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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	**33. IFRS-FA / 02.12.2014 / 10:00 – 11:00 Uhr**
TOP:	**08 – Interpretationsthemen**
Themen:	**IFRS IC-Sitzung November 2014**
Unterlage:	**33_08_IFRS-FA_Interpret_CN**

1 Sitzungsunterlagen für diesen TOP

1 Für diesen Tagesordnungspunkt (TOP) der Sitzung liegen folgende Unterlagen vor:

Nummer	Titel	Gegenstand
33_08	33_08_IFRS-FA_Interpret_CN	Cover Note
33_08a	33_08a_IFRS-FA_Interpret_Update	IFRIC Update November 2014

Stand der Informationen: 20.11.2014.

2 Ziel der Sitzung

2 Der IFRS-FA soll Kenntnis über die Themen und Entscheidungen der IFRS IC-Sitzung am 11. November 2014 erhalten. Das IFRS IC hat sowohl **vorläufige Agenda-Entscheidungen (TAD)** als auch **endgültige Agenda-Entscheidungen (AD)** getroffen; zudem wurden zwei Themen zur Aufnahme in den **nächsten AIP-Zyklus** vorgeschlagen (zu allem siehe IFRIC Update 11/2014, zugleich Unterlage **33_08a**). Ergänzende Hintergrundinformationen dazu finden sich in Abschnitt 3 dieser Covernote.

3 Diese Sitzungsunterlage ist wie folgt gegliedert:

- Abschnitt 3.1: Detailinformationen bzgl. TAD zu laufenden Themen;
- Abschnitt 3.2: Detailinformationen bzgl. TAD zu neuen Themen;
- Abschnitt 3.3. Detailinformationen bzgl. AD;
- Abschnitt 3.4. Detailinformationen bzgl. AIP-Vorschläge.

4 In allen Abschnitten wird je Thema dargestellt, inwieweit sich das DRSC bzw. der IFRS-FA bereits mit dem Thema befasst hat (Outreach Request, IFRS-FA-Sitzungen, ggf. Stellungnahmen). Somit lässt sich die Entscheidung vor dem Hintergrund der bisherigen DRSC-Sicht beurteilen. Bei den AD wird zusätzlich dargestellt, ob diese endgültige IFRS IC-Entscheidung in Einklang mit oder abweichend von der früheren TAD ist.

3 Informationen im Detail

3.1 Vorläufige Agenda-Entscheidungen (Items for Continuing Consideration)

5 In der IFRS IC-Sitzung im November 2014 wurde folgende vorläufige Agenda-Entscheidung (TAD) getroffen:

IAS/IFRS	Thema	TAD
IFRS 11	*Several issues*	**NIFRIC (different issues with different reasons), aggregate publication of the decisions on all issues**

3.1.1 Zu IFRS 11 – *Several issues*

6 Mehrere Anfragen betreffend IFRS 11 gingen Mitte 2013 beim IFRS IC ein. Im Juli 2013 hatte das IFRS IC einen *Outreach Request* hierzu gestartet und darin diverse Fragen aufgeworfen. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Request

The IFRS IC has received several requests to clarify the application of the requirements of IFRS 11. The issues raised deal with:

- the classification of a joint arrangement as a joint venture or a joint operation; and
- the accounting for joint operations.

According to the submitters, there are currently different interpretations on how the requirements of IFRS 11 should be applied. Following the suspension of work on the development of educational material on IFRS 11, and before addressing those submissions, we would like to understand if there are other significant implementation issues that we should also consider. Consequently we are sending this outreach request. We would like to know whether:

- the issues and views that have been raised regarding the application of IFRS 11 have been appropriately summarised in the section below; and
- there are, to your knowledge, additional significant issues that have been raised regarding the application of IFRS 11 that we should take into consideration.

2. Issues/Questions

Classification of joint arrangements

Q1. Should the assessment of 'other facts and circumstances' be based only on contractual (and legal) enforceable terms?

The different interpretations that are being discussed are the following:

(a) View 1: Yes, the assessment of the parties' rights and obligations when considering 'other facts and circumstances' (as described in IFRS 11.B29-B32) is based on enforceable terms. By definition, rights and obligations must arise from contractual and/or legal enforceable terms. A right or an obligation that is not enforceable is not a right or an obligation.

(b) View 2: No, economic compulsion on the joint arrangement to sell to the parties and on the parties to purchase the output from the arrangement (without the contractual and legal requirement to do so) is sufficient. Some arrangements are designed so that realistically the joint arrangement can only sell to the parties and the parties are economically compelled to purchase the output. The notion of economic compulsion is consistent with the reference to 'design' and 'in substance' in IFRS 11.B31-B32.

(c) View 3: No, intention alone is sufficient. The 'other facts and circumstances' test is an in-substance test and therefore intention evidenced through design is sufficient to meet the test on its own. IFRS 11.B31-B32 focuses on the design of the arrangement. No mention is made of the need for a contract or even for economic compulsion or similar.

Q2. When the parties have an obligation to purchase substantially all the output produced by the arrangement, does the fact that the output is sold at a market price prevent the arrangement from being classified as a joint operation?

The different interpretations that are being discussed are the following:

(a) View 1: No, the parties' obligation to purchase substantially all of the output produced by the arrangement indicates that the arrangement is a joint operation (see IFRS 11.B31-B32). The relevant factor is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their obligation to purchase the output produced by the arrangement (see IFRS 11.B32).

(b) View 2: Yes, the parties' obligation to purchase substantially all of the output produced by the arrangement is not sufficient. The relevant factor is that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. The parties do not have an obligation for the liabilities if the market price can fluctuate and be lower than a cost price or a cost-plus price (ie a price that covers all the costs incurred by the joint arrangement).

Q3. When assessing 'other facts and circumstances', does financing from a third party prevent an arrangement from being classified as a joint operation?

The different interpretations that are being discussed are the following:

(a) View 1: No, not if it is guaranteed by the parties. The guarantee is an in-substance obligation. IFRS 11.B32 requires the parties to be substantially the only source of cash flows contributing to the continuity of operations of the arrangement. The guarantee provided by the parties means that in substance the liability will be settled by the parties, either through cash flows from the purchase of output or by making good on the guarantee.

(b) View 2: No, not if it is during the pre-production, construction phase. Pre-production activities are not relevant, because the focus of the other facts and circumstances test is on the production phase, i.e. when output is produced and is available for purchase. Therefore, only facts and circumstances in the production phase should be considered. Furthermore, as long as the requirements are met in the production phase, the joint operation classification is not precluded because ultimately the construction phase liabilities will be settled by production phase cash flows, which will come from the parties.

(c) View 3: Yes. If the joint arrangement has the ability to draw on third parties for cash, for example to enable it to pay its liabilities to contractors, then the parties are not substantially the only source of cash flows contributing to the continuity of operations of the arrangement; and this is contrary to the requirement in IFRS 11.B32.

<u>Q4. When assessing 'other facts and circumstances', should the assessment be made at the level of the parties as a group or by each party in isolation?</u>

The Standard does not specify whether the assessment of 'other facts and circumstances' should be made at the level of the parties as a group or by each party in isolation. This distinction becomes significant for joint arrangements for which a requirement to purchase the output is entered into by some, but not all, of the parties. For example, when one of the parties is obliged to purchase all of the output of the joint arrangement. The different interpretations that are being discussed are the following:

(a) View 1: a single assessment should be performed at the level of the joint arrangement. Performing a single assessment considering the parties as a group is consistent with the Standard's repeated references to classification of "the arrangement" (implying that the classification of an arrangement should be the same for all parties) and, specifically, with the wording of IFRS 11 (paragraph B31-2) which refers to "the parties" (seemingly as a single unit) having rights to the economic benefits of the assets of the arrangement and obligations for its liabilities as a result of being the only source of cash flows contributing to its continuity.

(b) View 2: separate assessments should be performed by each party to the joint arrangement. In order to meet the stated objective of IFRS 11 (as described in IFRS 11.BC9) of reflecting "the rights and obligations that the parties have as a result of their interests in the arrangements", it is necessary for each party to assess its rights and obligations separately. In addition, proponents note that IFRS 11.BC11 indicates that "an entity" (in the singular) should apply the principles of the Standard to each of its joint arrangements and recognise, as a result, the rights and obligations arising from each of them and the statement in IFRS 11.B20 that whether a party is a joint operator or a joint venturer depends on "the party's" rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle (seemingly implying that the analysis is performed from the perspective of each party).

Accounting for joint arrangements

<u>Q5. How should the parties to a joint operation account for their share of assets and liabilities when the share of output purchased by the parties from the arrangement differs from the parties' ownership interest in the arrangement?</u>

The different interpretations that are being discussed are the following:

(a) View 1: the parties should account for their share of assets and liabilities based on the share of output purchased by the parties from the arrangement if this determines the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement. The classification of a joint arrangement (and, as a result, its accounting) depends upon the rights and obligations of the parties to the arrangement (see IFRS 11.14-16, BC38, BC43). When the parties' share of output purchased is used for the accounting for the parties' share in the underlying assets and liabilities related to the arrangement and differs from the parties' ownership interest in the arrangement, it raises additional questions on how to account for the imbalance between the amount invested by each party and the amounts recognised by each party for the share of assets and share of liabilities. One approach is to consider that one party is funding, in substance, the acquisition of the other party's share of assets.

