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Key contacts

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This publication summarises the meeting of the IFRS Interpretations Committee on 13 – 14 March 2012

Key decisions

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Levies charged for participation in a market on a specified date

The Committee received a request to clarify whether IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* should be applied by analogy to other levies charged for participation in a market on a specified date to identify the event that gives rise to a liability. The request for clarification relates to when a liability should be recognised for levies that are conditional on an entity participating in an activity on a specified date.

This issue has been discussed at multiple Committee meetings, with the most recent discussions occurring during the January 2012 meeting. At past meetings, the Committee developed certain underlying principles associated with recognition of a liability. The Committee noted that a constructive obligation to pay a levy that arises from operating in a future period is not created even if an entity is economically compelled to continue operating in that future period. Additionally, the going concern principle would not affect whether an entity recognises a liability at a reporting date for levies that arise from operating in future periods. The Committee noted that an obligating event is necessary to create the present obligation and an obligating event arises progressively if the activity that creates the present obligation occurs over a period of time (e.g., if the obligating event as identified by the legislation is the generation of revenues over a period of time). The Committee indicated that an entity would recognise an expense upon recognition of the liability, unless the levy is an exchange transaction in which the entity that pays the levy receives assets or future services in consideration for the payment of the levy.

At its March 2012 meeting, the Committee discussed a draft interpretation presented by the staff. The Committee confirmed its decision to develop an interpretation based on the principles identified during its previous meetings. The interpretation will address the accounting for levies other than income taxes that are within the scope of IAS 12 *Income Taxes*. However, the Committee tentatively decided to limit the scope of the interpretation to levies that are non-exchange transactions (i.e., transactions in which the entity paying the levy does not receive any specific asset directly in exchange for the payment of the levy).

While the accounting for levies subject to a revenue threshold (e.g., a levy obligation triggered by reaching CU1 million in revenues in a specific market) was discussed at length during the March 2012 meeting, the Committee tentatively decided not to address this topic within this interpretation as the Committee could not reach a consensus on it. The staff intends to present a revised draft interpretation for the Committee's approval at the May 2012 Committee meeting.

IAS 28 *Investments in Associates and Joint Ventures* – Application of the equity method when an associate's equity changes outside comprehensive income

The Committee previously considered a request to correct the inconsistency between the requirements of IAS 28 (revised 2011) and IAS 1 *Presentation of Financial Statements* (revised 2007) regarding the description and application of the equity method and clarify the accounting for the investor's share of changes in the investee's net assets that are not recognised in the investee's profit or loss or other comprehensive income and are not distributions received (e.g., movements in other reserves of the associate or gains and losses arising on an associate's transactions with non-controlling interests of its subsidiaries).

At its March 2012 meeting, the Committee reaffirmed the principles developed during previous meetings. Namely, where an investor's share ownership interest in the associate is reduced, whether directly or indirectly, the affect of the change should be recognised in profit and loss of the investor; and where an investor's share ownership interest in the associate increases, whether directly or indirectly, the affect of the change should be accounted for as an incremental purchase of the associate and should be recognised at cost.

The Committee decided not to address equity settled share-based payments of the associate and written call options issued by the associate for an asset because of concern about the complexity of these types of transactions. Therefore, the Committee instructed the staff to recommend to the Board that IAS 28 (revised 2011) should be amended to incorporate the tentative principles established from previous meetings but not to address equity-settled share-based payments or written call options.

IFRIC 12 *Service Concession Arrangements* – Payments made by an operator in a service concession arrangement

The Committee previously considered a request to clarify the accounting for contractual costs to be incurred by an operator in a service concession arrangement. The request for clarification relates to whether these costs should be recognised at the start of the concession as an asset with an obligation to make the related payment, or treated as executory in nature and recognised over the term of the concession arrangement.

At previous meetings, the Committee observed that the nature of payments from an operator must be understood before consideration could be made as to the appropriate accounting. The Committee directed the staff to develop comprehensive principles for consideration at a future meeting.

