

IFRIC Update

From the IFRS Interpretations Committee



September 2012

Welcome to the IFRIC Update

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

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

The IFRS Interpretations Committee met in London on 18 and 19 September 2012, when it discussed:

- Current agenda:
 - 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; and
 - IAS 19 *Employee Benefits*—Accounting for contribution based promises—Reconsideration of Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*.
- Interpretations Committee agenda decisions
- Interpretations Committee tentative agenda decisions
- Interpretations Committee work in progress

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Future IFRS Interpretations Committee meetings

The next meetings are:
13 and 14 November 2012
22 and 23 January 2013
12 and 13 March 2013
14 and 15 May 2013
16 and 17 July 2013
10 and 11 September 2013
12 and 13 November 2013 Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB [website](#) before the meeting. Instructions for submitting requests for Interpretations are given on the IASB website [here](#).

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Current agenda

The Interpretations Committee discussed the following issues, which are on its current agenda.

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).

The Interpretations Committee noted that the issue of variable concession fees is linked to the broader issue of contingent payments for the separate purchase of PPE and intangible assets outside of a business combination. This broader issue was previously discussed, but not concluded on, by the Interpretations Committee in 2011.

At this meeting, the Interpretations Committee discussed:

- a. whether the principles that the IASB is developing in the Leases project should be used as the basis for the accounting for variable payments for the separate purchase of PPE and intangible assets; and
- b. what amendments would need to be made to IFRSs to enable the accounting for variable payments for the separate acquisition of PPE and intangible assets to be consistent, as much as possible, with the principles in the Leases project.

The Interpretations Committee observed that there is currently diversity in practice regarding the accounting for variable payments for the separate purchase of PPE and intangible assets. Some Interpretations Committee members expressed reservations about applying the principles in the Leases project to the accounting for such variable payments because the Leases project is not yet completed and the timing of publication of the final Standard is uncertain.

The Interpretations Committee directed the staff to prepare a paper to be presented at a future meeting that will present the different models discussed so far by the Interpretations Committee for the accounting for variable payments, such as:

- a. the 'financial liability model', based on the principles in IAS 32, IAS 39 and IFRS 9 on the accounting for a financial liability;
- b. the 'IFRS 3 model', based on the accounting for contingent consideration in IFRS 3 *Business Combinations*;
- c. the 'IAS 16/IAS 37 model', based on the principles in IAS 16, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; and
- d. the 'Leases model', based on the tentative decisions taken so far by the IASB in the Leases project.

The Interpretations Committee also directed the staff to propose alternatives that focus on the accounting for the debit side of the transaction (rather than on the recognition and measurement of the liability) and that consider whether there are circumstances in which the remeasurement of the liability should be included as an adjustment to the cost of the asset.

IAS 19 **Employee Benefits**—Accounting for contribution-based promises: reconsideration of Draft Interpretation D9 **Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions**

At its meeting in July 2012 the Interpretations Committee tentatively decided to continue working towards limited-scope proposals on accounting for contribution-based promises. The Interpretations Committee also tentatively decided that the scope of the proposals should be similar to the scope of D9 and that staff should undertake further outreach on scope and measurement on the types of plans that could fall within the Interpretations Committee's work. The Interpretations Committee also noted its concern that the scope of the proposals it is working towards would not be sufficiently narrow.

At this meeting, the Interpretations Committee was presented with a summary of the outreach performed by staff on the types of plans that the Interpretations Committee should consider. The outreach confirmed that the staff have identified the major types of plans to be considered. The outreach also confirmed that there is general support among the respondents for addressing the accounting for these kinds of plans, especially because there is divergence in how they are accounted for currently.

On the basis of the outreach performed, the staff presented revised proposals for the scope of the Interpretations Committee's work.