(b) View 2: the parties should account for their share of assets and liabilities based on their ownership interest in the arrangement. IFRS 11 does not specify how to account for the imbalance between the amount invested by each party and the amounts recognised by each party for the share of assets and share of liabilities both at inception of the joint operation and on an ongoing basis.

7 Die DRSC-Antwort vom 5. August 2013 hierzu lautete wie folgt:

A. Does the document sent appropriately summa¬rise the issues and views that have been raised regarding the application of IFRS 11?

With respect to all 5 following questions, we do not know whether there are other views, which are being discussed in addition to the views des¬cribed in the document you provided to us.

Classification of joint arrangements

Q1: Should the assessment of 'other facts and circumstances' be based only on contractual (and legal) enforceable terms?

Generally it appears that view 1 largely finds support, while view 2 would need to be evaluated in the context of individual facts and circumstances for each individual case (with the challenging task how to determine 'economic compulsion'). View 3 finds little or even no support.

Q2: When the parties have an obligation to purchase substantially all the output produced by the arrangement, does the fact that the output is sold at a market price prevent the arrangement from being classified as a joint operation?

Generally it appears that view 1 largely finds support, whereas there is little or no support for view 2. However, in the context of this question it has been stressed that it is important to assess all relevant facts and circumstances.

Q3: When assessing 'other facts and circumstances', does financing from a third party prevent an arrangement from being classified as a joint operation?

Overall, there was the impression that question 3 is not well drafted so that the issue in the given context and considering Example 5 to IFRS 11.B32 is not clear. Put differently: one specific aspect is the subject of this question, although the answer to the question shall be based on all pertinent facts and circumstances. This appears to be a contradiction.

Q4: When assessing 'other facts and circumstances', should the assessment be made at the level of the parties as a group or by each party in isolation?

Generally it appears that view 1 largely finds support. With respect to view 2, only two participants in the call wouldn't rule out possible circumstances, which would lead to separate assessments to be performed by each party of the joint arrangement. However, it was made clear, that such circumstances are rare.

Accounting for joint arrangements

Q5: How should the parties to a joint operation account for their share of assets and liabilities when the share of output purchased by the parties from the arrangement differs from the parties' ownership interest in the arrangement?

This subject to a large extent is still in discussion. Some support view 2 and, in exceptional cases, would consider it appropriate to follow View 1. Others see merits equally in both views. Overall and due to the significance of this issue, one audit firm strongly prefers the IASB addressing the issue by clarifying it as an amendment to the standard (ie narrow scope amendment).

B. Are there, to your knowledge, additional significant issues, that have been raised regarding the application of IFRS 11 that we should take into consideration?

With respect to Q5 above: in case the guidance to be provided follows view 1 ("the parties should account for their share of assets and liabilities based on the share of output purchased by the parties from the arrangement if this determines the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement"), the issue should be addressed, how to account for the imbalance between the amount invested by each party and the amounts recognised by each party for the share of assets and share of liabilities.

With respect to Q5 above: For joint operations which are structured as multiple phase – arrangements (where the different phases may relate to eg R&D – Production – Distribution), it should be clarified, whether the decision as to how to account for assets and liabilities needs to be made independently for each phase of the arrangement (ie: singular or continuous assessment).

8 Die Themen zu IFRS 11 wurden seit September 2013 in jeder Sitzung des IFRS IC diskutiert. Zuletzt erörterte das IFRS IC die IFRS 11-Themen im September 2014 und beschloss, sämtliche Erkenntnisse bzw. Ergebnisse aus den Diskussionen in einem Zusammenhang publik zu machen. Diese Entscheidung wurde wie folgt begründet (vgl. IFRIC Update 9/2014):

The IFRS IC considered its next step with regard to various issues relating to IFRS 11 that it had identified at its November 2013 meeting and had discussed at various meetings up to July 2014. The IFRS IC addressed how it can best document its conclusions and observations from the discussion of those issues. The IFRS IC noted that the most appropriate way of documenting its work is to publish it in IFRIC Update rather than develop a new form of communication.

The IFRS IC thought that a series of agenda decisions, each describing a separate aspect of its discussions and capable of standing alone, would be preferable. Consequently, the IFRS IC asked the staff to prepare separate summaries for each topic that has been discussed.

The staff will present the proposed summaries at a future meeting.

9 Der IFRS-FA hatte im Oktober 2014 Kenntnis von diesem Beschluss erhalten und Folgendes festgestellt, allerdings ohne formale Stellungnahme ans IFRS IC:

Die Zusammenfassung von diversen Entscheidungen seitens des IFRS IC wird begrüßt, weil dieses Vorgehen dem Bilanzierenden das Auffinden erleichtert. Dass diese "nur" im Rahmen eines IFRIC Update erfolgt, wird kritisch beurteilt. Hierdurch wird kaum der *due process* eingehalten, den eine solche Auslegung verdient, die eher eine Standardergänzung darstellt. Diese Aussagen sollen vorgemerkt werden, bis das IFRS IC den Wortlaut im IFRIC Update tatsächlich veröffentlicht, um dann Wortlaut und Form der Entscheidung in einem Zusammenhang würdigen und ggf. kommentieren zu können.

10 Nunmehr hat das IFRS IC seine Erkenntnisse gesammelt als vorläufige Entscheidungen mit jeweiliger Begründung veröffentlicht. Der Wortlaut zu allen Themen ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.2 Vorläufige Agenda-Entscheidungen (New Items)

11 In der IFRS IC-Sitzung im November 2014 wurden folgende weiteren vorläufigen Agenda-Entscheidungen getroffen (TAD):

IAS/IFRS	Thema	TAD
IFRS 10	*Lessee accounting / assessment of control*	**NIFRIC (no diversity, sufficient guidance how to assess control, no case-by-case advice)**
IAS 12	*Selection of tax rate*	**NIFRIC (sufficient guidance exists, no diversity)**
IAS 19	*Longevity swaps*	**NIFRIC (rare circumstances, clear predominant practice, no diversity)**

3.2.1 Zu IFRS 10 – *Lessee accounting / assessment of control*

12 Die Anfrage ans IFRS IC betrifft zwei Sachverhalte betreffend die Beurteilung von Kontrolle nach IFRS 10 beim Leasingnehmer. Im Oktober 2014 hatte das IFRS IC zwei *Outreach Requests* hierzu gestartet. Dabei wurden die Sachverhalte wie folgt übermittelt:

Submission / Issue A

1. Summary: Submission A - Operating lessee, financed by lenders

A structured entity (the SE) is created on behalf of a manufacturer. The SE holds a single asset manufactured by the manufacturer which is subsequently leased to a single customer, the lessee. The lease to the customer is an operating lease in the terms of IAS 17. The SE is financed by a third party lender, a bank. The bank manages the credit risk on the lease receipts and makes decisions about the sale of the residual asset if the lessee does not exercise its option to purchase. The bank also holds the equity in the SE.The submitter thinks that there are two views in practice with respect to whether the following are relevant activities of the SE:

(a) use of the asset by the lessee during the lease term; and

(b) the option to purchase the asset at the end of the lease term.

2. Views

View A: Yes, they are the relevant activities that should be considered in an IFRS 10 analysis.

This view is based on the premise that the SE, as legal owner of the asset, is exposed to the risks and rewards incidental to owning the asset. Through the lease agreement, the lessee can significantly affect these risks and rewards because it has use of the asset during the lease period, and use of the asset is an activity that significantly affects the asset's fair value and therefore the returns of the SE. Under this view, if use of the asset and the purchase option are considered the most relevant activities of the SE, which the submitter believes would likely be the case, the lessee would consolidate the SE. Because the lessee consolidates the lessor (the SE), the IAS 17 classification is not relevant.

View B: No, they are not the relevant activities that should be considered in an IFRS 10 analysis.

This view is based on the premise that the lease agreement creates the risks which the SE is designed to be exposed to, ie credit risk of the lessee and residual value risk. These risks are managed by the SE/Bank through its actions in monitoring default, monitoring use of the asset and managing the sale of the asset in the event the purchase option is not exercised by the lessee. Under this view, use of the asset is not a relevant activity. Therefore, the lessee would not consolidate the SE and its accounting for the transaction would be determined by reference to IAS 17.

3. Questions

(a) Are you aware of any transactions of this type that take place in your jurisdiction? If yes,

- How common is this type of transaction?
- How is the structured entity accounted for in your jurisdiction, ie which entity would consolidate the SE in each case?
- Is there diversity in practice?

(b) If you have a preferred or recommended treatment, what is it and why?

(c) Do you have any other comments on these submissions?

Submission / Issue B

1. Summary: Submission B - Finance lessee, financed by lenders

A manufacturer sells high value, technologically-advanced PPE. A structured entity (the SE) is created on behalf of the manufacturer / its customer. The SE holds a single asset made by the manufacturer which is subsequently leased to the customer under a finance lease.

1.1. Case 1

The cost of the asset is 80 CU. The customer pays 25% of the consideration directly to the manufacturer. The remaining 75% of the asset is sold to the SE which is, itself, financed by both senior and junior lenders. The customer enters into a finance lease with the SE for the remaining 75% interest in the leased asset:

Lease financing 75%	CU
Lease payments-principal	60
Lease payments- interest	25
Total payments	85
Residual value of asset	20

If the lessee/customer defaults, the senior lender has the right to repossess the leased asset and resell it. In order to protect the junior lender from a resale by the senior lender at a reduced price, the junior lender has a right to buy the asset from the senior lender at an amount equal to the principal and interest due to the senior lender. The junior lender can then sell the asset in order to recoup as much of its unpaid principal and interest as possible. Amounts in excess of the sums due to the junior lender go to the lessee. The submitter asks whether the junior lender should consolidate the SE.

