				*
	Accounting for reverse acquisitions that do not constitute a business (March 2013)		*		
	Identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 *Consolidated Financial Statements* in a stapling arrangement (May 2014)	*			
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Classification in conjunction with a planned IPO but where the prospectus has not been approved by a securities regulator (September 2013)		*		
IFRS 10 *Consolidated Financial Statements*	Non-cash acquisition of a non-controlling interest by a controlling shareholder (January 2013)		*		
	Effect of protective rights on an assessment of control (September 2013)		*		
	Classification of puttable instruments that are non-controlling interests (November 2013)		*		
	Transitional provisions in respect of impairment, foreign exchange and borrowing costs rate (November 2013)		*		
	Investment Entities Amendments—The definition of investment-related services or activities (March 2014)		*		
	Single-asset, single lessee lease vehicles (May 2015)		*		
IFRS 11 *Joint Arrangements Note 1*	Classification of joint arrangements (May 2014)		*		
	Various implementation issues (March 2015)		*		
IFRS 12 *Disclosure of Interests in Other Entities*	Disclosure of summarised financial information about material joint ventures or associates (January 2015)		*		
	Disclosures for a subsidiary with a material non-controlling interest (January 2015)		*		
IFRS 13 *Fair Value Measurement*	The fair value hierarchy when third-party consensus prices are used (January 2015)		*		
IAS 1 *Presentation of Financial Statements*	Disclosures requirements about assessment of going concern (July 2014)		*		
	Issues related to the application of IAS 1 (May 2014)		*		
IAS 7 *Cash Flow Statements*	Identification of cash equivalents (May 2013)		*		
IAS 10 *Events after the Reporting Period*	Reissuing previously issued financial statements (May 2013)	*			
IAS 12 *Income Taxes*	Recognition of deferred tax for a single asset in a corporate wrapper (July 2014)			*	
	Recognition of current income tax on uncertain tax position (July 2014)		*		

	Impact of an internal reorganisation on deferred tax amounts related to goodwill (May 2014)		*		
	Recognition and measurement of deferred tax assets when an entity is loss-making (May 2014)		*		
	Selection of applicable tax rate for measurement of deferred tax relating to investment in associate (March 2015)	*			
IAS 16 *Property, Plant and Equipment*	Disclosure of carrying amounts under the cost model (May 2014)		*		
	Accounting for core inventories (November 2014)	*			
IAS 17 *Leases*	Meaning of ‘incremental costs’ (March 2014)		*		
IAS 19 *Employee Benefits*	Employee benefits plans with a guaranteed return on contributions or notional contributions (May 2014)			*	
	Pre-tax or post-tax discount rate (July 2013)		*		
	Actuarial assumptions: Determination of discount rate (November 2013)			*	
	Should longevity swaps held under a defined benefit plan be measured at fair value as part of plan assets or on another basis as a qualifying insurance policy? (March 2015)	*			
IAS 21 *The Effects of Changes in Foreign Exchange Rates*	Foreign exchange restrictions and hyperinflation (November 2014)			*	
IAS 24 *Related Party Disclosures*	Definition of close members of the family of a person (May 2015)		*		
IAS 28 *Investments in Associates and Joint Ventures*	Impairment of investments in associates in separate financial statements		*		
	Associates and common control (May 2013)				*
IAS 29 *Financial Reporting in Hyperinflationary Economies*	Applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units (January 2014)		*		
IAS 32 *Financial Instruments: Presentation*	Accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor (May 2014)		*		
	Classification of financial instruments that give the issuer the contractual right to choose the form of settlement (September 2013)		*		
	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 (January 2014)		*		
	Classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent 'non-viability' event (January 2014)			*	
IAS 34 *Interim Financial Reporting*	Condensed statement of cash flows (July 2014)		*		
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Measurement of liabilities arising from emission trading schemes (May 2014)			*	

IAS 39 *Financial Instruments: Recognition and Measurement*	Classification of a hybrid financial instrument by the holder (July 2014)	*			
	Accounting for term-structured repo transaction (March 2014)		*		
	Holder's accounting for exchange of equity instruments (November 2014)	*			
	Income and expenses arising on financial instruments with a negative yield– presentation in the statement of comprehensive income (January 2015)		*		
	Accounting for embedded foreign currency derivatives in host contracts (January 2015)		*		
IAS 41 *Agriculture*	Valuation of biological assets using a residual method (March 2013)			*	
IFRIC 14 *The Limit on a Defined Benefit Asset*	Should an entity assume continuation of a minimum funding requirement for contributions relating to future service? (July 2015)		*		
IFRIC 21 *Levies*	Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold (March 2014)		*		
IFRIC 21 *Levies*	Levies raised on production property, plant and equipment (January 2015)			*	

APPENDIX D–Extracts from IFRIC *Update* re specific agenda decisions

Topics that were identified as too broad:

IFRS 2 *Share-based Payment*—Timing of the recognition of intercompany recharges

The Interpretations Committee received a request for clarification about IFRS 2 *Share-based Payment* relating to intragroup recharges made in respect of share-based payments.

