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## IFRS Committee – STAFF PAPER

<b>Meeting:</b>	<b>2nd of the IFRS-Committee / 13.02.2012 / 09:30 – 14:15 CET</b>
<b>AI:</b>	<b>01 – Interpretation of IFRSs</b>
<b>Topic:</b>	<b>Discussion of the Committee's Role in interpreting IFRSs</b>
<b>Paper:</b>	<b>02_01a_ Interpretation_ IFRSs</b>

### Introduction

1 Until the end of 2011, the ASCG had two standing committees as follows:

- the German Accounting Standards Board (GASB) and
- the Accounting Interpretations Committee (AIC).

The main mission of the AIC was to support the work of the IFRSIC and to develop interpretations of IFRSs addressing specific national issues. Until 2011 the AIC developed three such interpretations in close cooperation with the IFRSIC and other international partners of the AIC. Another objective of the AIC was the promotion of the international convergence of interpretations of key financial reporting issues and the assessment of specific national issues arising in conjunction with the effective IFRSs. Pronouncements of the AIC were subject to the approval of the GASB. The AIC further

- issued two *AIC Application Advices on IFRS* and – with respect to the more distant past – some *Position Papers* on IFRS matters, which all served as guidance for the accounting treatment of the relevant issues in financial statements prepared in accordance with applicable pronouncements of the IASB and with no binding effects for the reporting entities. Entities in Germany which state that their financial statements have been prepared in accordance with IFRSs are recommended to consider the Application Advices / Position Papers when assessing individual cases;
- commented – as deemed necessary – on IFRSIC tentative agenda decisions; and
- proposed agenda items to the IFRSIC.

2 Following the completion of its reorganisation and with effect of January 2012, the ASCG now has two standing committees as follows:

- the IFRS-Committee and



- the German GAAP Committee.
- 3 Amongst other duties which have been assigned to the IFRS-Committee (ie mainly addressing comment letters to international bodies dealing with IFRS accounting matters), it took over all tasks and duties formerly covered by the AIC.
- 4 With respect to such tasks and duties taken over from the AIC, this meeting is intended to better understand and specify the role of the IFRSIC, the role of the IFRS-Committee and the liaison between the two in light of improving financial reporting through timely identification, discussion and resolution of financial reporting issues in line with IFRSs.
- 5 Additionally,
- a few issues currently discussed in Germany with the expectation of more interpretative guidance to be provided, as well as
  - specific issues discussed by the IFRSIC during its meeting in January 2012, are scheduled to be discussed during this meeting.
- 6 Thus, during the meeting it is intended to follow the below structure:

<b>A</b>	Responsibilities of the IFRSIC and scope of its work – with specific focus on the cooperation with NSSs and NIGs (a brief presentation)
<b>B</b>	Presumed expectations of IFRS-Committee and German constituents with respect to national activities on interpreting IFRSs (a brief presentation)
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<b>B2</b>	Legal mandate to issue German national interpretations
<b>B3</b>	Other pronouncements
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<b>4</b>	List of possible issues for discussion (chapter C)
<b>5</b>	Enforcement Decision of the AFM



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## **A Responsibilities of the IFRSIC and scope of its work – with specific focus on the cooperation with NSSs and NIGs (a brief presentation)**

- 7 With respect to the captioned topic a brief presentation will be given by one of the IASB representatives joining the meeting. The presentation will focus on the cooperation of the IFRSIC with NSSs (National Standard Setters) and National Interpretative Groups (NIGs). Another focus will be given to expected or foreseeable future changes with respect to the
- current Agenda Consultation of the IASB as well as
  - Trustees' review of effectiveness and efficiency of the IFRSIC.
- 8 For reference purposes, please find in the **appendix 1** to this paper some excerpts from the *Due Process Handbook for the IFRSIC*.

## **B Presumed expectations of IFRS-Committee and German constituents with respect to national activities on interpreting IFRSs (a brief presentation)**

### **B1 Preface**

- 9 The IFRS-Committee will take over the responsibilities relating to the 'IFRSs-interpretations work' of the ASCG which was covered until the end of 2011 by the AIC. Since the IFRS-Committee to date has not yet discussed (in detail) how it intends to address these responsibilities, in the following it is assumed that the main procedures, tasks, responsibilities, types of pronouncements etc. are basically carried forward from the AIC in an unchanged manner. In summary, that would mean that the IFRS-Committee mainly will:
- actively support the work of the IFRSIC (e.g. provide comments on tentative agenda decisions, propose agenda items, provide feedback on outreach requests) and accompany the development of interpretations by the IFRSIC in cooperation with the IFRSIC and other national interpretative groups,
  - support the international convergence of the interpretation of significant financial reporting standards, and
  - assess specifically national accounting and reporting issues in the light of the IFRSs, which may lead to the issuance of
    - national interpretations of IFRSs within the limits of the legal mandate (for details please refer to chapter **B2**), and



- national pronouncements of interpretative guidance with respect to the IFRSs as deemed necessary (for details please refer to chapter **B3**).