<u>View A: The junior lender consolidates the SE.</u>

Supporters of this view refer to IFRS 10.B53 which considers the case of an entity that has no relevant activity other than managing receivables on default. By analogy, supporters of this view think that managing the sale of the leased asset on default is the relevant activity of the SE and, consequently, the junior lender has power over the SE. Because the junior lender has power over the SE and has variable rights to be derived from the SE in terms of the proceeds of sale of the leased asset, supporters of this view think that the junior lender controls the SE.

View B: The junior lender does not consolidate the SE.

Supporters of this view think that this reflects the economics of the arrangement. At inception, it is not expected that default will occur or the lease would not be initiated. Managing the asset on default, therefore, is not the relevant activity of the SE. In addition, the junior lender has no right to variable returns in the normal course of the lease. Supporter's of this view think that the junior lender's right to buy the asset is a protective right typical of any secured loan and, in accordance with IFRS 10.B28, the junior lender does not have power over the SE.

1.2. Case 2

The facts are the same except that the customer / lessee does not pay 25% of the consideration directly to the manufacturer. Instead, it pays 25% to the SE itself and consequently the customer becomes an investor in the SE. At the end of the lease, the customer/lessee has the residual interest in the leased asset. Both sales of the asset on default and the sale of the asset at the end of the lease are considered to be the relevant activities of the SE. The junior lender controls the sales activities on lessee default, and the customer / lessee controls the sales activities at the end of the lease. Given that default is unlikely and the asset's residual value at the end of the lease is significant, selling the asset (or continue its use) at the end of the lease may prove to be the more relevant activity. In that case, the most relevant activities of the SE are controlled by the customer / lessee and consequently the lessee has power over the SE. Supporters of this view think that the lessee would consolidate the SE, not the junior lender.

The submitter notes that the way in which the asset is financed through a lease is identical in each case, but the way in which the SE itself is financed differs:

Case 1		Case 2	
Leased asset	60	Leased asset	80
Senior loan	(45)	Senior loan	(45)
Junior loan	(15)	Junior loan	(15)
		Lessee contribution	(20)

The submitter thinks that Case 1 and 2 are similar economically and is concerned that if View A above prevails the consolidation decision made in accordance with IFRS 10 differs.

2. Questions

(a) *Are you aware of any transactions of this type that take place in your jurisdiction? If yes,*

** How common is this type of transaction?*

** How is the structured entity accoun* ted for in your jurisdiction, ie which entity would consolidate the SE in each case?*

** Is there diversity in practice?*

(b) *If you have a preferred or recommended treatment, what is it and why?*

(c) *Do you have any other comments on these submissions?*

13 Die DRSC-Antworten vom 24. Oktober 2014 hierzu lauteten wie folgt:

Submission / Issue A

Ad (a) Those transaction are very common and deserve a high priority. We see diversity in practice.
Ad (b) Different preparers and auditors have expressed different preferences, so generally both views were considered acceptable. For some, it seems crucial to take a holistic view, i.e. consider all facts and circumstances. In particular, no activities should be excluded from the assessment of relevance.
Ad (c) We deem the questions of (a) which activities are relevant and (b) whether the lease agreement should be included as being crucial. As we deem IFRS 10 lacking clarity, we would welcome additional guidance.

Submission / Issue B

Ad (a)+(b) These transactions are common. We have no clear answer on how they are accounted for or about a preference. It depends on the individual facts and circumstances. We deem the balance between asset risk and credit risk being the crucial item to answer on this issue. Further, we think that the economics of the transaction are relevant only to the extent that they result in similar rights over the same entity and activities, i.e. economically similar agreements should not necessarily be accounted for similarly.
Ad (c) n/a

14 Das Thema wurde im November 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.2.2 Zu IAS 12 – *Selection of tax rate*

15 Die Anfrage ans IFRS IC betrifft die Anwendung von IAS 12.51. Im September 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Der Sachverhalt wurde wie folgt übermittelt:

> **1. Summary of the issue**
> According to IAS 12.51, the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. However, no specific guidance is provided in relation to the investments in associates that accounted for using the equity method.
> Normally the carrying amount of an investment in associate could be recovered by (a) receiving of dividends (or other distribution of profit), (b) sale to a third party, (c) receiving of residual assets upon liquidation of the associate. Part of the temporary differences may be recovered through receipt of dividends. Other parts of the temporary differences may be recovered through sale or liquidation of the associate. The submitter also notes that an investor usually does not have enough power to control the proportion of profit that will be distributed (as dividends) or retained (as sale or liquidation).
> If local tax legislation prescribes application of different tax rates for different manners of recovery (dividends, sale, liquidation), what tax rate should be used? For example, if tax legislation prescribes application of different tax rates: (a) **9%** for profit received in the form of dividends and (b) **20%** for profit received in all other forms.
>
> **2. Questions**
> ***Q1.*** *Are you aware of examples of circumstances in which different tax rates would be applied for the recovery of investment in associates in the following cases?*
> - *receiving of dividends (or other distribution of profit);*
> - *sell to third party; or*
> - *receiving of residual assets upon liquidation of the associate.*
>
> ***Q2.*** *If yes to Q1, please would you:*
> - *inform us about how common this is in your jurisdiction;*
> - *describe the prevalent accounting approach/basis followed in your jurisdiction; and*
> - *provide us with examples that illustrate the practices that you observe and the reasons for the practice followed?*

16 Die DRSC-Antwort vom 6. Oktober 2014 hierzu lautete wie folgt:

> The issue is not relevant in our jurisdiction since there are no different tax rates that would apply.

17 Das Thema wurde im November 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.2.3 Zu IAS 19 – *Longevity swaps*

18 Die Anfrage ans IFRS IC betrifft die Bilanzierung von Langlebigkeitsswaps gemäß IAS 19. Im September 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Background and issue

A longevity swap transfers the risk of pension scheme members living longer (or shorter) than expected. The swap transfers this risk from the pension scheme to an external party (usually an insurer or bank provider). If a defined benefit pension plan enters into a longevity swap, it pays fixed amounts and receives variable amounts. These amounts are settled on a net basis. The amounts under the variable leg are calculated at the amounts actually paid to beneficiaries. The question is how the longevity swap should be treated.

2. Views

View 1: The longevity swap is a plan asset that should be measured at fair value.

The supporters of this view think that the asset held is a single contract for the swap of two streams of cash flows in each period, a net cash flow takes place. This view is supported by paragraph 142 of IAS 19, which mentions longevity swaps as an example of plan assets. Assuming the swap is entered into at arm's length, the initial carrying amount of the swap would be zero as it is entered into 'at-the-money' with no premium paid. The swap should be measured at fair value as of each measurement date in IAS 19 and a change of fair value would be included as remeasurement gain or loss in other comprehensive income.

View 2: The swap should be split into a variable leg and a fixed leg.

The supporters of this view think that a longevity swap is economically identical to the purchase of a qualifying insurance policy (the variable leg); the only difference being that the premium is not paid immediately but in instalments over time. Accordingly, they think that the swap should be split into a **variable leg and a fixed leg**. In View 2, each leg is treated as follows.

- ***Accounting for the variable leg***: As required by IAS 19, and as the variable leg represents a qualifying insurance policy that exactly matches the amount and timing of some or all of the benefits payable under the plan, the variable leg will be measured at the present value of the related obligation, measured according to IAS 19.
- ***Accounting for the fixed leg***: The fixed leg represents either a financial liability or a component of plan assets. Either way, the initial measurement would be at fair value. The subsequent accounting would be:

  View 2 (i): Fair value if considered to be a component of plan assets; or

  View 2 (ii): Amortised cost if considered a financial liability, for the reason that if the plan had borrowed externally to pay a premium to buy the variable leg, it would naturally default to the 'normal' accounting standard for it.

The receivable under the variable leg and the liability under the fixed leg are not necessarily equal at inception, because of the premium for the risk to be transferred. As such, it raises the question of how to treat the resultant debit entry.

- **View 2A:** It should be recognised in profit or loss, because it is similar to a settlement loss in substance.
- **View 2B:** It should be remeasurement gain or loss (recognised in OCI), because the loss results from exchanging one plan asset for another. The typical bid-offer spread in quoted investments results in the same type of actuarial loss, albeit typically less significant.

3. Questions

Q1 *In your jurisdiction, is the use of longevity swaps by a defined benefit plan common?*

Q2 *If 'yes' to Q1, what is the predominant accounting treatment for longevity swaps? In addition, could you please briefly describe the rationale for that accounting treatment? (Please provide examples of the predominant approach that you observe. Ideally this should be an example from published financial statements but examples provided on a confidential basis will also be useful.)*

Q3 *On the basis of your response to Q2, to what extent do you observe diversity in the accounting treatment?*

19 Die DRSC-Antwort vom 6. Oktober 2014 hierzu lautete wie folgt:

Ad Q1: No, it is not common in our jurisdiction.

Ad Q2: However, we are aware of the discussion and see arguments for both view. Thus, we consider the issue deserving clarification. From our point of view, the issue is much broader and comprises other related circumstances, e.g. liability insurance contracts. The issue would obviously touch more general aspects, e.g. when shall a contract be split into two components (or two contracts be condensed to one item). If the issue were to be solved, it could become part of a broader project for revising IAS 19.