In the submitter's example, the parent company of an international group grants share-based awards to the employees of its subsidiaries. The obligation to settle these awards is the parent's. The awards are based on the employee's service to the subsidiary. The subsidiary and the parent both recognise the share-based transaction in accordance with IFRS 2—typically over the vesting period of the awards. The parent has also entered into recharge agreements with its subsidiaries that require the subsidiaries to pay the parent the value of the share-based awards upon settlement of the awards by the parent.

The submitter asked whether the subsidiary's liability to its parent in respect of these charges should be recognised from the date of grant of the award or at the date of exercise of the award.

Outreach conducted suggests that there is diversity in practice in the recognition of these liabilities. Some respondents view the recharge and the share-based payments as linked and recognise both from the date of grant over the vesting period. Others think that the recharge is a separate transaction recognised by analogy with liabilities, the distribution of equity or as an executory contract.

When discussing accounting for the intercompany recharge transaction, the Interpretations Committee was concerned at the breadth of the topic. It thought that resolving this issue would require it to address the accounting for intragroup payment arrangements generally within the context of common control and that any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. In the absence of guidance about intercompany transactions within existing Standards and the Conceptual Framework, they did not think that they would be able to resolve this issue efficiently. For that reason, the Interpretations Committee decided not to add this issue to its agenda.

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:

(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 19 *Employee Benefits*—employee benefit plans with a guaranteed return on contributions or notional contributions (Agenda Paper 9)

The Interpretations Committee observed that the accounting for the plans that fall within the scope of the project is an important issue. These plans are part of a growing range of plan designs that incorporate features that were not envisaged when IAS 19 was first developed. The accounting for these plans in accordance with IAS 19 is problematic and has resulted in diversity in practice.

The Interpretations Committee attempted to develop a solution to improve the financial reporting for such plans. However, it was unable to reach a consensus in identifying a suitable scope for an amendment that would both:

(a) improve the accounting for a sufficient population of plans such that the benefits would exceed the costs; and
(b) limit any unintended consequences that would arise from making an arbitrary distinction between otherwise similar plans.

In the Interpretations Committee's view, developing accounting requirements for these plans would be better addressed by a broader consideration of accounting for employee benefits, potentially through the research agenda of the IASB. The Interpretations Committee acknowledged that reducing diversity in practice in the short term would be beneficial. However, because of the difficulties encountered in progressing the issues, the Interpretations Committee decided to remove the project from its agenda. The Interpretations Committee notes the importance of this issue because of the increasing use of these plans. Consequently, the Interpretations Committee would welcome progress on the IASB's research project on post-employment benefits.

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:

(a) 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);
(b) IAS 19 does not specify which corporate bonds qualify to be HQCB;
(c) 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
(d) 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:

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

The Interpretations Committee further noted that ‘high quality’ as used in paragraph 83 of IAS 19 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’. Consequently, the Interpretations Committee observed that the concept of high quality should not change over time. Accordingly, a reduction in the number of HQCB should not result in a change to the concept of high quality. The Interpretations Committee does not expect that an entity’s methods and techniques used for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. Paragraphs 83 and 86 of IAS 19, respectively, contain requirements if the market in HQCB is no longer deep or if the market remains deep overall, but there is an insufficient number of HQCB beyond a certain maturity.

The Interpretations Committee also noted that:

(a) 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;
(b) ,the discount rate is typically a significant actuarial assumption; and
(c) 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*; typically the identification of the HQCB population used as a basis to determine the discount rate requires the use of judgement, which may often have a significant effect on the entity’s 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. The Interpretations Committee therefore recommends that this issue should be addressed in the IASB’s research project on discount rates. Consequently, the Interpretations Committee decided not to add this issue to its agenda.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Foreign exchange restrictions and hyperinflation (Agenda Paper 10)

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) which 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 the application of IAS 21 regarding the principle to use when determining which rate, out of multiple rates, to use to translate an entity's net investment in a foreign operation. The Interpretations Committee noted that predominant practice is to apply 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 issue's 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 a longer-term lack of exchangeability is not addressed by the guidance 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. Accordingly, the Interpretations Committee decided not to take this issue onto its agenda.

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 *Financial Instruments: Presentation*. 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.