At its March 2012 meeting, the Committee tentatively decided that:

- the operator should account for a distinct good or service in accordance with the applicable IFRS if the concession fee arrangement gives the operator a right to a good or service that is distinct from the service concession arrangement;
- judgement should be used to determine whether the operator obtains control of the right of use of the asset and therefore whether the arrangement is within the scope of IAS 17 *Leases* when concession payments are linked to the right of use of a tangible asset; and
- payments which are linked to the right of use of a tangible asset, but where the arrangement does not represent an embedded lease, should be analysed in the same way as a concession fee.

The Committee also tentatively decided that if the concession fee arrangement does not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, the type of service concession arrangement should determine the accounting for the contractual payments to be made by the operator to the grantor. Accordingly:

- the concession payment is an adjustment to the overall revenue consideration if the service concession results in the operator having a contractual right to receive cash from only the grantor (i.e., the financial asset model in IFRIC 12 applies);
- the concession payment represents consideration for the concession right (i.e., part of the cost of the intangible asset recognised) if the service concession arrangement results in the operator having only a right to charge users of the public service (i.e., the intangible asset model in IFRIC 12 applies); and
- the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator's services to determine whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor (e.g., the in-substance guarantee from the grantor for the operator's services).

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The Committee also asked that the staff develop a principle associated with the accounting for variable concession fees. While the Committee is aware that the Board's project on leases considers the accounting for variable payments, the Committee does not want to wait until the completion of the Board's leases project. Therefore, the Committee directed the staff to recommend the appropriate accounting for such fees in consideration of the principles currently being discussed as part of the leases project.

The Committee directed the staff to prepare a draft amendment to IFRIC 12 to incorporate the above principles discussed by the Committee, which would also include the staff's recommendations relating to variable payments. The draft amendment and recommendation relating to variable payments will be considered by the Committee at a future meeting.

Tentative agenda decisions

Issues tentatively not added to the Committee's agenda

IAS 1 *Presentation of Financial Statements* and IAS 12 *Income Taxes* – Presentation of payments of non-income taxes

IAS 12 *Income Taxes* – Accounting for market value uplifts introduced by a new tax regime

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Issues recommended for inclusion in the 2011 – 2013 cycle for *Annual Improvements*

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IAS 39 *Financial Instruments: Recognition and Measurement* – Term-extending options in fixed-rate debt instruments

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Summary of Committee discussions

Tentative agenda decisions

IAS 1 *Presentation of Financial Statements* and IAS 12 *Income Taxes* – Presentation of payments of non-income taxes

The Committee received a request to clarify the presentation of production-based royalty payments payable to one taxation authority that are claimed as an allowance against taxable profit of another taxation authority. The request for clarification relates to whether these costs should be recognised as an operating expense or a tax expense in the statement of comprehensive income.

The Committee observed that paragraph 82(d) of IAS 1 is intended to require an entity to present taxes that meet the definition of income taxes under IAS 12 within the 'tax expense' line item. Similarly, the Committee noted that the basis of calculation should be considered rather than the manner of settlement of a tax liability or the factors relating to recipients of the tax.

Therefore, the Committee concluded that production-based royalties do not meet the definition of an income tax and should not be presented as an income tax expense in the statement of comprehensive income.

On the basis of this analysis, the Committee tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at a future meeting.

IAS 12 *Income Taxes* – Accounting for market value uplifts introduced by a new tax regime

The Committee received a request to clarify the accounting for market value uplifts introduced in a proposed jurisdictional tax regime. The request included a specific fact pattern where entities, in calculating taxable profit under the proposed tax regime falling within the scope of IAS 12, will be permitted to calculate tax depreciation for certain mining assets using the fair value of the assets as of a particular date as the 'starting base allowance', rather than the cost or carrying value of the assets. If there is insufficient profit against which the annual tax depreciation can be used, it is carried forward and is able to be used as a deduction against taxable profit in future years.