Ad Q3: n/a.

20 Das Thema wurde im November 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.3 Endgültige Agenda-Entscheidungen

21 Im November 2014 hat das IFRS IC folgende endgültigen Agenda-Entscheidungen getroffen:

IAS/IFRS	Thema	AD
IFRS 12	*Disclosure of summarised financial information*	**NIFRIC (no material uncertainty, no significant diversity) --> wie TAD**
IAS 16	*Core inventories*	**NIFRIC (differences in accounting result from difference in industries, not from uncertainty about IAS 16) --> ähnlich TAD**
IAS 21/29	*FX restrictions and hyper-inflation*	**NIFRIC (first issue: no diversity, second issue: too broad) --> wie TAD**
IAS 39	*Holder's accounting for exchange of equity in-struments*	**NIFRIC (unique nature, no significant diversity) --> wie TAD**

3.3.1 Zu IFRS 12 – *Disclosure of summarised financial information*

22 Im Juni 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

> The submitter asks the IFRS IC to clarify two related issues in respect of the requirement to disclose summary financial information on material joint ventures and associates in IFRS 12.21(b)(ii):
>
> ***Issue 1—whether the summarised financial information for material joint ventures/associates can be aggregated by the reporting entity without disclosing summarised financial information of a material joint venture/associate on a stand-alone basis.***
>
> The submitter observes that this issue arises in practice because of conflicting guidance in IFRS 12 and has identified two views in addressing this issue:
>
> (a) View 1—an entity can choose to provide aggregated information and is not required to separately disclose information for each joint venture or associate that is material to the reporting entity. This is on the basis of the application guidance in IFRS 12.B3-B5, which allow the reporting entity to aggregate the disclosures required in IFRS 12.
>
> (b) View 2—an entity must disclose individual information for each joint venture or associate that is material to the reporting entity, on the basis of the requirements in (i) IFRS 12.21; and (ii) IFRS 12.B14, which requires a reporting entity to provide summarised information of the joint venture or associate on a 100 % basis; IFRS 12.BC50 further notes that providing information on a 100 % basis is appropriate only when the information is disclosed for individual joint ventures and associates.
>
> ***Issue 2—whether the summarised financial information for material joint ventures/associates must be disclosed in accordance with IFRS 12.21(b)(ii), even if local regulatory requirements prevent an entity from disclosing such information.***
>
> The submitter notes that in some cases the local regulatory requirements in some jurisdictions could be in conflict with the disclosure requirements in IFRS 12.21(b)(ii). This is the case, for example, when an investor's financial reporting date precedes that of its individually material listed joint ventures/associates, and local regulatory requirements prevent a listed company from:

- providing financial information to an individual party without disclosing the same information to all constituents; or
- disclosing confidential information before the joint venture/associate has publicly released it.

***Q1 (Issue 1)**—We would appreciate your input to help us learn about the extent to which there is diversity in practice in respect of the first issue. It would be particularly helpful if you could provide quantitative information about the diversity you observe and the basis on which that quantitative information has been prepared.*

***Q2 (Issue 2)**—We would appreciate learning about jurisdictions in which local regulatory requirements prevent an entity from disclosing summarised financial information about material joint ventures/associates. In such cases, we would like to understand the nature of, and reason for, such regulatory barriers. We are also interested in receiving information about whether, notwithstanding such regulations, entities still provide such information, and how they achieve this. We would find it particularly helpful to receive examples from financial statements that illustrate your feedback.*

***Q3**—If you have any other information that you think would be useful in analysing this issue, or any general comments to make on this topic, please include them in your response.*

23 Die DRSC-Antwort vom 25. Juni 2014 hierzu lautete wie folgt:

Zu Q1: Given that there is only one year of (mandatory) application of the guidance outlined in IFRS 12, we might not have sufficient experience to develop a final position. However, so far we have not seen any diversity in practice. Moreover, we believe that the guidance in IFRS 12 is sufficient to conclude on view 2 outlined above. We are not aware of an application of view 1 in practice.

Zu Q2: We first like to note that we deem the issue not being immanent to IFRS 12 only, as it could have occurred even under IAS 28 (old version) and IAS 31.

With respect to the issue, we had some discussion about whether an entity should disclose non-public information it used in its consolidation procedures, or whether the most recent published information could be disclosed instead. E.g. an investor in a listed entity with a share of voting rights below 50 % has limited information rights. In case the entity's management would not provide such information at the date requested, there is obviously no enforceable right to obtain such information. Given this, we expect that in practice there will be some kind of arrangement. Our findings are that it might be possible in some situations to apply judgment and materiality, or use of the most recent published information is an acceptable practical expedient.

Zu Q3: Some constituents state that they are not convinced that this limitation is in substance a regulatory barrier for disclosure purposes under IFRS 12. There has been some discussion in the past whether a limitation of information would justify a rebuttal of significant influence and, hence, a measurement of an investment as financial instrument rather than in accordance with the equity method. However, for the measurement of an investment a limitation of information was not considered a valid argument.

24 Das IFRS IC hatte im Juli 2014 den Sachverhalt erörtert und vorläufig beschlossen, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 7/2014):

> The IFRS IC received a request to clarify the requirement to disclose summary financial information on material joint ventures and associates in IFRS 12.21(b)(ii) and its interaction with the aggregation principle in IFRS 12.4 and B2-B6.
> The submitter asserts that there are two ways to interpret the application of those paragraphs. Either the information required in IFRS 12.21(b)(ii) can be disclosed in aggregate for all material joint ventures or such information should be disclosed individually for each material joint venture or associate. The submitter also asked the IFRS IC to clarify the requirements in IFRS 12.21(b)(ii) when the information relates to a listed joint venture or associate, and local regulatory requirements would prevent the investor from disclosing such information until the joint venture or associate has released its own financial statements. Would the investor be excused from disclosing the information?
> The IFRS IC noted that it expected the requirement in IFRS 12.21(b)(ii) to lead to the disclosure of summarised information on an individual basis for each joint venture or associate that is material to the reporting entity. The IFRS IC observed that this reflects the IASB's intentions as described in IFRS 12.BC50. The IFRS IC also noted that there is no provision in IFRS 12 that permits non-disclosure of the information required in IFRS 12.21(b)(ii).
> The IFRS IC analysed the results of the outreach request performed by the staff. This outreach indicated that there was no significant diversity observed in practice on this issue.
> In the light of the existing IFRS requirements and on the basis of the outreach results received, the IFRS IC that neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.

25 Der IFRS-FA hatte Ende Juli 2014 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten und Folgendes festgestellt, allerdings ohne formale Stellungnahme ans IFRS IC:

> Die vorläufige Entscheidung gibt keine Antwort auf die Frage der richtigen Aggregationsebene. Da hierzu kürzlich beim IFRS IC ein PAIR aus Deutschland eingereicht wurde, soll im Rahmen der damit verbundenen kommenden Diskussion die Frage wieder aufgegriffen werden. Gleichwohl empfiehlt der IFRS-FA, dass das DRSC bereits jetzt schon auf die Wichtigkeit der Frage in Form eines "Supports" der Eingabe hinweist. Dies soll aber in einer anderen Form als der o.g. Sammelstellungnahme erfolgen.

26 Das IFRS IC hat im November 2014 nunmehr - analog zur TAD - endgültig entschieden, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Wortlaut der Begründung hierzu ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

27 Der in Tz. 26 erwähnte PAIR aus Deutschland wurde beim IFRS IC als gesonderter Sachverhalt unter der Bezeichnung *IFRS 12 – Disclosure of subsidiaries with material NCI* aufgenommen, im September 2014 im IFRS IC diskutiert und vorläufig entschieden, dass keine Interpretation oder Änderung erforderlich sei. Dazu hat sich der IFRS-FA per Stellungnahme am 21.11.2014 ggü. dem IFRS IC geäußert.

28 Der IFRS-FA ist mit der in der Begründung der Entscheidung faktisch enthaltenen Klarstellung einverstanden, hält es jedoch einzig für sachgerecht, diese Klarstellung über ein *narrow scope amendment* umzusetzen.

