IFRS

STAFF PAPER

July 2015

IFRS Interpretations Committee Meeting

Project	IFRS Interpretations Committee Work in Progress		
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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 will not be discussed by the Interpretations Committee in the July 2015 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 for which 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 on which for some reason it 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. This month we have also included a memorandum of those topics that we think will be presented for discussion by the Interpretations Committee at its September 2015 meeting.

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**
	Non-current assets held for sale and discontinued operations:	At its September 2014 meeting, the Interpretations Committee discussed the following two issues:	In its September 2014 discussions, the Interpretations Committee noted that: (a) the feedback from IASB staff and some former IASB members who were involved with the development of IFRS 5 indicates that views on issue (a) are mixed; and (b) an example with a more complex fact pattern did not help to narrow the diversity in views among its members.
IFRS 5-3	Write-down of a disposal group	(a) how to recognise an impairment loss for a disposal group when the difference between its carrying amount and its fair value less costs to sell exceeds the carrying amount of non-current assets in the disposal group; and	The Interpretations Committee noted that these two issues would be addressed more appropriately if they were considered as part of a broader-scope project on IFRS 5, because:
IFRS 5-4	Reversal of impairment losses relating to goodwill recognised for a disposal group	(b) how to account for the reversal of an impairment loss for a disposal group when the reversal relates to an impairment loss recognised for goodwill	(a) they touch upon fundamental principles within IFRS 5; (b) the Interpretations Committee did not reach a consensus on Issues 1 and 2 over several meetings; and (c) the views of IASB staff and former IASB members that were involved the development of IFRS 5 are mixed, especially on Issue 1.
	Three further issues:	At its November 2014 meeting, the interpretations Committee considered three further issues:	At its November 2014 meeting:
IFRS 5-12	When does loss of control of a subsidiary meet the criteria of IFRS 5?	(a) Do certain cases of 'loss of control of a subsidiary' meet the criteria for classifying the subsidiary as held for sale in accordance with IFRS 5?	with regard to Issue (a), the Interpretations Committee noted that it would not be appropriate to consider individual cases separately. It therefore asked the staff to consider the broader question of whether the 'loss of control' is key to the inclusion of an event within the scope of IFRS 5 or whether there also needs to be a disposal in order for the event to be classified as held

			for sale.
	A disposal group that consists mainly of FI;	(b) Is IFRS 5 applicable to a disposal group consisting mainly or entirely of financial instruments?	At its November 2014 meeting, the Interpretations Committee did not discuss Issues (b) and (c).
	Application of major lines of business in accordance with IFRS 5	(c) How to apply the notion of a 'major line of business' in presenting discontinued operations.	The staff will consult with the IASB on all of these issues at a future IASB meeting. Following this, we will provide feedback to the Interpretations Committee.
IAS 16-14	*Accounting for proceeds and cost of testing PPE—should net proceeds reduce cost of asset?*	The Interpretations Committee received a request to clarify the accounting for the net proceeds from selling any items produced while testing an item of property, plant and equipment (PPE) under construction. The submitter has asked whether the amount by which the net proceeds received exceed the costs of testing should be recognised in profit or loss or as a deduction from the cost of the PPE.	In May 2015, the Interpretations Committee tentatively decided to develop an Interpretation on the meaning of testing, focusing on the meaning of 'functioning properly' in paragraph 17(e) of IAS 16 Property, Plant and Equipment. The Interpretations Committee considered that functioning properly reflects the technical/physical performance of the PPE. The assessment of functioning properly does not include assessment of financial performance such as the level of operating margin or quantity of the output as intended by management. The Interpretations Committee considered that quantitative disclosure on the amount of proceeds that has been deducted from the PPE is important for users to understand the effect on the financial statements. The Interpretations Committee tentatively decided that this disclosure requirement would be included in the proposed Interpretation by referencing the existing disclosure requirements in IAS 16. The staff will prepare the draft Interpretation and present it at a future meeting.
IAS 32-20	*Classification of a liability for prepaid cards issued by a bank*	The Interpretations Committee received a request to clarify the classification of the liability for prepaid cards issued by a bank in the bank's financial statements and accounting for the unspent balance of the prepaid cards with the following contractual features: (a) no expiry date; (b) cannot be refunded, redeemed or exchanged for cash;	At its November 2014 meeting, the Interpretations Committee discussed the submission and observed that the liability for prepaid cards with features as explained above would meet the definition of a financial liability, because the issuing bank has a contractual obligation to deliver cash to the merchant that is conditional upon the cardholder using the prepaid card to purchase goods or services. In such a circumstance, an issuing bank would apply the guidance in IFRS 9 *Financial*