The Interpretations Committee tentatively decided that employee benefit plans should fall within the scope of its work if they have the following characteristics

- a. the plans would be classified as defined contribution plans under IAS 19 (or would be defined contribution plans if they were funded by actual rather than notional contributions) if not for the guarantee provided by the employer on the return of the contributions made;
- b. the contributions made to the plans can be notional contributions (ie whether the plans are funded or not should not affect the basis of accounting for these plans);
- c. there should be a guarantee of return by the employer on the contributions (notional contributions) made;
- d. the benefit under the plans should not be dependent on future events (eg salary changes, vesting or demographic risk); and
- e. the guarantee under the plan may be based on the value of one or more underlying assets.

The Interpretations Committee also tentatively decided that an employee post-employment benefit plan or other employee long-term benefits would fall within the scope of the Draft Interpretation if the employer has a legal or constructive obligation to pay further contributions and the fund does not hold sufficient assets to cover all employee benefits relating to employee service in the current and prior periods in respect of:

- a. a promised return on contributions, actual or notional; or
- b. any other guarantee on contributions, actual or notional, based on the value of one or more underlying assets.

The staff will bring proposals on measurement and presentation to a future Interpretations Committee meeting.

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Interpretations Committee agenda decisions

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

IAS 16 **Property, Plant and Equipment**, IAS 38 **Intangible Assets** and IAS 17 **Leases**—
Purchase of right to use land

In January 2012, the Interpretations Committee received a request to clarify whether the purchase of a right to use land should be accounted for as a:

- purchase of property, plant and equipment;
- purchase of an intangible asset; or
- lease of land.

In the fact pattern submitted, the laws and regulations in the jurisdiction concerned do not permit entities to own freehold title to land. Instead, entities can purchase the right to exploit or build on land. According to the submitter, there is diversity in practice in the jurisdiction on how to account for a land right.

The Interpretations Committee identified characteristics of a lease in the fact pattern considered, in accordance with the definition of a lease as defined in IAS 17. The Interpretations Committee noted that a lease could be indefinite via extensions or renewals and, therefore, the existence of an indefinite period does not prevent the 'right to use' from qualifying as a lease in accordance with IAS 17. The Interpretations Committee also noted that the lessee has the option to renew the right and that the useful life for depreciation purposes might include renewal periods. Judgement will need to be applied in making the assessment of the appropriate length of the depreciation period.

The Interpretations Committee, notwithstanding the preceding observations, noted that the particular fact pattern is specific to one jurisdiction. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.

IAS 19 **Employee Benefits**—Accounting for contribution-based promises: impact of the 2011 amendments to IAS 19

The Interpretations Committee received a request for clarification about the accounting in accordance with IAS 19 (2011) for contribution-based promises. An underlying concern in the submission was whether the revisions to IAS 19 in 2011 that, for example, clarified the treatment of risk-sharing features related to defined benefit obligations, affect the accounting for contribution-based promises.

The Interpretations Committee noted that the 2011 amendments to IAS 19 clarified the treatment of risk-sharing features (described in paragraph BC144 as features that share the benefit of a surplus or the cost of a deficit between the employer and the plan participants or benefit plans that provide benefits that are conditional to some extent on whether there are sufficient assets in the plan to fund them). The Interpretations Committee noted that the IASB did not intend to address elements specific to contribution-based promises in the amendments. Accordingly, the Interpretations Committee does not expect the 2011 amendments to cause changes to the accounting for contribution-based promises unless such promises also include elements of risk sharing arrangements between employees and employers. Finally, the Interpretations Committee noted that the IASB expressed, in paragraph BC148 of the revised Standard, that addressing concerns about the measurement of contribution-based promises and similar promises was beyond the scope of the 2011 amendments.

On the basis of the analysis described above, the Interpretations Committee decided not to add the issue to its agenda. It is, however, working towards proposals to address the accounting for contribution-based promises (see the Interpretations Committee's current agenda).