3.3.2 Zu IAS 16 – *Core inventories*

29 Die Anfrage ging Ende 2013 beim IFRS IC ein und betrifft die Frage, ob Mindestvorratsmengen (sog. *core inventories*) zum Betreiben von Anlagen unter IAS 16 oder IAS 2 fallen. Im Januar 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

> The submitter pointed out that a divergence exists in respect of classification and measurement of 'core inventories' owned by an entity and stored in its own facilities. The question arises of whether the 'core inventories' are considered inventories in accordance with IAS 2 or property, plant and equipment in accordance with IAS 16. The submitter provides the following common characteristics of 'core inventories':
>
> - Amount: a minimum amount of material must be present to start the production process and subsequently at all times during the production,
> - Physical separation: physically commingled with ordinary inventories on an ongoing basis and/ or cannot physically be separated from other inventories,
> - Time of removal: can only be removed when the production facilities are finally decommissioned or overhauled or during the production process at a considerable financial expense,
> - Industries: non-ferrous metal industry, petrochemicals and gas extraction.
>
> The submitter also provides specific examples of 'core inventories': cushion gas in a cavern, minimum quantity oil in a pipeline, minimum level of certain materials in a non-ferrous metal refinery.
>
> The submitter explains that it is unclear which unit of account should be used as the basis of classification of 'core inventories' and identifies two possible views on accounting for 'core inventories':
>
> <u>View 1 – Classification under IAS 2 Inventories</u>
>
> - Unit of account: the smallest unit of the materials concerned (ultimately individual atoms), which are constantly turned over during the production process.
> - Arguments of the proponents: 'core inventories', being physically commingled with the other inventories, are consumed in the production process and are used for less than one period.
>
> <u>View 2 – Classification under IAS 16 Property, Plant & Equipment</u>
>
> - Unit of account: the entire amount of the materials that must be present and that remains constant over time.
> - Arguments of the proponents: 'core inventories' are neither held for sale nor consumed, instead these inventories are needed to bring another item of PP&E to the condition necessary for it to be capable of operating.
>
> ***Q1****. Are you aware of any difficulties or challenges in your jurisdiction in accounting for 'core inventories' stored in facilities owned by the entity itself?*
>
> ***Q2****. If you answered 'Yes' to Q1, what is the prevalent interpretation or recommended treatment on whether 'core inventories' should be accounted as inventories or as PP&E? In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment? I would very much appreciate if you could please provide me with:*
>
> *(a) qualitative and/or quantitative information on what the prevalent approach in your jurisdiction is for classifying and measuring core inventories; and*

> (b) *examples of core inventories that are typical in your jurisdiction.*
>
> ***Q3**. If you answered 'Yes' to Q1, to what extent do you observe diversity in practice in respect of the issue above?*

30 Die DRSC-Antwort vom 19. Februar 2014 hierzu lautete wie folgt:

> **Zu Q1**: Yes, we are aware that the issue has arisen several years ago, and has been discussed during this period. Since then, we observed that a prevalent approach has emerged - which is View 2 (IAS 16).
>
> **Zu Q2**: The prevalent approach is to account for core inventories under IAS 16. We observed that the issue was about measurement rather than classification of those inventories. The focal point in any discussion is that core inventories cannot be physically separated from other inventories. However, these inventories have identical quality and characteristics. Examples are oil pipelines, gas storage, or mineral ore refineries.
>
> **Zu Q3**: We deem there is still some, but decreasing, diversity in practice.

31 Das Thema wurde seit März 2014 in drei Sitzungen des IFRS IC diskutiert. Im Juli 2014 wurde vorläufig beschlossen, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 7/2014):

> The IFRS IC received a request to clarify the accounting for 'core inventories'. The submitter defined core inventories as a minimum amount of material that:
>
> (a) is necessary to permit a production facility to start operating and to maintain subsequent production;
>
> (b) cannot be physically separated from other inventories; and
>
> (c) can be removed only when the production facility is finally decommissioned or at considerable financial charge.
>
> The issue is whether core inventories should be accounted for under IAS 2 or IAS 16.
>
> The IFRS IC discussed the issue at the March 2014 meeting and tentatively decided to develop an interpretation. The Interpretations Committee further directed the staff to define the scope of what is considered to be core inventories and to analyse the applicability of the concept to a range of industries.
>
> At the July 2014 meeting, the IFRS IC discussed the feedback received from the informal consultations with IASB members, the proposed scope of core inventories and the staff analysis of the applicability of the issue to a range of industries. In its redeliberations, the IFRS IC observed that the fact patterns in different industries can vary significantly. The IFRS IC further noted that, although the diversity in practice was noted between industries, there was no, or only limited, diversity in practice within the industries for which the issue is significant.
>
> In the light of the additional analysis of the different fact patterns that arise in practice, the IFRS IC decided not to continue with the development of an interpretation, and to remove this item from its agenda.

32 Der IFRS-FA hatte Ende Juli 2014 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten, aber keinen weiteren Diskussionsbedarf festgestellt.

33 Das IFRS IC hat im November 2014 nunmehr - analog zur TAD - endgültig entschieden, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Wortlaut der Begründung hierzu ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.3.3 Zu IAS 21/29 – *FX restrictions and hyperinflation*

34 Die Anfrage ging im Frühjahr 2014 beim IFRS IC ein und betrifft die Verwendung staatlich vorgegebener Wechselkurse (teils auch Wechselkontingente) in einem hochinflationären Umfeld. Im Mai 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

0. Introduction

The IFRS IC has received a submission requesting guidance on the translation and consolidation of the results and financial position of foreign operations in Venezuela under IAS 21. Concerns arise that, because of strict foreign exchange controls over the exchange of the Venezuelan Bolivar Fuerte (VEF) combined with a hyperinflationary economy, applying IAS 21 (and IAS 29*)* may not reflect the underlying economics of the foreign operation.

We would appreciate your input to help identify the extent to which entities with foreign operations in (i) Venezuela, and (ii) any other countries with foreign exchange controls or restrictions, experience similar issues when applying IAS 21; and whether there is any divergence in practice under similar circumstances. We are particularly interested in receiving details of examples of other entities with foreign operations that share the same key features as the issue in the submission.

1. Background of issue

The submitter notes that various issues arise when international groups account for foreign operations in Venezuela that have a VEF functional currency. This is because Venezuela is a hyperinflationary economy with strict foreign exchange controls over the exchange of VEF.

There are several official exchange rate mechanisms for the conversion of VEF, each with different exchange rates, available depending upon specific circumstances. We understand that there have been recent developments in this area and that there are currently three such exchange mechanisms in Venezuela, as summarised in the appendix below. We understand that the volume of VEF which can be exchanged using these official exchange rate mechanisms (into say US$) is restricted, such that in practice entities may not be able to exchange all of their VEF cash balances using the available rates.

Entities whose functional currency is that of a hyperinflationary economy are required under IAS 29 to state their financial statements in terms of the measuring unit current at the end of the reporting period by applying a general price index. Groups consolidating such subsidiaries translate these inflation-adjusted subsidiary financial statements into the group's presentation currency (for example US$) at the closing exchange rate in accordance with IAS 21. The submitter notes that:

- prevalent practice is to translate foreign operations into the group's presentation currency using official exchange rates.
- for operations with a VEF functional currency the official CENCOX fixed exchange rate has typically been used as the closing rate under IAS 21 on the basis that it was the only official exchange mechanism available to a group.
- in the submitter's experience, such a rate is only available for a relatively limited volume of currency in practice, such that a Venezuelan subsidiary may have more cash in VEF than it is able to convert into US$ (and hence repatriate) using the official exchange rate mechanisms.

- due to foreign exchange controls the official exchange rates for VEF (in particular the fixed CENCOX and variable SICAD I rates) do not reflect the local rate of hyperinflation.

As a consequence, the submitter is concerned that, from an economic perspective, the group financial statements appear:

- On translation of the foreign operation's functional currency financial statements into the group's presentation currency: * to overstate the Venezuelan subsidiary's assets and liabilities (including local cash held in VEF); ** to overstate income from the Venezuelan operations (which is further compounded by the IAS 29 inflation-adjustments in the Venezuelan entity's financial statements).
- On translation of non-VEF denominated monetary balances into VEF in the foreign (Venezuelan) operation's financial statements: to understate foreign exchange losses (or gains) in profit or loss arising on US$ (or other non VEF) denominated balances in Venezuela. Those balances include intercompany balances that eliminate on consolidation, as the foreign exchange gains and losses that arise in the Venezuelan subsidiary remain on consolidation (unless they are considered to be part of the group's net investment in the foreign operation).

2. Key accounting issues

The submitter requests that the IFRS IC review the current approach for translating and consolidating foreign operations in Venezuela to address the concerns noted above. The key accounting issues in this scenario appear to arise over which exchange rate should be used for:

(i) the translation of the foreign operation's functional currency financial statements into the group's presentation currency; and

(ii) the translation of non-functional currency denominated monetary balances in the foreign operation into the foreign operation's own functional currency.

The first accounting question raised is which rate(s) should be used when multiple official exchange rates are available. (Note that guidance is already given in IAS 21 paragraph 26 for the translation of foreign currency denominated balances in the foreign operation's own financial statements when several exchange rates are available.)

We understand that the second accounting issue is about whether a rate other than an official rate can or should be used for accounting purposes in circumstances when currency conversions are restricted (and therefore in practice none of the official rates are available for immediate delivery).

The submitter also requested guidance on whether the IAS 29 inflation adjustments in the local financial statements can or should be reversed in the consolidated financial statements to better reflect the underlying business performance of the foreign subsidiary. This is primarily an issue if the closing rate for the purposes of IAS 21 does not reflect the local rate of hyperinflation.

Appendix: Exchange rate mechanisms in Venezuela

There are currently the following official exchange rate mechanisms for exchanging VEF:

- CENCOEX (previously CADIVI): The official fixed exchange rate (6.3VEF/ 1US$) is available to specific industries (companies importing essential supplies) in limited quantities. We have been told that remittances at this rate have been small in practice.
- SICAD I: A variable rate auction system created in 2013 is available to entities in specific industry sectors (for non-essential supplies) for a limited volume of VEF. In January 2014 the types of trans-

actions SICAD I could be used for was expanded to include international investment and finance transactions. The average rate achieved in each auction has been published by the Central Bank of Venezuela since December 2013. At 31 March 2014 the SICAD I rate was 10.7 VEF/ 1 US$.

- SICAD II: A regulated variable rate system introduced in March 2014 permits foreign exchange barter transactions in cash and bonds in the private sector with fewer restrictions. The exchange rate has been published daily by the Central Bank. At 31 March 2014 this rate was 50.85 VEF/1 US$. We understand that this mechanism is intended to more closely resemble a market-driven exchange rate; however we have been told that to date there has been limited foreign exchange volumes through SICAD II.