		(c) redeemable for goods or services only; (d) redeemable only at selected merchants, which, depending upon the card programme, range from a single merchant to all merchants that accept a specific card network; and (e) no back-end fees, which means that the balance on the prepaid card does not reduce unless spent by the holder. The Interpretations Committee was asked to consider whether the liability for those prepaid cards is a non-financial liability because the issuing bank does not have an obligation to deliver cash to the cardholder.	*Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*) to determine when to derecognise the liability for prepaid cards. However, the Interpretations Committee was concerned about other similar arrangements, such as customer loyalty programmes or prepaid cards issued by a non-banking entity that can be redeemed for goods or services of the issuing entity or of other entities, and requested the staff to analyse those other similar arrangements. The Interpretations Committee requested the staff to specifically consider the basis for distinguishing between the prepaid cards with features as explained above and other similar arrangements. At its January 2015 meeting, the Interpretations Committee discussed the analysis of other similar arrangements presented by the staff and asked the staff to consider and analyse other more complex arrangements. The staff is in the process of considering more complex arrangements and will present an analysis at a future meeting.
IAS 39-38	*Financial Instruments: Recognition and Measurement—Holder's accounting for exchange of equity instruments*	The Interpretations Committee received a request about the accounting by the holder of equity instruments in the circumstance in which the issuer exchanges its original equity instruments for new equity instruments in the same entity but with different terms. Specifically, this transaction involved equity instruments issued by a central bank, and the exchange of instruments was imposed on the holders as a consequence of a change in legislation. The submitter asked whether the holders of the equity instruments should account for this exchange under IAS 39 as a derecognition of the original equity instruments and the recognition of new instruments.	At its November 2014 meeting, the Interpretations Committee decided not to add this specific issue to the agenda because this issue: (a) is not widespread; and (b) the submitter had not identified significant diversity in accounting for this transaction. The Interpretations Committee additionally noted requests for more guidance in IAS 39 and IFRS 9 on the derecognition of financial assets that have been modified or exchanged. The staff observed that this more general matter had been raised previously with the IASB but that it had decided not to add such a project to its agenda. The Interpretations Committee asked the staff to perform further analysis to identify whether an issue of sufficiently narrow scope could be identified to be raised with the IASB. The staff's analysis will be considered at a future meeting.

Issues on hold

5. The following issue is currently on hold for the reasons noted below:

Hold			
Ref.	**Topic**	**Brief description**	**Status**
IAS 16-5	*IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IFRIC 12 Service Concession Arrangements: Variable payments for the separate acquisition of PPE and intangible assets*	The Interpretations Committee received a request to address an issue that is related to contractual payments that are made by an operator under a service concession arrangement that is within the scope of IFRIC 12. Specifically, the submitter requested that the Interpretations Committee should clarify in what circumstances (if any) those payments should: a. be included in the measurement of an asset and liability at the start of the concession; or b. be accounted for as executory in nature (ie be recognised as expenses as they are incurred over the term of the concession arrangement). Where concession fees are variable, the Interpretations Committee noted that the issue is linked to the broader issue of variable payments for the separate acquisition of PPE and intangible assets outside of a business combination.	At the January 2013 meeting, the Interpretations Committee tentatively decided to recommend to the IASB that it should amend IAS 16, IAS 38 and IAS 39 Financial Instruments: Recognition and Measurement, to require that the adjustments of the carrying amount of a financial liability, other than those adjustments for finance costs that are not eligible for capitalisation in accordance with IAS 23, are recognised as corresponding adjustments to the cost of the asset to the extent that IAS 16 or IAS 38 requires so. The Interpretations Committee could not reach a consensus on whether the variable payments that are dependent on the purchaser's future activity should be excluded from the initial measurement of the liability until that activity is performed. The Interpretations Committee also decided to proceed with their recommendation to propose amendments to IFRIC 12. At its July 2013 meeting, the IASB noted that the initial accounting for variable payments affects their subsequent accounting. Some IASB members expressed the view that the initial and subsequent accounting for variable payments for the purchase of assets are linked and should be addressed comprehensively. The IASB also noted that accounting for variable payments is a topic that was discussed as part of the Leases and Conceptual Framework projects. The IASB decided that it would reconsider the accounting for variable payments for the acquisition of tangible or intangible assets after the proposals in the Exposure Draft Leases (published in May 2013) have been redeliberated. Now that the redeliberations on the leases project have been substantially concluded, we are in the process of updating our outreach and aim to bring this issue to the September Interpretations Committee with a view to determining the appropriate way forward for the project.