IAS 39 **Financial Instruments: Recognition and Measurement**—Derecognition of financial instruments upon modification

The Interpretations Committee received a request for guidance on the circumstances in which the restructuring of Greek government bonds (GGB) should result in derecognition in accordance with IAS 39 of the whole asset or only part of it. In particular, the Interpretations Committee has been requested to consider whether:

- the portion of the old GGBs that are exchanged for twenty new bonds with different maturities and interest rates should be derecognised, or conversely accounted for as a modification or transfer that would not require derecognition?
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would be applicable in analysing the submitted fact pattern?
- either paragraphs AG8 or AG62 of IAS 39 would be applicable to the fact pattern submitted if the GGBs were not derecognised?

Exchange of financial instruments: derecognition?

The Interpretations Committee noted that the request has been made within the context of a narrow fact pattern. The narrow fact pattern highlights the diversity in views that has arisen in relation to the accounting for the portion of the old GGBs that is exchanged for twenty new bonds with different maturities and interest rates. The submitter asked the Interpretations Committee to consider whether these should be derecognised, or conversely accounted for as a modification or transfer that would not require derecognition.

In addition, the Interpretations Committee has been asked to consider whether IAS 8 would be applicable in analysing the submitted fact pattern, and whether the exchange can be considered to be a transfer within the scope of paragraph 17(b) of IAS 39.

The Interpretations Committee observed that the term 'transfer' is not defined in IAS 39. However, the potentially relevant portion of paragraph 18 of IAS 39 states that an entity transfers a financial asset if it transfers the contractual rights to receive the cash flows of the financial asset. The Interpretations

Committee noted that, in the fact pattern submitted, the bonds are transferred back to the issuer rather than being transferred to a third party. Accordingly, the Interpretations Committee believed that the transaction should be assessed against paragraph 17(a) of IAS 39.

In applying paragraph 17(a), the Interpretations Committee noted that, in order to determine whether the financial asset is extinguished, it is necessary to assess the changes made as part of the bond exchange against the notion of 'expiry' of the rights to the cash flows. The Interpretations Committee also noted that, if an entity applies IAS 8 because of the absence in IAS 39 of an explicit discussion of when a modification of a financial asset results in derecognition, applying IAS 8 requires judgement to develop and apply an accounting policy. Paragraph 11 of IAS 8 requires that, in determining an appropriate accounting policy, consideration must first be given to the requirements in IFRSs that deal with similar and related issues. The Interpretations Committee noted that, in the fact pattern submitted, that requirement would lead to the development of an analogy to the notion of a substantial change of the terms of a financial liability in paragraph 40 of IAS 39.

Paragraph 40 sets out that such a change can be effected by the exchange of debt instruments or by modification of the terms of an existing instrument. Hence, if this analogy to financial liabilities is applied to financial assets, a substantial change of terms (whether effected by exchange or by modification) would result in derecognition of the financial asset.

The Interpretations Committee noted that, if the guidance for financial liabilities is applied by analogy to assess whether the exchange of a portion of the old GGBs for twenty new bonds is a substantial change of the terms of the financial asset, the assessment needs to be made taking into consideration all of the changes made as part of the bond exchange.

In the fact pattern submitted, the relevant facts led the Interpretations Committee to conclude that, in determining whether the transaction results in the derecognition of the financial asset, both approaches (ie extinguishment under paragraph 17(a) of IAS 39 or substantial change of the terms of the asset) would result in derecognition.

The Interpretations Committee considered the following aspects of the fact pattern in assessing the extent of the change that results from the transaction:

- A holder of a single bond has received, in exchange for one portion of the old bond, twenty bonds with different maturities and cash flow profiles as well as other instruments in accordance with the terms and conditions of the exchange transaction.
- All of the bond-holders received the same restructuring deal irrespective of the terms and conditions of their individual holdings. This indicates that the individual instruments, terms and conditions were not taken into account. The different bonds (series) were not each modified in contemplation of their respective terms and conditions but were instead replaced by a new uniform debt structure.
- The terms and conditions of the new bonds are substantially different from those of the old bonds. The changes include many different aspects, such as the change in governing law; the introduction of contractual collective action clauses and the introduction of a co-financing agreement that affects the rights of the new bond holders; and modifications to the amount, term and coupons.