***Q1**: In your jurisdiction(s) are you aware of any entities that have significant foreign operations with a functional currency that is subject to foreign exchange controls (which is often combined with high or hyper inflationary economies)? If so, please give examples that you have seen in practice, briefly explaining the prevalence and circumstances of those cases.*

***Q2**: If you answered 'yes' to Q1, please could you give the following information about each of the examples identified in Q1 above, to the extent you can:*

(a) Do such entities experience similar issues and how do the fact patterns differ from that summarised above?

(b) What is their experience of repatriating local cash from those countries?

(c) If there are several exchange rates available, what exchange rates are used for (i) translating the foreign operation into the group's presentation currency and (ii) translating non-functional currency denominated monetary items in the foreign operation's own financial statements and why? Are you aware of any diversity in practice within or across industries or jurisdictions and why this might be?

(d) Is it common for such groups to use any alternative measures (including non-GAAP measures) to explain their results because of the consequences of applying an official exchange rate that is subject to exchange controls? If so, what are these?

35 Die DRSC-Antwort vom 13. Juni 2014 hierzu lautete wie folgt:

Ad Q1: Yes, we are aware of such foreign operations under the circumstances as described in the submission. To our knowledge, those circumstances are particular for Venezuela and do not appear in other countries in a similar manner.

Ad Q2: **ad a)** See our answer to Q1.

ad b)+c) All three official rates are potentially used, subject to particular facts and circumstances. This is the case for (i) as well as for (ii). However, translating non-VEW denominated monetary balances (issue (ii)) is the main issue we observed. Unofficial rates do not appear to be used.

ad d) This translation effect is not substantial compared to the total result. Thus, we do not see need for, and use of, alternative measures for explaining the consequences of this translation.

36 Das Thema wurde im Juli 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Es wurde vorläufig beschlossen, dass eine Klarstellung nicht erforderlich, sondern das Problem durch Angaben zu lösen ist. Der Beschluss wurde wie folgt begründet (vgl. IFRIC Update 7/2014):

> The IFRS IC 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 IFRS IC 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) what rate should be used when there is a longer-term lack of exchangeability?
>
> With respect to the **first issue**, the IFRS IC observed very little diversity in practice regarding the principle to use when determining which of multiple rates should be used to translate an entity's net investment in a foreign operation. The IFRS IC noted that predominant practice is to apply by extension the principle in IAS 21.26, 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 widespread applicability, the IFRS IC [decided] not to take the first issue onto its agenda.
>
> With respect to the **second issue**, the IFRS IC observed that this issue is widespread and has led to some diversity in practice. A longer-term lack of exchangeability is not addressed by the requirements in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations. However, the IFRS IC thought that addressing this issue is a broader-scope project than it could address (because of related cross-cutting issues). Accordingly the IFRS IC [decided] not to take this issue onto its agenda.
>
> However, the IFRS IC noted that several existing disclosure requirements in IFRS would apply when the impact of foreign exchange controls is material to understanding the entity's financial performance and position. Relevant disclosure requirements in IFRS include:
>
> (a) disclosure of significant accounting policies and significant judgements in applying those policies (IAS 1.117-124);
>
> (b) disclosure of sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include a sensitivity analysis (IAS 1.125-133); and
>
> (c) disclosure about the nature and extent of significant restrictions on an entity's ability to access or use assets and settle the liabilities of the group, or its joint ventures or associates (IFRS 12.10, 13, 20 and 22).

37 Der IFRS-FA hatte Ende Juli 2014 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten. Nach Diskussion wurde ggü. dem IFRS IC wie folgt Stellung genommen (Auszug aus DRSC-Stellungnahme vom 17. September 2014):

> We do not agree with the tentative decision not to add the issues to the IFRS IC's agenda. In our view, this tentative decision does not provide any solution for the issues raised. Moreover, we would appreciate a robust answer at least to the first issue.

> The essence of the first issue, the translation issue, is that (in respect of a certain item) one official exchange rate is permitted, whereas another exchange rate that would more appropriately reflect current economics, i.e. inflation, is not "available", i.e. is not permitted. Although IAS 21.26 contains a principle in case that several exchange rates are ***available***, this is not the case in the circumstances submitted. Therefore, applying IAS 21.26 “by extension” would, in our view, not be possible; no other suitable guidance addresses this issue. Furthermore, as the official exchange rate does not reflect the current inflation level, and as no other (more appropriate) exchange rate is available (permitted), this contradicts the (intention of) application of IAS 29. The solution should rather be an amendment or clarification of IAS 21 than of IAS 29.
>
> In addition, we note that disclosures do not provide an exhaustive answer on this issue. Also, the IFRS IC should not disregard the fact that IAS 21 does not provide guidance for mandatorily applying different exchange rates for different items. Even if the issue does currently not appear to be widespread, the IFRS IC should not disregard that IAS 21 lacks guidance for solving the issue of potentially translating different items in the financial statements at different exchange rates due to regulatory requirements.
>
> Further, we point to the fact that the different exchange rates seen in Venezuela appear to be applied to specific products and industries. One potential solution could be derived from the following interpretation: For some products and industries an official exchange rate applies that is "more advantageous" than the rate that applies to others – it is essentially a selective import preference. Assuming that an economically appropriate exchange rate can be determined at any point in time, the difference between this rate and the respective officially prescribed rate could be seen as some kind of Government Grant. In particular, the (comparative) advantage of a specific (official) exchange rate for certain products or services could be seen as a separate (Government Grant) asset.
>
> Finally, if the IFRS IC still considers the issue not being within its competences it should hand the issue over to the IASB.

38 Das IFRS IC hat im November 2014 nunmehr - analog zur TAD - endgültig entschieden, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Wortlaut der Begründung hierzu ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.3.4 Zu IAS 39 – *Holder's accounting for exchange of equity instruments*

39 Die Anfrage betrifft die Frage der Ausbuchung bei Modifikationen eines beim Investor bilanzierten EK-Instruments. Im Juni 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

> **1. Introduction**
>
> The IFRS IC received a submission about the accounting by the holder of equity instruments in the circumstance where the issuer exchanges the original equity instruments for new equity instruments with different terms. Specifically, this transaction involved equity instruments issued by a Central Bank and the exchange of the instruments was imposed on the holders as a consequence of a change in legislation. The accounting question asked is 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 a new financial asset.

2. Background of the issue

The submitter notes that as a result of legislative changes and amendments to the Central Bank's by-law, shareholders in the Central Bank were required to exchange all of their existing equity shareholdings (the 'Cancelled Shares') for new equity shares (the 'New Shares') also issued by the Central Bank. Consistent with the definition of equity shares in IAS 39, dividends in respect of both shares are at the discretion of the issuer, within the limits set out in the terms of each class of share. The submitter identifies the main differences between the New Shares and Cancelled Shares as follows:

- Annual dividends on the cancelled shares were capped at a set proportion of reserves and therefore could increase over time as the reserves of the Central Bank grew. In contrast, annual dividends on the new shares are restricted to net earnings for the year and are capped at an absolute amount.
- On liquidation the holders of the New Shares only have a right to receive an amount up to the share capital amount. Before the legislative changes, it was unclear whether the holders of the Cancelled Shares had a residual claim on all the Central Bank reserves on liquidation.
- The previous regulation required the approval of the Central Bank for the transfer of shares, while the New Shares are now freely transferrable within a wider (but still restricted) pool of potential shareholders. In addition, after a transition period, there is a ceiling on the percentage shareholding in New Shares by any entity/individual.

The submitter highlights that this transaction represents an "unique case" not comparable with all other transactions related to an exchange of equity instruments issued by the same counterparty, because the Central Bank is a public interest entity whose governance and rights are established by specific legislation. The shareholders in the Central Bank account for their investments in accordance with IAS 39.

3. Issue

The submitter is seeking guidance on whether shareholders in the central bank should derecognise their holdings in the cancelled shares and recognise the new shares as a new financial asset under IAS 39. (Note that the derecognition requirements in IAS 39 are included in IFRS 9 unchanged.) The implication of this is whether, according to IAS 39, the investing entity would recognise a gain or loss in profit or loss on the exchange of equity instruments that are measured as AfS or at cost under IAS 39.46(c).

4. View of submitter

The submitter put forward one view which is that the cancelled shares should be derecognised by the holder and the New Shares recognised as a separate asset. Consistent with the conclusions of the IFRS IC in 9/2012 in relation to the restructuring of greek government bonds, the submitter argues that:

- As the Cancelled Shares are transferred back to the issuer rather than to a third party, the transaction should be assessed against IAS 39.17(a) (ie whether the contractual rights to the cash flows from the Cancelled Shares asset have expired).
- This assessment of the changes made by the share exchange should be carried out on a qualitative basis, because the IAS 39 does not require a quantitative assessment for the derecognition of a financial asset in case of "expiry" (IAS 39.17(a)). In addition, it has been observed that a quantitative test would be inappropriate for equity instruments, given the lack of fixed contractual cash flows.

The submitter, having assessed the economic substance of the transaction, in particular that the risk/reward profile of the new instruments is substantially different from the risk/reward profile of the

Cancelled ones, concludes that the New Shares are different from the Cancelled Shares, both legally and economically, in terms of nature, economic rights and risk/reward profile. Hence the exchange represents an expiry of the contractual rights to the cash flows from the Cancelled Shares.
For further details, please refer to the original submission attached to this email.