Specifically the Interpretations Committee discussed the following issues:

a. Whether the financial instrument meets the definition of a financial liability in its entirety or must be classified as a compound instrument comprised of a liability component and an equity component (and, in the latter case, what those components reflect); and

b. How the financial liability (or liability component) identified above in bullet a. would be measured.

The Interpretations Committee decided not to add this issue to its agenda. The Interpretations Committee noted that the scope of the issues raised in the submission is too broad for it to address in an efficient manner.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—measurement of liabilities arising from emission trading schemes (Agenda Paper 7)

The Interpretations Committee received a request to clarify the measurement of a liability under IAS 37 that arises from an obligation to deliver allowances in an emission trading scheme.

The request asked whether the measurement of the liability for the obligation to deliver allowances should reflect current values of allowances at the end of each reporting period if IAS 37 was applied to the liability. The request noted that this was the basis required by IFRIC 3 *Emission Rights*, which was withdrawn in June 2005.

The Interpretations Committee noted that when the IASB withdrew IFRIC 3, it affirmed that IFRIC 3 was an appropriate interpretation of existing IFRS for accounting for the emission trading schemes that were within the scope of IFRIC 3. However, the IASB acknowledged that, as a consequence of following existing IFRS, IFRIC 3 had created unsatisfactory measurement and reporting mismatches between assets and liabilities arising from emission trading schemes.

In 2012, the IASB added to its agenda a research project on the accounting for emissions trading schemes. The Interpretations Committee noted that one of the main issues in the IASB's project on emission trading schemes was whether the accounting for the liabilities arising from emission trading schemes should be considered separately from the accounting for the assets. Consequently, the Interpretations Committee noted that to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances related to an emission trading scheme would be too broad an issue for it to deal with.

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

IAS 41 Agriculture and IFRS 13 Fair Value Measurement—Valuation of biological assets using a residual method

The Interpretations Committee received a request seeking clarification on paragraph 25 of IAS 41. This paragraph refers to the use of a residual method as an example of a possible valuation technique to measure the fair value of biological assets that are physically attached to land, if the biological assets have no separate market but an active market exists for the combined assets.

The submitter's concern is that using the fair value of the land (ie based on its highest and best use as required by IFRS 13) in applying the residual method might result in a minimal or nil fair value for the biological assets when the highest and best use of the land is different from its current use.

The Interpretations Committee observed that, in the development of IFRS 13, the IASB considered the situation where the highest and best use of an asset in a group of assets is different from its current use. The Interpretations Committee noted, however, that IFRS 13 does not explicitly address the accounting implications if the fair value measurement of that asset based on its highest and best use assumes that other assets in the group need to be converted or destroyed.

The Interpretations Committee also noted that this issue might not only affect the accounting for assets within the scope of IAS 41 but it could also affect the accounting for assets in the scope of other Standards. In the light of the analysis above, the Interpretations Committee observed that this issue is too broad for it to address and, accordingly, the Interpretations Committee decided not to take this issue onto its agenda. The Interpretations Committee directed the staff to ask the IASB to provide clarification of the accounting requirements for the issues considered by the Interpretations Committee.

IFRIC 21 *Levies*—levies raised on production property, plant and equipment (Agenda Paper 8)

The Interpretations Committee received two submissions relating to levies raised on production property, plant and equipment (PPE).

Paragraph 3 of IFRIC 21 *Levies* states that the Interpretation does not provide guidance on accounting for the costs arising from recognising a levy. The Interpretation notes that entities should apply other Standards to decide whether the recognition of an obligation for a levy gives rise to an asset or to an expense. The submitters, both service providers, asked whether the cost of a levy on productive assets is:
(a) an administrative cost to be recognised as an expense as it is incurred; or
(b) a fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

The Interpretations Committee noted that it had discussed the accounting for costs that arise from recognising the liability for a levy when the Interpretation was developed. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. The Interpretations Committee decided not to provide guidance on this matter at that time because it could not identify a general principle for accounting for the costs side of a levy-based transaction. The Interpretation Committee also noted that IFRIC 21 is an Interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and that paragraph 8 of IAS 37 states that IAS 37 does not deal with the recognition of either the asset or expense associated with a liability.

In the light of this, the Interpretations Committee concluded that it would be unlikely that it would reach consensus on how the costs should be recognised in this particular case. It also noted that it would not be efficient to give case-by-case guidance based on the fact pattern~~s~~ of individual levies.

Consequently, the Interpretations Committee decided not to add this issue to its agenda.