The work with respect to issuing interpretations and other pronouncements shall be principles-based and not be conflicting with interpretations issued by the IFRSIC or the Framework of the IASB. The issuance of German national interpretations shall be based on adequate consulting and due processes.

## **B2 Legal mandate to issue German national interpretations**

- 10 In 2009 the ASCG has been mandated by law to also develop interpretations of the international accounting standards as endorsed by the EU (please refer to **appendix 2** of this paper).
- 11 Acknowledging the fact, that the development of interpretations of the IFRSs is reserved to the IFRSIC, only the following issues may be addressed by national interpretations in Germany:
- the issues to be addressed are of national relevance, only, or
  - a general interpretation cannot be issued by the IFRSIC because there are differing legal environments in the various jurisdictions concerned (eg insolvency laws, tax laws, national pension schemes).

In any case, the development of national interpretations in Germany shall be conducted in close cooperation with the IFRSIC (and other NSSs / NIGs). Further, the due process required is intended to avoid national interpretations triggered by vested interests.

## **B3 Other pronouncements**

- 12 Other pronouncements possibly to be issued by the IFRS-Committee<sup>1</sup> are intended to serve the German IFRS-preparers by providing guidance on the issues discussed therein. However, reporting entities which issue financial statements in accordance with IFRSs would only apply such pronouncements of the IFRS-Committee unless other specific pronouncements to the contrary are issued by the IFRSIC or the IASB. Pronouncements issued by the IFRS-Committee would serve as guidance for the accounting treatment of the relevant issues in financial statements prepared in accordance with IFRSs and have no binding effect. Entities in Germany which state that their financial

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<sup>1</sup> Please note that the IFRS-Committee has not yet decided whether it will develop any other type of guidance with respect to IFRS, other than German national interpretations (legal mandate).



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statements have been prepared in accordance with IFRSs are recommended to consider such other pronouncements when assessing individual cases.

- 13 Pronouncements issued previously by the AIC, which may be of indicative nature for the future work of the IFRS-Committee, are shown in **appendix 3** of this paper.

### **C Liaison between IFRSIC and IFRS-Committee (discussion)**

- 14 After the IFRSIC<sup>2</sup> and the IFRS-Committee members have presented their views and expectations, a discussion is scheduled to be held, which will focus on interpretations and possibly other pronouncements the IFRS-Committee might intend to issue. A list of further issues possibly to be discussed is attached in **appendix 4** to this paper.

### **D Issues currently discussed in Germany with the expectation of more interpretative guidance to be provided**

- 15 There are currently two specific issues the IFRS-Committee may consider to issue guidance on since there have been indications that there is such a public expectation.

#### **D1 Cash-flow presentation of the funding of defined benefit plans**

- 16 With respect to the presentation of cash-flows provided to fund *Pension Plan Assets*, the Institute of Public Auditors in Germany (IDW) recently has proposed the following treatment (emphasis added):

”The contribution of cash and cash equivalents by the reporting entity into the fund as well as later payments made by the fund need to be classified in the statement of cash flows. It is **recommended** that these cash-flows are classified as operating activity.”

- 17 However, the EU-Enforcers discussed a similar issue in a different context. In this context it was argued, that the classification of the cash-flows as operating activity cannot be understood as an accounting choice but that it is required to classify the cash-flows as operating activities in line with IAS 7. This view has been based on the following considerations:

- According to IAS 7.16 only cash-flows relating to an asset recognised may be classified as ‘cash-flow from investing activities’. Plan assets are netted with provisions

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<sup>2</sup> To be specific: the IASB representatives joining the meeting.



for employee benefits so that normally no asset will be presented in the statement of financial position in this respect. In order to qualify as plan assets, in accordance with the definition of the term (IAS 19.8) such assets must be legally separated from the reporting entity. Thus, the reporting entity has no control over the plan assets (please refer to IAS 1.15 – definition of an asset).