5. Alternative view

An alternative view, not put forward by the submitter but described to the staff by another stakeholder, is that the Cancelled Shares should not be derecognised by the holder. Those who hold this view argue that the exchange of Shares is not substantive and hence there has been no expiry of the Central Bank's shareholders' contractual rights to cash flows. At this stage, IASB staff have not performed a sufficient analysis to reach a staff view of the issue.

6. Questions

***Q1**: In your jurisdiction, are you aware of similar transactions; that is, where a public interest/government-related entity whose constitution and governance are established in detail by specific legislation:*

(a) has exchanged its equity financial instruments for different equity instruments issued by the same entity on substantially different terms and the exchange was not included in the terms of the original equity instruments (or has modified the terms of its equity instruments to achieve a similar effect);

(b) has investors that account for their investment in the equity instruments in accordance with IAS 39 or IFRS 9?

If so, please give examples of the transactions that you have seen in practice, briefly explaining the prevalence and characteristics of those transaction(s).

***Q2**: If you answered 'yes' to Q1, if you are aware of it, what was the accounting treatment of each of the exchanges or modifications from the perspective of the investors under IAS 39 or IFRS 9 in respect of the example transactions you have provided? That is, did the investors in the issuing entity derecognise or continue to recognise their existing investment as a consequence of the transaction? In addition, if possible, could you please briefly describe the rationale for that accounting treatment.*

***Q3**: On the basis of your response to Q2, to what extent do you observe diversity in the accounting treatment by the investor for such exchanges or modifications?*

40 Die DRSC-Antwort vom 30. Juni 2014 hierzu lautete wie folgt:

Zu Q1: We are aware of a similar fact pattern in our jurisdiction. As to our knowledge, the Italian subsidiary of a German insurance company is holding those instruments as described. However, we deem the transaction described in the fact pattern being a unique case - it does not appear to be wide-spread. As such, it might not be a profound basis for an agenda decision. Moreover, we expect that a decision on which view is more appropriate would mainly depend on individual circumstances as well as on judgement. It should be added that IAS 39 (as well as IFRS 9) do not comprise explicit guidance on derecognition (or not) of financial assets in case of modifications, hence, respective application of the guidance on derecognition of financial liabilities in case of modifications is one possible solution.
With respect to the given fact pattern, we note that diversity in practice is possible depending on the consideration of qualitative indicators, which we deem being crucial - e.g. substantial changes (or not) in the contractual maturity, number of shares, contractual interest rate, amount of dividends, etc.

Due to the feedback we received, constituents are split over whether the cancelled shares should be derecognised. Some consider the "in-substance" test being fulfilled (thus, the cancelled shares being derecognised), others would not derecognise the cancelled shares. Given this, it is not necessarily appropriate to conclude - as does the submitter - that "the new shares are deeply different in terms of nature, economic rights and risk profile as compared to the cancelled ones".

Zu Q2: Arguments for derecognition might be:

- changes in the source (reserves vs. net earnings) and restriction (cap as a proportion vs. cap as an absolute amount)of dividends;
- changes in the rights of the holder in case of liquidation
- elimination of restrictions for transfers.

Arguments against derecognition might be:

- number of shares unchanged;
- expected value of future dividends unchanged;
- actual dividends were below the cap, as is expected to be the case in the future.

Zu Q3: n/a.

41 Das Thema wurde im Juli 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Es wurde vorläufig beschlossen, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 7/2014):

The IFRS IC 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. The IFRS IC observed that:

(a) because of the unique nature of the transaction, the issue is not widespread; and

(b) the submitter had not identified significant diversity in accounting for this transaction among the holders of the equity instruments in question.

For these reasons, the IFRS IC [decided] not to add this issue to its agenda.

42 Der IFRS-FA hatte Ende Juli 2014 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten und folgendes festgestellt, allerdings ohne formale Stellungnahme ans IFRS IC:

Die grundsätzliche Frage der (unklar geregelten) Klassifizierung nach IAS 32/39 bleibt unbeantwortet. Der IFRS-FA möchte hierauf erneut hinweisen und befürwortet, dies zu einem späteren Zeitpunkt mit einem etwas weiter gefassten Fokus - ggf. in Zusammenhang mit anderen Beispielen - anzugehen.

43 Das IFRS IC hat im November 2014 nunmehr - analog zur TAD - endgültig entschieden, dass eine Klarstellung oder Interpretation nicht erforderlich ist. Der Wortlaut der Begründung hierzu ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.4 Vorschläge für den nächsten AIP-Zyklus

44 In der IFRS IC-Sitzung im November 2014 wurde zu folgenden Themen eine Änderung im Rahmen des nächsten AIP-Zyklus vorgeschlagen:

IAS/IFRS	Thema	Vorschlag
IAS 19	*Remeasurement at a plan amendment or curtailment*	**Amendments proposed (by way of AIP)**
IAS 28	*Applying the fair value option*	**Clarification proposed (by way of AIP)**

3.4.1 Zu IAS 19 – *Remeasurement at a plan amendment or curtailment*

45 Die Anfrage ging Anfang 2014 beim IFRS IC ein und betrifft Neubewertungen unter IAS 19. Im Februar 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

If a significant plan amendment or curtailment of a defined benefit plan occurs should an entity:

- Recognise the remeasurement of the net defined benefit liability (asset) ('net DBL') required for the separate calculation of the amendment or curtailment gain or loss (Issue 1)?
- Revise any actuarial assumptions for the calculation of service cost and interest cost in the post-plan amendment or curtailment period (Issue 2)?

Note: Issue 1 is not an issue whether an entity should recognise the remeasurement gain or loss at end of interim period. Issue 1 would affect a calculation of net interest in the post-curtailment period.

1. Background of the issues

When a plan amendment or curtailment occurs, an entity remeasures the net DBL using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment or curtailment, as the first step in determining the past service cost (IAS 19.99).

The net DBL is therefore determined three times in connection with an event, as follows:

(i) The 'expected amount' of the net DBL before the event, based on actuarial assumptions at the end of the prior year and cash movements.

(ii) The net DBL *before* the event remeasured using: (*) the current fair value of plan assets; and (**) current actuarial assumptions, reflecting the benefits offered under the plan *before* the event.

(iii) The net DBL *after* the event remeasured using: (*) the current fair value of plan assets; and (**) current actuarial assumptions, reflecting the benefits offered under the plan *after* the event.

The difference between the amount of the DBO in (ii) and (iii) is the past service cost (IAS 19.102). The difference between (i) and (ii) does not include any effect of the event. There is a diversity of views and the arguments for and against its recognition are set out below (***Issue 1***).

There is also diversity about whether some or all of the actuarial assumptions which are used in determining current service cost and net interest for the post-event period should be updated to the current actuarial assumptions (including current market interest rates and other current market prices), reflecting the benefits offered under the plan after the event (i.e. those used in measuring the amount of (iii)) (***Issue 2***).

2. The fact pattern

Entity X accounts for its defined benefit plan in accordance with IAS 19 (2011) in its financial statements for the year ending 31 December 2013. Accordingly, on 1 January 2013 X determined the defined benefit cost for 2013. On 20 March 2013, X commits to a restructuring plan that reduces by half the number of employees covered by the defined benefit plan. The restructuring plan meets the criteria in IAS 37 and, as a result, a curtailment loss (past service cost) is recognised on 20 March 2013.

3. Divergent views identified by the submitter:

The submitter observed the diversified views as the table below explains.

			Update the actuarial assumptions to determine current service cost and net interest?	
Issue 1	Issue 2	Remeasure net DBL on the statement of financial position by recognising total gain/loss?	Financial assumptions	Demographic assumptions
View 1	View A	No	No	No
View 1	View C	No	No	Yes
View 2	View A	Yes	No	No
View 2	View B	Yes	Yes	Yes
View 2	View C	Yes	No	Yes

Note: The number of employees for whom current service cost will arise is not a demographic assumption as described in IAS 19.75-98, but instead a matter of fact in each period of service. The number of employees is therefore updated for the post-event period, even if the actuarial assumptions are not updated.

<u>View 1: Net DBL remeasurement is not recognised at curtailment</u>

Under this view, the net DBL is NOT remeasured to the amount of (iii). The difference between the expected net DBL amount of (i) and the remeasured net DBL amount before the event of (ii) is not recognised (in OCI) at the time of the event. The remeasurement is performed solely to exclude the effect of the remeasurement from past service cost. As a result, the carrying amount of the net DBL after the event is the expected amount of (i) less the difference between the amounts of (ii) and (iii), i.e. less the past service cost. The proponents of this view believe that it is most consistent with the IASB's intentions as summarised above described in IAS 19.BC64.

<u>View 2: Net DBL remeasurement is recognised at curtailment</u>

Under this view, the net DBL is remeasured to the amount of (iii). Proponents of View 2 point out that, as highlighted in the first sentence of IAS 19.BC60, remeasurements should be recognised in the period in which they arise. They therefore believe that the remeasurement gain or loss (i.e. the difference between (i) and (ii)) should be recognised (in OCI) when that remeasurement is performed.

View A: No assumptions are updated to determine current service costs and net interest in the post-plan amendment or curtailment period

Under this view the actuarial assumptions are not updated to the current actuarial assumptions for the post-event period. Actuarial assumptions are only updated during the year-end assessment together with remeasuring the net DBL. The proponents of this view believe that it is most consistent with the IASB's intentions as described in IAS 19.BC63 and BC64.