IAS 28-13	*Assessment of significant influence: fund manager acting as agent and holding own investment in the fund*	The Interpretations Committee received a request to clarify what factors may indicate that a fund manager has significant influence over a fund that it manages and in which it has a direct holding. The submitter described a particular situation in which an assessment of control under IFRS 10 Consolidated Financial Statements resulted in the conclusion that the fund manager does not control the fund that it manages and in which it has a direct holding, because it is acting as an agent in accordance with paragraphs B58–B72 of IFRS 10. The submitter raised two questions in respect of this particular situation: a. whether the fund manager should assess whether it has a significant influence over the fund; and b. if yes, how should it make such an assessment.	At its January 2015 meeting, the Interpretations Committee noted that the IASB currently has a research project on the subject of equity accounting, but that it is not clear at this stage whether the assessment of significant influence will form part of that project. Consequently, the Interpretations Committee decided to monitor how that research project progresses and to revisit this issue if the research project does not address it.

New issues

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

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 9-1	Interaction between IFRS 9 and IAS 28 in the context of long term interests in associates.	The question relates to whether the impairment of 'long-term interests' in associates and joint ventures should be governed by IFRS 9, IAS 28 or both.	Currently in the process of analysing the outreach feedback. We plan to bring this issue to the September Interpretations Committee.

IFRS 9-2	Hedge Accounting issues relating to a non-financial item when an entity transitions from IAS 39 to IFRS 9.	**Issue 1**—On transition to IFRS 9, if an entity changes the hedge designation of an item in a hedging relationship from an entire non-financial item to a component of the non-financial item to align the hedge with the entity's risk management objective, can an entity treat the hedging relationship as a continuing hedging relationship under IFRS 9. **Issue 2**—If a hedging relationship cannot be treated as a continuing hedging relationship under IFRS 9, can an entity continue with its original hedge designation of the entire non-financial item under IFRS 9.	Currently in the process of analysing the outreach feedback. We plan to bring this issue to the September Interpretations Committee.
IAS 32-21	Offsetting in the context of certain cash pooling situations.	The question relates to whether the regular, but not at the reporting date, transfers of balances into a netting account is sufficient to demonstrate an intention to settle on a net basis for the purposes of meeting the requirements of IAS 32.	Currently performing outreach. Once feedback has been received, the staff will analyse accordingly. We plan to bring this issue to the September Interpretations Committee.
IAS 39-42	Negative interest rates and embedded derivatives under IAS 39	The question relates to whether an interest rate floor at zero percent should be separated from a floating rate debt contract and accounted for as an embedded derivative in a negative interest rate environment.	Currently in the process of analysing the outreach feedback. We plan to bring this issue to the September Interpretations Committee.

7. This paper does not include requests or issues that are still at a preliminary research stage. It will exclude, therefore, issues for which further information is being sought from the submitter or from other parties to define the issue more clearly.

Topics for potential discussion–September 2015

8. This table summarises those issues that we think are likely to be presented for discussion at the September meeting.

Reference	Topic
IFRS 9-1	Interaction between IFRS 9 and IAS 28 in the context of long term interests in associates.
IFRS 9-2	Hedge Accounting issues relating to a non-financial item when an entity transitions from IAS 39 to IFRS 9.
IFRS 11-6	Should a pre-existing interest in a joint operation be remeasured when the entity becomes a joint operator through acquisition of an additional interest in the joint operation
IAS 16-5	IAS 16 / IAS 38: initial and subsequent accounting for variable payments for purchase of PPE and intangible assets
IAS 16-14	Accounting for proceeds and cost of testing PPE— should net proceeds reduce cost of asset?
IAS 32-20	Classification of a liability for prepaid cards issued by a bank
IAS 32-21	Offsetting in the context of certain cash pooling situations.
IAS 39-38	Holder's accounting for exchange of equity instruments
IAS 39-42	Negative interest rates and embedded derivatives under IAS 39.

Question

Does the Interpretations Committee have any questions or comments on the Interpretations Committee’s work in progress?