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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	**29. IFRS-FA / 31.07.2014 / 14:15 – 15:45 Uhr**
TOP:	**06 – Interpretationsaktivitäten**
Thema:	**Berichterstattung über IFRS IC-Sitzung im Juli 2014**
Unterlage:	**29_06_IFRS-FA_Interpret_CN**

1 Sitzungsunterlagen für diesen TOP

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

Nummer	Titel	Gegenstand
29_06	29_06_IFRS-FA_Interpret_CN	Cover Note
29_06a	29_06a_IFRS-FA_Interpret_IFRSIC	IFRIC Update Juli 2014

Stand der Informationen: 21.07.2014.

2 Ziel der Sitzung

2 Der IFRS-FA soll Kenntnis erhalten über die Themen und Entscheidungen der IFRS IC-Sitzung am 15./16. Juli 2014. Das IFRS IC hat sowohl **vorläufige Agenda-Entscheidungen (TAD)** als auch **endgültige Agenda-Entscheidungen (AD)** getroffen (siehe IFRIC Update 7/2014, zugleich Unterlage **29_06a**). Ergänzende Hintergrundinformationen dazu finden sich in Abschnitt 3 dieser Covernote.

3 Informationen im Detail

3.1 Vorläufige Agenda-Entscheidungen (Items for Continuing Consideration)

3 In der Sitzung Juli 2014 wurden folgende vorläufige Agenda-Entscheidungen (TAD) getroffen:

IAS/IFRS	Thema	TAD
IAS 16	*Core inventories*	**NIFRIC (diversity between industries, but no diversity within the same industry)**
IAS 19	*Remeasurement at a plan amendment or curtailment*	**Amendments proposed (by way of AIP)**

3.1.1 Zu IAS 16 – *Core inventories*

4 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?*

5 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.

6 Das Thema wurde seit März 2014 in drei Sitzungen des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 7/2014 (Unterlage **29_09a**) ersichtlich.

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

7 Die Anfrage ging Anfang 2014 beim IFRS IC ein und betrifft Remeasurements 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 <u>not</u> an issue whether an entity should recognise the remeasurement gain or loss <u>at end of interim period</u>. 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.

Issue 1	Issue 2	Remeasure net DBL on the statement of financial position by recognising total gain/loss?	Update the actuarial assumptions to determine current service cost and net interest?	
			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.

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

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.

<u>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</u>

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.

<u>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</u>

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?*

8 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.

9 Das Thema wurde seit Mai 2014 in zwei Sitzungen des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 7/2014 (Unterlage **29_09a**) ersichtlich.

3.2 Vorläufige Agenda-Entscheidungen (New Items)

10 In der Sitzung Juli 2014 wurden folgende vorläufige Agenda-Entscheidungen getroffen (TAD):

IAS/IFRS	Thema	TAD
IFRS 12	*Disclosure of summarised financial information*	**NIFRIC (no significant diversity in practice)**
IAS 16	*Accounting for proceeds and cost of testing on fixed assets*	**NIFRIC (no interpretation or amendment, since sufficient guidance exists requiring recognition in P&L)**
IAS 21	*Foreign exchange restrictions and hyperinflation*	**NIFRIC (multiple rates: widespread, but little diversity; lack of exchangeability: widespread, some diversity, not addressed in IAS 21, but issue too broad)**
IAS 39	*Holder's accounting for the exchange of equity instruments*	**NIFRIC (unique transaction, thus not widespread, and no diversity)**

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

11 Die Anfrage ging im Frühjahr 2014 beim IFRS IC ein und betrifft Angaben zu *wesentlichen joint ventures and associates* gemäß IFRS 12. 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 paragraphs B3–B5 of IFRS 12, 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) paragraph 21 of IFRS 12; and (ii) paragraph B14 of IFRS 12, which requires a reporting entity to provide summarised information of the joint venture or associate on a 100 per cent basis; paragraph BC50 of IFRS 12 further notes that providing information on a 100 per cent 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 paragraph 21(b)(ii) of IFRS 12. 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.*

12 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 percent 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.

13 Das Thema wurde im Juli 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 7/2014 (Unterlage **29_09a**) ersichtlich.

3.2.2 Zu IAS 16 – *Accounting for proceeds and cost of testing on fixed assets*

14 Die Anfrage ging im Frühjahr 2014 beim IFRS IC ein und betrifft die bilanzielle Behandlung des Differenzbetrags zwischen Kosten und Umsätzen aus einer Testphase bei der Herstellung einer Sachanlage in den produktionsbereiten Zustand. Im Juni 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

The submitted fact pattern relates to the accounting for revenue received from the sale of goods during the testing phase of plant and equipment. Specifically, the describes a situation in which the 'revenue from production when testing the plant' exceeds 'direct production cost when testing the plant during the period'. The submitter has asked whether the amount by which the revenue received exceeds the costs should be recognised in profit or loss or as a deduction form the cost of the PPE. IAS 16.16 and .17(e) are deemed relevant.