- According to IAS 7.14 (d), cash payments to and on behalf of employees are listed as an example for cash-flows pertaining to operating activities. It would not be comprehensible, that depending on the timing of the payment different classifications in the statement of cash-flows could be achieved. Thus, the classification shall be determined independently from whether the funding is made via one-off extra payment or provided evenly over the employees' service period.

The enforcement decision in the meantime has been published (2.2.2013) by the AFM (The Netherlands Authority for the Financial Markets) – please refer to **appendix 5**.

18 For German reporting entities a diversity in practice has been observed – such payments are both classified as operating and in other instances also as investing activities. In commenting literature it is even suggested that such cash-flows may be classified as financing activity.

19 May the issue be worth to be taken to IFRSIC as a Potential Agenda Item Request (PAIR)?

## **D2 Detailing the accounting for 'Altersteilzeit' plans according to IAS 19 (2011)**

20 In October 2011 the AIC filed a PAIR with the IFRSIC on the issue of applying the definition of termination benefits to 'Altersteilzeit' plans to IAS 19 (2011); please also refer to the below chapter **E**. During its meeting in London on 17 and 18 January 2012 the IFRSIC agreed on the agenda decision 'not to add the issue to its agenda.' The committee further concluded that the so called *bonus payments* 'do not meet the definition of termination benefits'.

21 While there appears to be no further discussion with respect to the agenda decision of the IFRSIC, there have emerged – however – discussions of how to account for the bonus payments not meeting the definition of termination benefits. Questions raised – as examples – relate to:

- Which IAS 19 - categories need the bonus payments be assigned to: post-employ-



- ment benefits or other long-term employee benefits?
- When does an entity need to recognise provisions in the given context?
  - Over which term need provisions be recognised: until the beginning of the active period, until the end of the active period or until another point in time?
  - Under which circumstances may past service costs need to be considered and be accounted for?

22 What would be IFRSIC's view towards a pronouncement to be issued by the IFRS-Committee to locally address specific questions as indicated by German constituents?

### **D3 Other issues**

23 Any other prevailing issues may be discussed in this context.

## **E IFRSIC Meeting in London on 17 and 18 January 2012**

24 During today's meeting the results of the last meeting of the IFRSIC will be briefly discussed. For reference purposes, please refer to the "IFRIC UPDATE", which is provided as paper **02\_01b**.

### **E1 Current Agenda**

25 The three issues dealt with as current agenda items and relating to IAS 37, IAS 32 and IAS 2 will briefly be explained by the IASB representatives joining the meeting with a brief discussion to follow, if considered necessary.

### **E2 Agenda Decision on 'Altersteilzeit' plans**

26 It is expected that no further discussion will be held on the subject (except **D2** above).

### **E3 AIP issues**

27 With regard to this subject the members of the IFRS-Committee will have the opportunity to inquire of any issues they may be interested in.

### **E4 Work in progress**

28 IFRSIC's WIP-items will briefly be presented by the IASB representatives joining the meeting with a brief discussion to follow, if deemed necessary.



## Appendix 1

Excerpts from the *Due Process Handbook for the IFRS Interpretations Committee*

# Due Process Handbook for the International Financial Reporting Interpretations Committee (IFRIC)<sup>3</sup>

*Approved by the Trustees January 2007*

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<sup>3</sup> In 2010 the IFRIC was renamed the IFRS Interpretations Committee.





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## Introduction

- 1 The International Financial Reporting Interpretations Committee (IFRIC) assists the International Accounting Standards Board (IASB) in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the framework of International Financial Reporting Standards (IFRSs). The IFRIC was established in March 2002 by the Trustees of the International Accounting Standards Committee (IASC) Foundation, when it replaced the previous interpretations committee, the Standing Interpretations Committee.

[...]

## Responsibilities of the IFRIC and scope of its work

- 5 In the context of its requirements for due process, the IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment.
- 6 In providing interpretative guidance, the IFRIC applies a principle-based approach founded on the Framework for the Preparation and Presentation of Financial Statements. The IFRIC considers the principles established in relevant IFRSs to develop its interpretative guidance and to determine that the proposed guidance does not conflict with IFRSs. It follows that, in providing interpretative guidance, the IFRIC is not seeking to create an extensive rule-oriented environment. Nor does it act as an urgent issues group.

[...]

## Membership

[...]

## Due process

[...]