The Interpretations Committee noted that the starting point that it used for its analysis was the assumption in the submission that the part of the principal amount of the old GGBs that was exchanged for new GGBs could be separately assessed for derecognition. The Interpretations Committee emphasised that this assumption was more favourable for achieving partial derecognition than looking at the whole of the old bond. Hence, its conclusion that the old GGBs should be derecognised would apply even more so when taking into account that the exchange of the old GGBs was, as a matter of fact, the result of a single agreement that covered all aspects and types of consideration for surrendering the old GGBs. As a consequence, the Interpretations Committee noted that partial derecognition did not apply.

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

Application of paragraphs AG62 or AG8 of IAS 39 to the submitted fact pattern

The Interpretations Committee noted that the questions raised by the submitter assume that the old

GGBs in the fact pattern would not be derecognised. In the submitted fact pattern, the Interpretations Committee concluded that the old GGBs are derecognised. The Interpretations Committee noted that, because of its conclusion on derecognition, these questions did not need to be answered.

IAS 39 **Financial Instruments: Recognition and Measurement**—Classification of a GDP-linked security

The Interpretations Committee received a request for guidance on the appropriate accounting for the GDP-linked security that was offered as part of the restructuring of Greek Government bonds (GGB).

The submitter noted that IAS 39 refers to a ‘non-financial variable that is not specific to a party to the contract’ but does not define the meaning of that term. The Interpretations Committee noted that the four alternatives in the submitted fact pattern were based on the assumption that the indexation to the issuer’s GDP is a non-financial variable specific to a party to the contract. The Interpretations Committee noted that the question of what constitutes an underlying that is a non-financial variable specific to a party to the contract had been considered on several previous occasions by itself and by the IASB. Consequently, the Interpretations Committee was concerned that it would not be able to resolve the issue efficiently within the confines of existing IFRSs and the *Conceptual Framework* and the demands of the Interpretation process and that it was not likely that it would be able to reach a consensus on the issue on a timely basis. The Interpretations Committee therefore considered that the question of whether the assumption in the submission is appropriate would remain open.

However, the Interpretations Committee thought that it could highlight some aspects that should be considered when assessing the accounting for the GDP-linked securities:

- The GDP-linked security is a structured option that entitles the holder to cash payments depending on the nominal and the real GDP of the issuer exceeding particular thresholds.
- Mandatory classification as at fair value through profit or loss only applies, by definition, if the GDP-linked security is a derivative or is otherwise held for trading.
- The definition of loans and receivables in paragraph 9 of IAS 39 excludes those financial assets “for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale”.
- The definition of held-to-maturity investments requires that an entity has the positive intention and ability to hold that financial asset to maturity. The application guidance in IAS 39 clarifies that “the criteria for classification as a held-to-maturity investment are met for a financial asset that is callable by the issuer if the holder intends and is able to hold it until it is called or until maturity and the holder would recover substantially all of its carrying amount”.
- Unless the GDP-linked securities are classified as at fair value through profit or loss they would be classified as available-for-sale debt instruments.
- Entities should consider the operational complexities of applying the effective interest method to the GDP-linked securities, because of their complex cash flow profile.

The Interpretations Committee considered that no clarification of IAS 39 was required. Even if changes were required, the Interpretations Committee considered that IFRS 9 already used a different classification for financial assets. Consequently, the Interpretations Committee decided not to add the issue to its agenda.

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Interpretations Committee tentative agenda decisions

*The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to the Interpretations Committee’s agenda. These tentative decisions, including recommended reasons for not adding the items to the Interpretations Committee’s agenda, will be reconsidered at the Interpretations Committee meeting in January 2013. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by **26 November 2012** to ifric@ifrs.org. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

IFRS 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) to (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 should lead to a conclusion that the arrangement is compensation for post-combination services rather than additional consideration for an acquisition, unless the arrangement is not substantive.