The submitter states that para. 17(e) causes variations in application in industries where "the net proceeds from selling any items produced while bringing the asset to that location and condition.." materially exceeds the cost of testing. Some companies credit the fixed asset under construction with net proceeds in excess of cost of testing.

Example is as follows:

- Revenue from production when testing the plant during the period: CU 1,177 million
- Direct production cost when testing the plant during the period: CU 1,038 million
- Net income from testing activities: U 139 million

The difference (CU 139 million) was credited to "assets under construction". The submitter states that the company offsets other costs of construction that are not attributable to testing, because IAS 16 paragraph 17(e) puts no ceiling on the use of the proceeds from selling items produced during the testing activities.

The submitter argues that the use of the proceeds from selling items produced should be limited when testing equipment to offsetting of the cost of testing only. Any excess over the cost of testing should be recognised in profit or loss for the period. The submitter also expressed concern about the lack of disclosure requirements about proceeds from testing and testing costs.

Q1*: Are you aware of examples of circumstances in which sales proceeds from testing exceed the testing cost?*

Q2*: If yes to Q1, please would you:*

(a) inform us about how common this is in your jurisdiction;

(b) describe the prevalent accounting approach/basis followed in your jurisdiction; and

(c) provide us with examples that illustrate the practices that you observe?.

15 Die DRSC-Antwort vom 11. Juli 2014 hierzu lautete wie folgt:

> **Zu Q1**: We do not observe such circumstances in Germany. However, it was brought to our attention that in other regions (Eurasia) the issue occurs in the oil production sector - when during a testing phase oil is produced and sold.
>
> **Zu Q2**: From a theoretical perspective, the majority of our constituents agreed that the amount of proceeds exceeding the cost of testing should be recognised as a gain in profit or loss.
> However, some indicated that crediting the asset with this exceeding amount (rather than recognising a gain) would be appropriate, because of the following:
>
> - Costs that are directly attributable to bringing the asset into condition or location to operate are an element of the (total) cost of an item of PP&E (IAS 16.16).
> - Cost of testing are an explicit example of those cost (IAS 16.17(e)).
> - Net proceeds may be deducted from those costs, with no ceiling mentioned (IAS 16.17(e)).
> - Costs that are not necessary to bring the item into condition or location to operate are deemed occurring from "incidental operations" (IAS 16.21).
> - Cost of testing and proceeds from those testing activities are not "incidental operations", thus, IAS 16.21 does not apply.
> - Even if the proceeds from testing activities may be considered "incidental income", they do not meet the definition of "incidental operations" that is the basis of IAS 16.21 and the principle of recognising them in profit or loss.

16 Das Thema wurde im Juli 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 7/2014 (Unterlage **29_09a**) ersichtlich.

3.2.3 Zu IAS 21 – *Foreign exchange restrictions and hyperinflation*

17 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 *The Effects of Changes in Foreign Exchange Rates*. 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 *Financial Reporting in Hyperinflationary Economies)* 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?

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

Zu 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.

Zu 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.

19 Das Thema wurde im Juli 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 7/2014 (Unterlage **29_09a**) ersichtlich.

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

20 Die Anfrage ging im Frühjahr 2014 beim IFRS IC ein und 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 Interpretations Committee in the IFRIC Update for September 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 paragraph 17(a) of IAS 39 (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 paragraph 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); and

(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?*

21 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.

22 Das Thema wurde im Juli 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 7/2014 (Unterlage **29_09a**) ersichtlich.

3.3 Endgültige Agenda-Entscheidungen

23 In der IFRS IC-Sitzung im Juli 2014 wurden folgende endgültige Agenda-Entscheidungen getroffen:

IAS/IFRS	Thema	AD
IAS 1	*Going concern disclosure*	**NIFRIC (no material uncertainty, but wording of the AD makes clear how to apply IAS 1.122)**
IAS 12	*Deferred tax for single assets in a corporate wrapper*	**NIFRIC (too broad to be addressed by the IFRS IC, but IASB research project proposed)**
IAS 12	*Recognition of an uncertain tax position*	**NIFRIC on the recognition aspect (IAS 12 is clear in that IAS 12.12 applies, and IAS 12.88 only relates to disclosures)** **Further analysis on measurement aspect**
IAS 34	*Condensed statement of cash flows*	**NIFRIC (no interpretation or amendment, as sufficient guidance exists)**
IAS 39	*Holder's classification of a hybrid FI*	**NIFRIC (issue not widespread, issue too specific)**
IFRS 2	*IPO Dual pricing issue*	**NIFRIC (no interpretation or amendments, as sufficient guidance exist)**

3.3.1 Zu IAS 1 – *Going concern disclosure*

24 Im August 2012 bereits hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

IAS 1.25 requires:

(a) management to make an assessment of an entity's ability to continue as a going concern;

(b) an entity to prepare financial statements on a going concern basis "unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so"; and

(c) when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity to disclose those uncertainties.