## Authority of IFRIC Interpretations

[...]

## Communication

[...]

## Relationship with national standard-setters and national interpretative groups

- 50 The IASB staff maintain liaison with national standard-setters (NSSs) and national interpretative groups (NIGs) to identify interpretative issues that the IFRIC might need to consider. IFRIC members and appointed observers are encouraged to identify issues that may indicate emerging divergence in the interpretation of IFRSs.
- 51 NSSs and NIGs are encouraged to refer interpretative issues to the IFRIC for its consideration. The IFRIC, however, will not give assurance that a local interpretation is either consistent or inconsistent with IFRSs.



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## Appendix 2

### Section 342 of the German Commercial Code

[Private accounting standard-setting body]

(1) <sup>1</sup>The Federal Ministry of Justice may contractually recognise an institution organised under private law and transfer to it the following duties:

1. the elaboration or recommendations on the application of German accepted group accounting principles;
2. the provision of advice to the Federal Ministry of Justice on accounting regulations;
3. representation of the Federal Republic of Germany in international standard-setting bodies; and
4. development of interpretations of the international accounting standards in the meaning of section 315a para. 1 [of the German Commercial Code]<sup>4</sup>.

<sup>2</sup>However, such an institution may only be recognised if its constitution ensures that the recommendations and interpretations are developed and adopted independently and exclusively by accounting professionals in a public process that involves the accounting community. <sup>3</sup>To the extent that companies or organisations of accountants are members of such an institution, membership rights may only be exercised by accounting professionals.

(2) <sup>1</sup>There is a presumption of compliance with German accepted accounting principles relating to group accounting if recommendations issued by an institution recognised under subsection (1) sentence 1 above and promulgated by the Federal Ministry of Justice are complied with.

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<sup>4</sup> Section 315a - subsection (1) of the German Commercial Code makes reference to the IFRSs as endorsed by the EU (please refer to Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, p.1), as amended, to apply the international accounting standards adopted in accordance with Articles 2, 3 and 6 of that Regulation).



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## Appendix 3

### German national interpretations and other pronouncements issued by the AIC

#### 1. German National Interpretations

The Federal Government enacted early April 2009 the *government bill of the German Accounting Law Modernisation Act* ('modernisation act') according to which the ASCG (and at that time practically the AIC) is given legal authorization to issue interpretations of the IFRS as endorsed by the EU. Such interpretation issues must be limited to issues with German national relevance because the expectation is that those will not be interpreted by the IFRSIC.

However, the modernisation act regulated past practice of the AIC, because in the past the AIC issued interpretations without an explicit legal foundation but based on the spirit of the ASCG's constitution at that time, according to which the association of the AIC was established:

"... in recognition of the need for the business community and other participating constituents to take the initiative in developing accounting and financial reporting, in particular in the interests of those individuals who are responsible for accounting and financial reporting by enterprises and groups of enterprises, or who are active in the fields of auditing, advising, or teaching, or whose decisions are contingent upon financial reporting by enterprises; ...".

In the past (before the modernisation act has been enacted), the AIC issued the following three Interpretations:

- **AIC 1** – The Current / Non-current Classification in the Balance Sheet under IAS 1 *Presentation of Financial Statements* (July 2005 with subsequent amendments from March 2009),
- **AIC 2** – Obligation to Dispose of Electrical and Electronic Equipment (December 2005), and
- **AIC 3** – Interpretation Issues relating to Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* (Puttable Financial Instruments and Obligations Arising on Liquidation) (December 2008 with subsequent amendments from February 2010).

All three Interpretations addressed specific national issues which – to the understanding of the AIC – would not have been addressed by the IFRSIC.

Please note that no German National Interpretations have yet been developed since this type of pronouncement has been made a legal mandate to the ASCG in early 2009 based on the modernisation act.