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 FASB would arise after the conclusion of the Post-Implementation Review of FASB Statement No. 141R.

After evaluating the potential effects of this issue, the Interpretations Committee [decided] not to add this issue to its agenda at this time to avoid creating divergence with US GAAP on a Standard that had previously achieved convergence.

IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements*—Non-cash acquisition of non-controlling interest by a controlling shareholder in the consolidated financial statements

The Interpretations Committee received a request for guidance on the accounting for the purchase of a non-controlling interest (NCI) by the controlling shareholder when the consideration includes non-cash items. More specifically, the submitter asked the Interpretations Committee to clarify whether the difference between the fair value of the consideration given and the carrying amount of such consideration should be recognised in equity or in profit or loss. The submitter asserted that according to paragraph 31 of IAS 27 the difference described should be recognised in equity, whereas applying IFRIC 17 *Distributions of Non-cash Assets to Owners* by analogy the difference should be recognised in profit or loss. The submitter asked the Interpretations Committee to resolve this apparent conflict between IAS 27 and IFRIC 17.

The Interpretations Committee noted that paragraph 31 of IAS 27 deals solely with the difference between the carrying amount of NCI and the fair value of the consideration given; this difference is required to be recognised in equity. This paragraph does not deal with the difference between the fair value of the consideration given and the carrying amount of such consideration. The difference between the fair value of the assets transferred and their carrying amount arises from the derecognition of those assets. IFRSs generally require an entity to recognise, in profit or loss, any gain or loss arising from the derecognition of an asset.

Consequently, the Interpretations Committee concluded that in the light of the existing IFRS requirements, an interpretation or an amendment to IFRS was not necessary and consequently [decided] not to add this issue to its agenda.

IAS 28 *Investment in Associates*—Impairment of investments in associates in separate financial statements

In the July 2012 meeting, the Interpretations Committee received an update on the issues that have been referred to the IASB and that have not yet been addressed. The Interpretations Committee asked the staff to update the analysis and perform further outreach on an issue regarding the impairment of investments in associates in separate financial statements. More specifically, the issue is whether, in its

separate financial statements, an entity should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test for impairment its investments in subsidiaries, joint ventures, and associates carried at cost.

The Interpretations Committee noted that according to paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements* an entity, in its separate financial statements, shall account for investments in subsidiaries, joint ventures and associates either at cost or in accordance with IAS 39.

The Interpretations Committee also noted that according to paragraphs 4 and 5 of IAS 36 and paragraph 2(a) of IAS 39 investments in subsidiaries, joint ventures, and associates accounted for at cost are within the scope of IAS 36, while investments in subsidiaries, joint ventures, and associates accounted for in accordance with IAS 39 are within the scope of that Standard. Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test for impairment its investments in subsidiaries, joint ventures, and associates that are carried at cost.

The Interpretations Committee concluded that in the light of the existing IFRS requirements an interpretation or an amendment to IFRSs was not necessary and consequently [decided] not to add this issue to its agenda.

IAS 39 *Financial Instruments: Recognition and Measurement* Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income

The Interpretations Committee discussed the ramifications of the economic phenomenon of negative interest rates for the presentation of income and expenses in the statement of comprehensive income.

The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 *Revenue* because it reflects a gross outflow, instead of a gross inflow, of economic benefits. The Interpretations Committee also noted that this amount is not an interest expense because it arises on a financial asset instead of on a financial liability of the entity. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue or interest expense, but in some other appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 85 and 112(c) of IAS 1 *Presentation of Financial Statements*, the entity is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item.

The Interpretations Committee considered that in the light of the existing IFRS requirements an interpretation was not necessary and consequently [decided] not to add the issue to its agenda.