View B: All actuarial assumptions (financial and demographic) are updated to determine current service costs and net interest in the post-plan amendment or curtailment period

Proponents of View B point out that a plan amendment or curtailment may have a significant impact on an actuarial assumption(s), such as the rate of employee turnover. Therefore, not updating actuarial assumptions would result in an inappropriate measurement of current service cost for the remainder of the reporting period which does not reflect the present situation. Proponents of updating the actuarial assumptions generally also support recognising the remeasurement gain or loss (i.e. View 2 under Issue 1). Supporters of this approach note that IAS 19.BC64 does not form part of the standard itself, which is silent. They also point to IAS 34.IE.B9 which indicates that the actuarially determined pension cost rate calculated at the end of the prior period should be adjusted for significant one-off events, such as plan amendments, curtailments and settlements.

View C: The financial assumptions are not updated but the demographic assumptions are, to determine current service costs and net interest in the post-plan amendment or curtailment period

Only the demographic assumptions, which include the rate employee of turnover, are updated and the financial assumptions remain the same. Proponents of this view believe that IAS 19.80 clearly requires the financial assumptions to be based on market expectations at the end of the [previous] reporting period, but silently implies the demographic assumptions being updated when a plan amendment or curtailment occurs. Supporters of View C also point to IAS 34.IE.B9.

4. Questions

Q1. *In your jurisdictions, are curtailment or plan amendments common? If yes, are you aware of any difficulties or challenges in your jurisdiction to decide;*

- *whether an entity recognises remeasurement gain or loss at a plan amendment or curtailment (Issue1), or/and*
- *whether an entity recognises update assumptions to determine current service costs and net interest in the post-plan amendment or curtailment period (Issue2)?*

Q2. *If 'Yes' to Q1, what is the prevalent interpretation for each issue? In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment?*

Q3. *If 'Yes' to Q1, to what extent do you observe diversity in practice in respect of each issue?*

46 Die DRSC-Antwort vom 4. März 2014 hierzu lautete wie folgt:

> **Zu Q1**: Unfortunately, this time we could not ask a very broad variety of constituents (as we are used to do) for input on this request. However, those comments received still cover companies from all sectors and with a wide range in terms of size.
> **Zu Q2**: Issue 1: View 2 is the prevalent approach. Issue 2: View A is the prevalent approach.
> **Zu Q3**: No, we are not aware of diversity in practice.

47 Das Thema wurde im Mai, Juli und November 2014 im IFRS IC diskutiert. Im Juli 2014 wurde bereits vorläufig entschieden, das Thema dem IASB für eine Klarstellung mittels AIP zu empfehlen. Dieser Vorschlag wurde wie folgt begründet (Auszug IFRIC Update 7/2014):

> The IFRS IC received a request to clarify the accounting treatment in accordance with IAS 19 for issues related to the remeasurement of the net defined benefit liability (asset) (hereafter 'net DBL') in the event of a plan amendment or curtailment in IAS 19.
> The Interpretations Committee discussed this issue at its May 2014 meeting. At that meeting it tentatively agreed to develop an amendment to require an entity to:
> (a) take account of the remeasurement of the net DBL at the event date when determining net interest for the post-event period; and
> (b) use the updated actuarial assumptions for the calculation of current service cost and net interest for the post-event period.
> The IFRS IC thought that this would result in more relevant information and greater consistency between IAS 19 and IAS 34.B9, if an entity remeasures the net DBL during a period because of a significant event (plan amendment, curtailment or settlement) or a significant market fluctuation.
> At this meeting, the IFRS IC reaffirmed that the benefits expected from the proposed amendment are clear: it would provide more relevant information and enhance comparability and understandability. It noted that additional costs resulting from the proposal would not outweigh the expected benefits, because of the existing requirement to remeasure the net DBL in IAS 19 and IAS 34 when significant events or changes occur.
> The IFRS IC noted that the proposal would not change how frequently an entity should remeasure the net DBL during a period. The frequency of remeasurement is determined in accordance with the existing guidance such as IAS 19.58 and .99 and IAS 34.B9. This proposal intends to clarify that an entity should determine current service cost and net interest for the remaining portion of the reporting period after a remeasurement, using the updated assumptions and taking account of significant changes in the net DBL.
> The IFRS IC noted that the requirement to remeasure the net DBL is determined on a plan-by-plan basis (not a country basis or an overall entity basis). The IFRS IC also noted concerns with the wording in IAS 19.BC58–BC64 and asked that the proposed amendment should address these points.
> The IFRS IC concluded that the proposed amendment to IAS 19 meets the criteria for Annual Improvements. It requested the staff to revise its proposed amendment to IAS 19 to clarify the intended requirements and to reflect the points raised during this meeting.

48 Der IFRS-FA hatte diese vorläufige Entscheidung in seiner 29. Sitzung (Ende Juli 2014) erörtert. Als Ergebnis hatte der IFRS-FA eine Sammel-Stellungnahme hierzu verfasst und am 17. September 2014 an das IFRS IC mit folgendem Wortlaut übermittelt:

> The IFRS IC agreed in its discussion that an entity should use the updated actuarial assumption to remeasure the net DBL and to calculate the current service cost and the net interest for the post-event period. First of all, we agree with IFRS IC's assessment, that the proposed change to IAS 19 is an amendment and not a clarification.
> We disagree with the IFRS IC's opinion that this amendment would enhance comparability and understandability. Entities with a plan event report their net DBL, the current service cost, and the net interest based on assumptions valid at the date of the event while other entities still use assumptions valid at the beginning of the reporting period. There is no longer comparability between these entities. Therefore, we would encourage the IFRS IC to reconsider this issue in its further discussion.
> In our opinion, the current service cost and net interest for the post-event period should only reflect the results of the plan amendment or curtailment (e.g. reduction in current service cost after a decrease of plan participants) and should not include updated assumptions valid at the event date. The plan amendment or curtailment is based on a decision of the entity and, therefore, the changes in current service cost and net interest are based on an entity's decisions. The new (post-event) current service cost and net interest reflect the result of the entity's action. In contrast, the changes in current service cost and net interest from updated assumptions are based on circumstances outside of the entity (mortality, business environment, etc.). This would result in including information, which is relevant for all entities, only in the current service cost and net interest of entities with a plan event while all other entities use other information. Thus, there is no longer comparability..

49 Nunmehr hat das IFRS IC im November 2014 seinen Vorschlag bestätigt. Es wurde zugleich beschlossen, den Anwendungsbereich einzugrenzen. Allerdings blieb es unverändert bei der Entscheidung, dass eine unterjährige Anpassung der versicherungsmathematischen Annahmen zu erfolgen hat. Der genaue Wortlaut des Vorschlags hierzu ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.

3.4.2 Zu IAS 28 – *Applying the fair value option*

50 Die Anfrage ans IFRS IC betrifft die Frage, ob die FV-Option *investment-by-investment* anwendbar ist. Im September 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

> **1. Summary of the issue**
> According to paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures*, when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure an investment in the associates or joint venture at fair value through profit or loss (fair value option). The question is whether the entity is able to apply the equity

method or the fair value option on an investment-by-investment basis, or whether instead the same accounting treatment should be applied to its investments in associates and joint ventures consistently.
The submitter noted that the IASB had revised IAS 28 in 2011. Before the revision, the fair value option appeared as a scope exemption in IAS 28; however, that paragraph was moved to the body of IAS 28 as a result of the revision in 2011. The submitter claims that before the revision in 2011, entities had an explicit option as to whether they measured investees using the equity method or the fair value option on an investment-by-investment basis. However, after the revision, it had become less obvious whether the entity has the same option.

According to the submitter, two views exist as follows:
(View A) an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds can elect to apply the equity method or the fair value option on an investment-by-investment basis; or
(View B) an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds needs to elect the fair value option consistently across all its investments, because the revised IAS 28 permits either the equity method or the fair value option through an accounting policy election—ie, the election is not permitted on an investment-by-investment basis.

2. Questions
Q1. *Are you aware of examples of application of the fair value option to associates and joint ventures by venture capital organisations, or a mutual funds, unit trusts and similar entities including investment-linked insurance funds?*
Q2. *If yes to Q1, please would you:*
(a) *inform us about the extent to which the fair value option applied in your jurisdiction;*
(b) *describe the basis on which the fair value option is applied in your jurisdiction. For example, is the option generally applied on an investment-by-invest basis or generally applied to all associates and joint ventures held by venture capital organisations, or a mutual funds, unit trusts and similar entities including investment-linked insurance funds, or applied on some other basis?;*
(c) *provide us with examples that illustrate the practices that you observe and the reasons for the practice followed?*

51 Die DRSC-Antwort vom 6. Oktober 2014 hierzu lautete wie folgt:

Ad Q1: Yes, we are aware of such examples.
Ad Q2: We deem IAS 28 not being entirely clear and would support if a clarification were developed. However, our constituents consistently apply the fair value option. Thus, there is no diversity in practice.

52 Das Thema wurde im November 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Das IFRS IC entschied, dass IAS 28 (rev. 2011) unklar und daher eine Klarstellung erforderlich ist, die mittels AIP erfolgen sollte. Der Wortlaut zu dieser Entscheidung nebst Begründung ist aus dem IFRIC Update 11/2014 (Unterlage **33_08a**) ersichtlich.