#### 2. Other Pronouncements

Further, in order to discuss and resolve financial reporting issues and to ensure consistent and comparable application of IFRS by preparers in Germany the AIC issued various position papers, *AIC application advices IFRS* and Q&As in the past as follows:



- January 2006: **AIC-Position Paper**  
IFRS Accounting for Additional Compensation under German Altersteilzeit Partial and Early Retirement Arrangements in the Light of EITF Issue No. 05-5
- December 2007: **Questions and Answers (Q&A)**  
Measurement of Financial Instruments
- December 2007: **AIC Position Paper**  
Definition of an Equity Instrument in Accordance with IAS 39
- May 2008: **AIC Position Paper**  
Accounting Treatment of Recapture Taxation of 'EK02' under the German Annual Tax Act 2008
- May 2008: **AIC Position Paper**  
Effects of the statutory increase in the retirement age under the RV-Altersgrenzenanpassungsgesetz on the accounting treatment of defined benefit plans in accordance with IAS 19
- July 2009: **AIC Position Paper**  
Advice on consideration of the annual contribution to the Pension-Assurance-Association (*Pensionssicherungsverein*)
- 2009: **AIC Application Advice IFRS (2009/01)**  
Accounting for Costs of Registration in accordance with the EU REACH Regulation
- 2009: **AIC Application Advice IFRS (2009/02)**  
Selected IFRS Accounting Issues relating to the Financial and Economic Crisis  
The following issues were dealt with:
  - (1) Economic short-time allowance (*Konjunkturelles Kurzarbeitergeld*)
  - (2) Negative working time accounts (short-term)
  - (3) Distinguishing between restructurings in accordance with IAS 37 and termination benefits in accordance with IAS 19
  - (4) Compliance with special reporting obligations in crisis situations
  - (5) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost as objective evidence of impairment
  - (6) Discount rate in accordance with IAS 19.78 ff.
  - (7) Accounting for retention bonuses
  - (8) Accounting for signing bonuses
  - (9) Postponement, suspension and cancellation of construction contracts within the meaning of IAS 11

Occasionally the AIC also commented on some issues in its **Update Report** (press release / report on the results of the meeting), which were e.g.:

- June 2008 – under which circumstances are “Advertising - Merchandising – Promotion” (AMP) payments / market development funds (MDF) are to be offset against revenue or to be presented as expenses.
- March 2009 – whether the disclosure of the gross carrying amounts and the accumulated depreciation at the beginning and end of the period (IAS 16.73 (d) and IAS 38.118 (c)) may be those of consolidated entities as indicated in their separate financial statements (i.e. the original costs of purchase or costs of conversion and the accumulated depreciation before consolidation).
- November 2010 – Variable compensation agreements other than those in the scope of IFRS 2 in the light of accounting requirements of IAS 19 (with specific



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reference to the German Act on the appropriateness of Management Board Compensation – VorstAG).

- Selected additional compliance requirements for financial statements in accordance with IFRS to be met according to section 315a subsection (1) of the German Commercial Code.
- March 2011 – Differentiation between the change of accounting policies vs. the change in accounting estimate (IAS 8).
- September 2011 – Disclosure requirement of the personnel compensation (exclusive of the remuneration for being a supervisory board's member) of the labour representatives in a supervisory board in accordance with IAS 24.18 (rev. 2009).

Finally, in instances where issues emerge and a clarification is to be provided to the preparers on short notice, the AIC released news on the website of the ASCG (example: in June 2007 the AIC commented in such a web release on the substantive enactment of tax law with regard to an amendment to the German tax law (Unternehmenssteuerreformgesetz 2008)).



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## Appendix 4

### List of possible issues for discussion (chapter C)

#### 1) Current understanding: IFRS-Committee will support the IFRSIC

According to the expected role of the IFRS-Committee, it will support the IFRSIC's work as follows:

- It identifies interpretative issues that the IFRSIC might need to consider and refers such issues to the IFRSIC for its consideration (via informal coordination and official filing of Potential Agenda Item Requests [PAIRs]).
- It identifies issues that may indicate emerging divergence in the interpretation of IFRSs.
- It comments on draft interpretations and tentative agenda decisions if deemed necessary.

#### 2) Possible items for discussion with a focus on IFRSIC's work

- Are PAIRs welcomed on less significant – but still important issues?
- Where does the IFRSIC draw the line between issues purely relating to national concerns and those with a wider impact and to be addressed by the IFRSIC?
- Will the IFRS-Committee upon filing a PAIR always be revealed to the members of the IFRSIC and others (ie the interested public) in order to openly display the active role of the IFRS-Committee as a NSS (please refer to para. 21 of the *IFRS Interpretations Committee Due Process Handbook* – see also **appendix 1** of this paper)?
- Would it be helpful to establish public discussions in Germany with respect to draft interpretations issued by the IFRSIC (the ASCG usually organises such public discussions on all DPs and EDs issued by the IASB) – possibly joined and supported by IASB / IFRSIC staff – for feedback purposes?
- What are specifically the expectations of the IFRSIC on the Outreach Requests, which have been used more frequently in the recent past (e.g.: shall preparers be involved; shall national offices of the big audit firms be involved)?
- Are there other ways and means the IFRS-Committee could support the IFRSIC?