Topics that were already covered by an IASB project

IFRS 3 *Business Combinations*—Continuing employment

The Interpretations Committee received a request for guidance on the accounting in accordance with IFRS 3 *Business Combinations* for contingent payments to selling shareholders in circumstances in which those selling shareholders become, or continue as, employees. The submitter asked the Interpretations Committee to clarify whether paragraph B55(a) of IFRS 3 is conclusive in determining that payments to an employee that are forfeited upon termination of employment are remuneration for post-combination services and not part of the consideration for an acquisition. The question arose because the submitter asserted that paragraph B55 introduces subparagraphs (a)–(h) as indicators, but paragraph B55(a) uses conclusive language stating that the arrangement described is remuneration for post-combination services.

The Interpretations Committee observed that an arrangement in which contingent payments are automatically forfeited if employment terminates would lead to a conclusion that the arrangement is compensation for post-combination services rather than additional consideration for an acquisition, unless the service condition is not substantive. The Interpretations Committee reached this conclusion on the basis of the conclusive language used in paragraph B55(a) of IFRS 3.

The Interpretations Committee also noted that IFRS 3 is part of the joint effort by the IASB and the US-based Financial Accounting Standards Board (FASB) to promote the convergence of accounting standards. The Interpretations Committee was advised that the Post-implementation Review of FASB Statement No.

141R *Business Combinations* is in progress, and that the opportunity to co-ordinate any work on this issue with the FASB would arise after the conclusion of the Post-implementation Review of FASB Statement No. 141R.

Consequently, the Interpretations Committee decided not to add this issue to its agenda at this time and to revisit this issue after completion of the Post-implementation Review of FASB Statement No. 141R.

IFRS 3 *Business Combinations*—Definition of a business

The Interpretations Committee received a request seeking clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3. More specifically, the question was whether the acquisition of a single investment property, with lease agreements with multiple tenants over varying periods and associated processes, such as cleaning, maintenance and administrative services such as rent collection, constitutes a business as defined in IFRS 3.

The Interpretations Committee also observed that the difficulty in determining whether an acquisition meets the definition of a business in Appendix A of IFRS 3 is not limited to the acquisition of investment property. The Interpretations Committee noted that this broader issue goes beyond the scope of its activities and should be addressed by the IASB as part of its post-implementation review of IFRS 3.

However, the Interpretations Committee considered that it would be useful for the IASB's post-implementation review if the Interpretations Committee were to contribute to that review its experience and the results from the discussions on this issue. Consequently, the Interpretations Committee asked the staff to continue their discussions with the FASB staff, and to continue their outreach to interested parties from other industry sectors with the aim of providing the IASB with relevant information for its post-implementation review.

At this meeting, the Interpretations Committee discussed:

(a) a summary of the outreach from the staff's further outreach activities to preparers, industry sector groups and the large accounting & auditing networks/firms;

(b) a summary of the discussion of these outreach results with the FASB staff and the Post Implementation Review Team of the Financial Accounting Foundation; and

(c) a list of issues identified by the staff from these outreach results and discussions that could be further explored as part of the IASB's post-implementation review of IFRS 3.

The Interpretations Committee decided that these summaries, the list of issues that could be further explored as part of the post-implementation review of IFRS 3 and a summary of its discussion during this meeting will be contributed to the post-implementation review of IFRS 3.

IAS 28 *Investments in Associates and Joint Ventures* and IFRS 3 *Business Combinations*—Associates and common control

In October 2012, the Interpretations Committee received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. The submitter's question is whether it is appropriate to apply the scope exemption for business combinations under common control, which is set out in IFRS 3 *Business Combinations*, by analogy to the acquisition of an interest in an associate or joint venture under common control.

The Interpretations Committee observed that paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control. The Interpretations Committee also observed that paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.

The Interpretations Committee also observed that paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements*. That paragraph further states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. The Interpretations Committee also observed that paragraph 2(c) of IFRS 3 states that IFRS 3 does not apply to a combination of entities or businesses under common control. The Interpretations Committee observed that some might read these paragraphs as contradicting the guidance in paragraph 32 of IAS 28, and so potentially leading to a lack of clarity.

The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.

The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for business combinations under common control and the equity method of accounting. The Interpretations Committee also noted that the IASB, in its May 2012 meeting, added a project on accounting for business combinations under common control as one of the priority research projects as well as a project on the equity method of accounting as one of the research activities to its future agenda. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.

APPENDIX E–The Interpretations Committee's 2011 Comment Letter

Hans Hoogervorst
Chairman
International Accounting Standards Board
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Dear Hans

Request for Views—Agenda Consultation 2011

The IFRS Interpretations Committee appreciates this opportunity to respond to your Request for Views on your Agenda Consultation 2011. We are pleased that the IASB is seeking broad input on the future form, direction and content of its agenda. We think that this is a timely and important opportunity for all those interested in the development of IFRSs to participate in the IASB's agenda-setting process and we hope to assist the IASB in achieving its objectives over the coming years.