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Interpretations Committee's work in progress

IFRS 3 *Business Combinations* and **IFRS 2 *Share-based Payment***—Accounting for reverse acquisitions that do not constitute a business

The Interpretations Committee received a request for clear guidance for the accounting for reverse acquisition transactions in which the accounting acquiree is not a business. IFRS 3 does not provide guidance for reverse acquisitions in which the accounting acquiree is not a business and as a consequence there is diversity in practice.

The Interpretations Committee analysed two fact patterns (included in the two different submissions that the Committee had received) in which a non-operating entity that has a public listing is used to provide an existing non-listed operating entity with a market listing by combining the non-operating entity with the operating entity in such a way that:

- a. the merged/consolidated entity retains the non-operating entity's listing;
- b. the former shareholders of the operating entity become the majority shareholders of the combined entity; and

- c. there is a difference between the consideration received from the accounting acquiree and the consideration transferred by the accounting acquirer.

The Interpretations Committee tentatively observed that a reverse acquisition transaction, with such fact patterns as described above in which the accounting acquiree is not a business, is a share-based payment transaction that would be accounted for in accordance with IFRS 2 *Share-based Payment*. This is because the non-listed operating entity (in both fact patterns) has issued shares in return for obtaining a service (ie a listing) from the non-operating entity. The Interpretations Committee also tentatively observed that in the two fact patterns examined the legal acquirer would be identified and accounted for as the accounting acquiree in accordance with paragraph B19–B27 of IFRS 3 for reverse acquisitions. This guidance would be applied by analogy in accordance with paragraphs 10 to 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Interpretations Committee tentatively noted that, in applying the guidance in B19–B27 of IFRS 3, the consideration transferred by the accounting acquirer would be based on the number of equity interests that the non-listed operating entity would have had to issue to give the listed entity the same percentage equity interest in the combined entity that results from a reverse acquisition.

The Interpretations Committee further tentatively noted that the difference between the amount of the consideration transferred and the identifiable assets acquired (ie cash and/or other net assets that do not constitute a business) would be recognised as an expense, representing the cost of the service received (the listing). In addition, some Interpretations Committee members observed that in some jurisdictions, companies would identify within this amount incremental transaction costs directly attributable to the issue of equity instruments. Transaction costs of an equity transaction are accounted for as a deduction from equity, in accordance with IAS 32 *Financial Instruments: Presentation*.

The Interpretations Committee requested the staff to draft a tentative agenda decision that would include the main issues addressed in this discussion for consideration at a future meeting.

IAS 19 *Employee Benefits*—Measurement of the net defined benefit obligation (DBO) for post employment benefit plans with employee contributions

In May 2012, the Interpretations Committee received a request for clarification on paragraph 93 of IAS 19 *Employee Benefits*. The Standard was issued in 2011 and will be effective for annual periods beginning on or after 1 January 2013.

The submitter thinks that paragraph 93 of IAS 19 was intended to address measurement of the net DBO for plans in which the risk of plan deficits and surpluses is shared with employees through their contributions to the plan. However, the submitter is concerned that the guidance would affect any plan with employee contributions, resulting in a change in measurement of the net DBO for virtually all of those plans. The submitter thinks that this is an unintended consequence of the language in paragraph 93 of IAS 19.

The Interpretations Committee noted that, in meetings on 1 and 2 February 2011, the IASB discussed various aspects of risk-sharing features based on the comments received on the Exposure Draft *Defined Benefit Plans* published in March 2010. One of the aspects discussed was how to account for the effect of employee contributions.

The Interpretations Committee observed that the proposals in the Exposure Draft, the IASB's decision at its meetings in February 2011 and the requirements in paragraph 93 of IAS 19 are consistent with each other. They all require that employee contributions, including expected future contributions resulting from employee service in the current and prior periods, should be considered in calculating the DBO.

Nonetheless, taking into account the general concern of the submitter and other interested parties—that it is not clear how to account for employee contributions—the Interpretations Committee asked the staff to bring to a future meeting some specific examples of how to account for employee contributions in accordance with paragraph 93 of IAS 19, so that the Interpretations Committee can decide how it should address this issue.