The Committee noted that the starting base allowance, including the fair value uplift portion, is attributed to the related assets under the tax regime and will become the basis for depreciation expense for tax purposes. Consequently, the market value uplift forms part of the related asset's 'tax base', as defined in paragraph 5 of IAS 12. The Committee observed that IAS 12 requires an entity to reflect an adjustment to the tax base of an asset that is due to an increase in the deductions available as a deductible temporary difference. Therefore, the Committee noted that a deferred tax asset should be recognised to the extent it meets the recognition criteria in paragraph 24 of IAS 12.

On the basis of this analysis, the Committee tentatively decided not to add this issue to its agenda. The Committee will reconsider this tentative decision at a future meeting.

Issues considered for *Annual Improvements*

The Committee deliberated two issues for potential inclusion within *Annual Improvements*.

Issues recommended for inclusion in the 2011-2013 cycle for *Annual Improvements*

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Revenue-based depreciation method

The Committee received a request to clarify the meaning of the term 'consumption of the expected future economic benefits embodied in the asset' in paragraphs 97 and 98 of IAS 38 when determining the appropriate amortisation method for intangible assets of service concession arrangements. The request included a specific fact pattern where the tariff chargeable to users is contracted in the agreement and a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor's practice so as not to burden consumers.

In a previous meeting, the Committee considered whether a revenue-based, time-based or units-of-production method of amortisation best reflects the economic reality of the underlying contractual terms. The Committee noted that the principle in IAS 38 is that an amortisation method should reflect the pattern of consumption of the expected future economic benefits and not the pattern of generation of expected future economic benefits.

At its March 2012 meeting, the Committee discussed a proposal to amend IAS 16 and IAS 38 to prohibit the use of a depreciation and/or amortisation method that reflects the pattern of generation of economic benefits from operating the business instead of a pattern of consumption of expected future economic benefits of the asset. This amendment is proposed for inclusion in the 2011-2013 cycle for *Annual Improvements*.

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Issues not recommended for inclusion in *Annual Improvements*

IAS 39 *Financial Instruments: Recognition and Measurement* – Term-extending options in fixed rate-debt instruments

The Committee received a request to clarify whether embedded derivatives need to be separated from the host contract under IAS 39 or, when applied, IFRS 9 *Financial Instruments*. The request for clarification relates to whether the issuer of a fixed-rate debt instrument that contains an embedded term-extending option within the scope of IAS 39 or IFRS 9 should separate the term-extending option from the host debt instrument and account for the term-extending option as a derivative, or not separate the term-extending option from the host debt instrument and account for the term-extending option as an integral part of the continuing host debt instrument if the term-extending option is exercised.

At the January 2012 Board meeting, the IASB and US Financial Accounting Standards Board (FASB) decided to jointly redeliberate aspects of their classification and measurement models for financial instruments to seek to reduce key differences. The bifurcation of financial assets is a topic that the boards have agreed to consider jointly along with any related implications for financial liabilities.

Therefore, the Committee decided not to address this issue at this stage given that there is a related Board project currently underway. The Committee requested that the staff make the Board aware of this issue so that the Board can consider whether this issue should fall within the scope of their joint redeliberation.

The Committee further decided that if the Board does not address this issue as part of its redeliberations, then the Committee would revisit this issue and consider whether clarifying guidance should be provided regarding the accounting for the issuer of a fixed-rate-debt instrument that includes a term-extending option.

Other issues considered

IFRS 11 *Joint Arrangements* – Acquisition of interest in a joint operation

The Committee previously considered a request to clarify the accounting by venturers for the acquisition of interests in jointly controlled operations or assets in IAS 31 *Interests in Joint Ventures* and the accounting by joint operators for the acquisition of interests in joint operations, as defined in IFRS 11, when the activities and assets underlying the jointly controlled operations or assets, or the joint operation, constitute a business.