In responding to the Request for Views, we share below some general observations on how the IASB's agenda affects the work of this committee and how we think the IASB's proposed work plan can assist the Committee and others in improving the consistency of application of IFRSs.

We agree with the IASB's identification of the two main categories of its activities—the development of financial reporting and the maintenance of the existing IFRSs.

The development of financial reporting

The principal objective of this Committee is to interpret the application of IFRSs and to provide timely guidance on financial reporting issues that are not specifically addressed in IFRSs. Our principal tool in achieving this objective, when there is no directly applicable IFRS, or when there is a conflict between IFRSs, is the IASB's conceptual framework. The *Framework* provides the Committee with a consistent basis for its interpretations. It also provides the Committee with a reference point for developing guidance when there is no directly applicable IFRS. We therefore think that the IASB should make completion of the conceptual framework project its highest priority.

The Committee receives requests for guidance on a wide range of topics, covering the full breadth of IFRSs. The issues underlying some of these requests are ones that are too broad for the Committee to address. It is from these issues that we have identified the following topics for which we think the IASB should undertake broad scope projects to address the absences or short-comings in current IFRSs. The topics are:

- Business combinations under common control – the IASB stated when it revised IFRS 3 in 2008 that it intends to address this topic. The lack of guidance, including the scope exclusion of these transactions from IFRS 3, has led to diversity in accounting in this area;
- Combined financial statements. It is common, particularly in connection with some group restructurings, such as spin-off transactions, that combined financial statements need to be prepared. These financial statements are prepared for a reporting entity that is not a conventional group. A common example is of two fellow subsidiary entities, plus their own subsidiaries, where the entities involved undertake activities that are strongly interrelated, ie, they are operating as a single economic entity. There is currently no directly-applicable guidance in IFRSs on when and how to prepare combined financial statements.
- Equity method of accounting – we observe that the requirements of IAS 28 are complex for some aspects of equity accounting, and no guidance exists for other aspects. We think that a project to overhaul equity accounting would lead to reduced diversity in practice and reduced costs associated with compliance with IAS 28;
- Financial instruments with the characteristics of equity. The classification of a financial instrument as either liability or equity is important because it will have a substantial effect on how a user of a set of financial statements views that entity. The current requirements are complex and could be made clearer; and
- Non-financial liabilities. The requirements of IAS 37 are not well understood in practice; the standard is sometimes difficult to apply because of unclear or seemingly inconsistent requirements within it. We think that revisions to IAS 37 are needed to make the standard more straight-forward to apply and improve the consistency of its application.

We view the topics above to be important, but second in priority to the completion of the conceptual framework. In part this is because we think that completing the conceptual framework will help with the development or revision of IFRSs in these areas. In addition, prioritising the conceptual framework over the topics above will help the Committee in its role of interpreting the application of IFRSs and to providing timely guidance on financial reporting issues that are not specifically addressed in IFRSs

The maintenance of existing IFRSs

On a day-to-day basis, the Committee's activities centre on the second category of the IASB's activities—the maintenance of existing IFRSs. The Committee supports the IASB's activities by resolving interpretative issues as they arise and by proposing necessary clarifications to IFRSs through the annual improvements process.

The Committee thinks that over the next few years, there could be an increased need for implementation advice. This is because many major new or revised standards will come into effect in this period, and more territories will be adopting IFRSs. The Committee thinks that the IASB should ensure that adequate resources are available to address implementation issues and requests for assistance as they arise. We think that this will require the IASB include a sufficient level of contingency time for such issues, when it sets its agenda.

Some of the issues submitted to the Committee over recent years have been ones that need attention, but are not necessarily efficiently addressed through the interpretations process. In these circumstances, the Committee has tried to identify targeted, narrow-scope improvements to IFRSs that would resolve these practice issues. One such area where a number of practice issues arose was IFRS 2 *Share Based Payment* for which we made proposals for limited scope improvements. We think we could usefully continue to assist the IASB by working with the IASB in similar limited scope projects.

We note and support the IASB's commitment to undertake post-implementation reviews of all new IFRSs and major amendments. We think this is an important element of the IASB's future work. We understand that the IASB wants to involve us in its post-implementation reviews, and we will be glad to use our experience to support the IASB's work in this area.

Yours sincerely

[Wayne Upton]

[Chairman, IFRS Interpretations Committee]

For, and on behalf of, the IFRS Interpretations Committee