#### 3) Possible items for discussion: Pronouncement activity of the IFRS-Committee

- a) The IFRS-Committee will continue –where deemed necessary– to issue interpretations of the IFRSs as endorsed by the EU and as mandated to the IFRS-Committee by German law. These interpretations will be limited to issues with German national relevance because the expectation is that those will not be interpreted by the IFRSIC.

The IFRS-Committee intends to issue these German national interpretations in close coordination with the IFRSIC – there will also be a due process.

- b) The IFRS-Committee also intends to further issue other pronouncements – as an example please refer to the pronouncements developed by AIC in the past (see **appendix 3** – 2nd Chapter).



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## Appendix 5

### Enforcement Decision of the AFM

(The Netherlands Authority for the Financial Markets)

#### 4 Introduction Presentation of the funding of a defined benefit plan in the statements of cash flows

The AFM's desktop reviews brought to light a reporting issue relating to the cash flow statement of two issuers. The issue involves the presentation of payments made by operating companies in a Member State outside the Netherlands to fund a defined benefit plan within the meaning of IAS 19. Under IAS 19, payments made to a pension entity and used to purchase insurance policies are considered to be plan assets and are offset against the defined benefit obligation in the balance sheet. Both a one-off payment and payments made over a number of years had been presented as cash flows from investing activities in the statement of cash flows.

The issuers claim that it would be wrong to present such payments as cash flows from operating activities, given that the funding of the pension plan does not generate any revenue and is non-recurring. In addition, according to the issuers, such payments result in investments generating income benefiting the issuer in the form of reduced pension costs, which means that such payments would qualify as cash flows from investment activities. The issuers also claim that the fact that the defined benefit obligation and the pension assets are offset in the balance sheet does not mean that no asset exists in the balance sheet. In addition, the issuers continue to be responsible for paying out the pensions, and this responsibility is not removed by making a payment or payments to the pension entity. Finally, the issuers hold the view that their reporting of such payments is not uncommon in the Member State in question, referring to a number of other annual financial statements. These financial statements include comparable payments presented as cash flows from investing or financing activities, rather than cash flows from operating activities. The AFM has brought these financial statements to the attention of the relevant Member State supervisor.

European supervisors believe that payments to pension entities should be presented as cash flows from operating activities.

The AFM and its European colleagues hold the view that payments to pension entities should be presented as cash flows from operating activities. Such payments are made for the benefit of the employees given that pensions are a component of an employee's compensation package. IAS 7.14 requires issuers to present as cash flows from operating activities cash flows derived from the principal revenue-producing activities including cash payments to and on behalf of employees. The fact that the issuer continues to pay out the pensions and/or continues to be responsible for paying out the pensions does not affect the requirement in IAS 7.14. In addition, it follows from IAS 7.16 that only expenditures resulting in an asset in the balance sheet qualify as cash flows from investing activities. It follows from the definition in IAS 19.7 that the issuer does not gain control over the plan assets resulting from the payments to the pension entity. Furthermore, the non-recurring nature of the payments does not play a role in the classification of such cash flows in the cash flow statement.



Presentation as a cash flow from investing activities would be appropriate had the payments to the pension entity resulted in an investment controlled by the issuer, rather than a plan asset. However, if this were the case, the defined benefit obligation and the plan assets could not be offset in the balance sheet. In the past, pension plans in the Member State concerned were carried out by companies themselves, rather than pension entities, the companies acquiring investments to be able to make pension payments in due course. This past practice may explain why the issuers concerned – in the eyes of the AFM and other European supervisors – failed to comply with IFRS.

#### Point of attention for supervision of 2011 financial statements

As part of its supervision of the 2011 financial statements of issuers with a subsidiary in the Member State concerned, the AFM will establish that such issuers have either presented payments to pension entities as cash flows from operating activities or presented the plan asset concerned gross in the balance sheet, i.e., without offsetting it against the defined benefit obligation.

[ The full *Activity Report 2011 - Supervision of Financial Reporting – January 2012* can be accessed as follows with the above decision to be found on page 9 f. of the report:  
<http://www.afm.nl/nl/professionals/afm-voor/effectenuitgevende-ondernemingen/financiele-verslaggeving/activity-reports.aspx> ]