In a previous meeting, the Committee observed that uncertainty exists in accounting for the acquisition of an interest in a joint operation and jointly controlled operations or asset in circumstances where the activity of the joint operation or the jointly controlled operations or assets constitutes a business as defined in IFRS 3 *Business Combinations*. To limit expected future diversity in practice following the adoption of IFRS 11, as the Committee acknowledged that IAS 31 would be superceded by IFRS 11 from 2013, the Committee decided to require application of IFRS 3 to the particular assets and liabilities of a joint operation, including measurement of identifiable assets and liabilities at fair value with few exceptions, and recognition of the residual as goodwill.

At its March 2012 meeting, the Committee tentatively agreed that the proposed amendments should make general reference to the relevant principles in IFRS 3 and other IFRSs and include minimal application guidance. Additionally, proposed amendments would specify that the following core principles of business combination accounting apply which have historically generated diversity in practice: measurement of identifiable assets and liabilities at fair value with few exceptions, recognition of acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39 or, where applied, IFRS 9, recognition of deferred taxes arising from the initial recognition of assets and liabilities except for deferred tax liabilities arising from the initial recognition of goodwill and recognition of the residual as goodwill.

The Committee also discussed but will not address whether the proposed guidance should be applied by a joint operator on the formation of a joint operation.

The staff will seek Board approval of the Committee's recommendation at a future Board meeting.

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IAS 7 *Statement of Cash Flows* – Review of requests in relation to IAS 7
At its January 2012 meeting, the Board discussed two different issues that had been considered by the Committee regarding cash flow classification under IAS 7: classification of cash payments for deferred and contingent consideration arising from a business combination within the scope of IFRS 3 and classification of cash flows for an operator in a service concession arrangement within the scope of IFRIC 12. The Board decided that in advance of considering whether these issues should be addressed through the annual improvements project, it would direct the Committee to collectively analyse these two issues, as well as all of the previous IAS 7 issues that the Committee has discussed regarding the classification of cash flows, and consider whether these issues could be dealt with collectively.

The Committee identified two classification principles used to support its previous decisions: cash flows in IAS 7 should be classified in accordance with the nature of the activity to which they relate following the definitions in paragraph 6 of IAS 7; and cash flows in IAS 7 should be classified consistently with the classification of the related or underlying item in the statement of financial position.

The primary principle behind the classification of cash flows in IAS 7 is that cash flows should be classified in accordance with the nature of the activity to which they relate with consideration to an entity's business model. The Committee noted that it will use this as a guiding principle when analysing future requests on the classification of cash flows. The staff intends to provide the Committee with examples illustrating application of the identified principle at a future meeting.

The Committee directed the staff to discuss its observations with the Board at a future meeting. From this observation, the Committee recommended that the Board should clarify the primary principle behind the classification of cash flows in IAS 7.

SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) – Definition of the term 'non monetary asset' in SIC-13 and IAS 28 (revised 2011)
The Committee received a request to clarify whether a business meets the definition of a 'non-monetary asset' in the context of identifying whether the requirements of SIC-13 and IAS 28 (revised 2011) apply. The submitter believes that there is an inconsistency between the guidance in IAS 27 *Separate Financial Statements* (revised 2011) and SIC-13 for transactions in which a parent contributes interests in a subsidiary to a joint venture (JV) (as defined in IFRS 11)/jointly controlled entity (JCE) (as defined in IAS 31) and this contribution results in a loss of control in the subsidiary by the parent. Paragraph 5 of SIC-13 restricts gains and losses arising from contributions of non-monetary assets to a JCE to the extent of the interest attributable to the other equity holders in the JCE. However, paragraph 34 of IAS 27 (revised 2011) requires full profit or loss recognition on the loss of control of the subsidiary.

In a previous meeting, the Committee acknowledged this inconsistency but noted broader issues in relation to contributions to a JV/JCE or associate in general. Therefore, the Committee concluded that this matter would be best resolved by referring it to the Board as part of a broader project on equity accounting but directed the staff to perform preliminary analysis of possible approaches to resolve the inconsistency between the requirements in IAS 27 (revised 2011) and those in SIC-13 in a timely manner for purposes of recommendation to the Board.