IAS 40 **Investment Property**—Accounting for a structure that appears to lack the physical characteristics of a building

The Interpretations Committee received a request to clarify whether telecommunication towers in a jurisdiction should be accounted for as property, plant and equipment (PP&E), in accordance with IAS 16 *Property, Plant and Equipment*, or as an investment property, in accordance with IAS 40 *Investment Property*. The request describes a circumstance in which an entity owns telecommunication towers and receives rent revenue in exchange for leasing spaces in the towers to telecommunication operators to which they attach their own devices. The entity provides some basic services to the telecommunication operators such as maintenance services. In this request, the submitter is specifically seeking a clarification on:

- a. whether a telecommunication tower should be viewed as a 'building' and thus 'property', as described in paragraph 5 of IAS 40; and
- b. how the service element in the leasing agreement and business model of the entity should be taken into consideration when analysing this issue.

The Interpretations Committee noted that central to this issue is the meaning of the term 'building' in paragraph 5 of IAS 40, which could determine whether the tower meets the definition of investment property for the purpose of IAS 40. The Interpretations Committee also noted that an entity is required to assess whether ancillary services provided by the entity are significant to the arrangement as a whole; the provision of significant ancillary services would require a property to be accounted for as PP&E rather than as investment property.

The Interpretations Committee observed that the tower in the submission has some of the characteristics of investment property, in that spaces in the tower are let to tenants to earn rentals. However, the Interpretations Committee questioned whether the tower qualifies as a 'building' because it lacks features usually associated with a building such as walls, floors and a roof.

The Interpretations Committee observed that the same question could arise about other structures, such as gas storage tanks and advertising billboards. The Interpretations Committee understands that the rental of spaces in telecommunication towers appears to be an emerging business model.

On the basis of the discussions above, the Interpretations Committee requested the staff to analyse this issue further and to consider whether amendments to the scope of IAS 40 could or should be made. The analysis will be discussed at a future meeting.

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

The Interpretations Committee received a request for clarification on paragraph 25 of IAS 41. This paragraph permits the use of a residual method to determine 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, when using the residual method, the use of the fair value of land (ie based on its highest and best use as required by IFRS 13), when its highest and best use is different from its current use, might result in a minimal or nil fair value for the biological assets.

The Interpretations Committee observed that, in the situation submitted, the land in the asset group would provide maximum value to market participants on a stand-alone basis and used in a manner different from its current use (ie if it were used at its highest and best use). The valuation premise in IFRS 13 requires that the fair value of the other assets within the asset group, including biological assets and land improvements, must also reflect their use on a stand-alone basis because on that basis the asset group as a whole provides maximum value to market participants. Consequently, the fair value of the biological assets might be minimal or nil when the residual method is used. However, the Interpretations Committee also noted that IAS 41 does not require the use of the residual method.

The Interpretations Committee noted that the IASB will discuss at its September 2012 meeting whether to add a limited-scope project on IAS 41 for bearer biological assets to its technical agenda. Consequently, the Interpretations Committee decided to await the results of the IASB's discussions

before the Interpretations Committee issues a tentative agenda decision on this issue.

The staff will inform the Interpretations Committee of the results of the IASB's discussions at the November Interpretations Committee meeting so that the Interpretations Committee can decide how to finalise this issue.

Interpretations Committee work in progress update

The Interpretations Committee received a report on four new issues and on three ongoing issues for consideration at a future meeting. The report also included one issue that is on hold and will be considered again at a future meeting. With the exception of those issues, all requests received and considered by the staff were discussed at this meeting.

The Interpretations Committee noted that as part of the feedback received on its discussion of the derecognition of financial instruments upon modification (see under agenda decisions), it had received a request that it should recommend to the IASB that it should develop guidance on the meaning of 'expiry' in the context of derecognising financial assets.

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