At its March 2012 meeting, the Committee discussed alternatives to address the inconsistency noted. The Committee expressed support for the recognition of the gain on the loss of control of the business (whether the business is housed in a legal entity or not) when contributed to a JCE/JV.

The Committee will ask the Board whether it wants the Committee to consider further how to resolve the inconsistency between IAS 27 (revised 2011) and SIC-13. The Committee also decided to inform the Board that the Committee had not considered the related issue of contributions to joint operations as defined in IFRS 11 and the Committee was therefore not making any recommendations on that issue.

IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 17 *Leases* – Purchase of right to use land
The Committee received a request to clarify whether the purchase of a right to use land ('land right') should be accounted for as a purchase of property, plant and equipment, purchase of an intangible asset or a lease of land. The request included a specific fact pattern where the laws and regulations in the jurisdiction did not permit entities to own freehold title to land. Instead, entities could purchase the right to exploit or build on land.

The Committee asked the staff to bring back a proposal to the next meeting for finalising the issue with the tentative view that a proposal will be made not to add the issue to *Annual Improvements*.

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Committee outstanding issues report

The Committee deferred work on two new issues and five outstanding issues which will be discussed at a future meeting. These issues include:

- IFRS 3 *Business Combinations* issue requesting clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3.
- IAS 12 *Income Taxes* issue requesting clarification of the calculation of deferred tax in circumstances where the entity holds a subsidiary which has a single asset within it.
- IAS 27 *Consolidated and Separate Financial Statements* (revised 2008) issue requesting clarification on how to present the subsequent measurement of gross settled put options written over the equity of a subsidiary (NCI puts).
- IFRIC 15 *Agreements for the Construction of Real Estate* issue requesting clarification of the meaning of "continuous transfer" in IFRIC 15.
- IFRS 3 *Business Combinations* issue requesting clarification on whether IFRS 3 is conclusive in determining that an arrangement in which payments to an employee that are forfeited upon termination is remuneration for post-combination services and not part of the consideration for an acquisition, or whether this is an indicator but does not, on its own, automatically mean that the payment is compensation.
- IAS 38 *Intangible Assets* issue requesting clarification on whether the customer base within a single regulatory regime could be considered as a single unit of account and whether, as a result, this could lead to the recognition of regulatory assets and liabilities.
- IAS 16 *Property, Plant and Equipment* issue requesting clarification on how to account for contingent pricing for the outright purchase of a single item of property, plant and equipment or an intangible asset.

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Key contacts

IFRS global office
Global Managing Director, IFRS Clients and Markets
Joel Osnoss
ifrsglobalofficeuk@deloitte.co.uk

Global Managing Director, IFRS Technical
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

Global IFRS Communications
Randall Sogoloff
ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas		
Canada	Karen Higgins	iasplus@deloitte.ca
LATCO	Fermin del Valle	iasplus-LATCO@deloitte.com
United States	Robert Uhl	iasplusamericas@deloitte.com
Asia-Pacific		
Australia	Anna Crawford	iasplus@deloitte.com.au
China	Stephen Taylor	iasplus@deloitte.com.hk
Japan	Shinya Iwasaki	iasplus-tokyo@tohmatsu.co.jp
Singapore	Shariq Barmaky	iasplus-sg@deloitte.com
Europe-Africa		
Belgium	Laurent Boxus	BEIFRSBelgium@deloitte.com
Denmark	Jan Peter Larsen	dk_iasplus@deloitte.dk
France	Laurence Rivat	iasplus@deloitte.fr
Germany	Andreas Barckow	iasplus@deloitte.de
Luxembourg	Eddy Termaten	luiasplus@deloitte.lu
Netherlands	Ralph ter Hoeven	iasplus@deloitte.nl
Russia	Michael Raikhman	iasplus@deloitte.ru
South Africa	Graeme Berry	iasplus@deloitte.co.za
Spain	Cleber Custodio	iasplus@deloitte.es
United Kingdom	Elizabeth Chrispin	iasplus@deloitte.co.uk

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