The IAASB believes that clarification may be necessary regarding the need for, and nature of, disclosures especially when an entity is facing financial difficulties but can take one or more actions (e.g., rights issue, debt rescheduling, fire sale of assets, etc.) in order to avoid liquidation or ceasing to trade. The IAASB notes that the UK Sharman inquiry concluded that the description of such matters in IFRSs is open to different interpretations and is in fact interpreted differently by different people.

The following questions are raised:

(1) Are the criteria for management's use of the going concern assumption (i.e., liquidation or ceasing to trade) the same as those for the disclosure of material uncertainties? In particular, is the phrase "ability to continue as a going concern" intended to simply mean that the entity will not need to liqui-

date or cease operations, or does it mean more broadly that the entity will be able to discharge its obligations as they become due in the normal course of business?

(2) What disclosures should be given about material uncertainties? In particular, what should be disclosed when an entity is in financial difficulties but management is confident that it can take one or more actions outside the ordinary course of business, and therefore prepares financial statements on a going concern basis?

(3) Is IAS 1 sufficiently clear on this? Would it assist if the words "and therefore meet its obligations as they become due in the normal course of business" were added at the end of "ability to continue as a going concern" in (c) above?

***Q1**: In your jurisdiction, how common are the issues raised in regards to item (1) above? If it occurs, could you provide us with information that we could use to assess how widespread the issue is?*
***Q2**: In your view, is there diversity in practice on how an entity discloses the material uncertainties "that may cast significant doubt upon the entity's ability to continue as a going concern"? Please describe the predominant approach that you observe in your jurisdiction. If you have examples to illustrate your reasons, that would be useful.*

25 Die DRSC-Antwort vom 1. September 2012 hierzu lautete wie folgt:

Zu Q1: Issues with regard to the judgement of the going concern are common. It has to be noted, that specific requirements relating to the judgement of the going concern and the corresponding reporting arise mainly from auditing standards and not from accounting standards. Additionally, in Germany we have specific requirements for the 'Group Management Reporting', were comprehensive information about the economic situation of the company, including a forecast, has to be reported.

Zu Q2: We think that in regards to this issue, professional judgement is required. This is supported by the fact that indefinite wording (significant doubt, may, material uncertainties etc.) is used. Therefore, a certain degree of diversity in practice probably cannot be avoided.
But since the issue has to be operationalized, we would welcome if more guidance is given in order to clarify IAS 1.25. Especially in regards to when and how disclosures have to be made, if the entity has significant problems which can be solved by actions of the management. We would suggest to take the link to IFRS 7 (i.e. liquidity risk) into consideration and would propose having a summarizing statement which details the main reasons why a going concern is assumed.

26 Das IFRS IC hatte im März 2013 den Sachverhalt erörtert und vorläufig dem IASB empfohlen, ein *narrow-scope amendment* anzustreben. Der IASB war hierzu anderer Auffassung. Das IFRS IC hatte das Thema dann erneut im Januar und März 2014 erörtert und kam zu der pragmatisch orientierten vorläufigen Entscheidung, das Thema nicht auf die Agenda zu nehmen, sondern seine Auffassung mit dem Wortlaut zur Entscheidung klarzustellen (Auszug IFRIC Update 3/2014):

> The IFRS IC received a submission requesting clarification about the disclosures required in relation to material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.
> The IFRS IC proposed to the IASB that it should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue. At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments.
> The staff reported the results of the IASB's discussion to the IFRS IC. When considering this feedback about the IASB's decision, the IFRS IC discussed a situation in which management of an entity has considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure in accordance with IAS 1.25. However reaching this conclusion, that there was no material uncertainty, involved significant judgement.
> The IFRS IC observed that IAS 1.122 requires disclosure of the judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The IFRS IC also observed that in the circumstance discussed, the disclosure requirements of IAS 1.122 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

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

3.3.2 Zu IAS 12 – *Deferred tax for single assets in a corporate wrapper*

28 Das IFRS IC hatte im März 2014 den Sachverhalt erörtert. Ein *Outreach Request* wurde nach Kenntnis des DRSC zuvor nicht durchgeführt. Im März 2014 hatte das IFRS IC vorläufig beschlossen, dass wegen der umfassenden Bedenken eine Klarstellung oder Interpretation zu IAS 32 nicht sachgerecht sei, sondern der IASB eine größer angelegte Analyse bzgl. notwendiger IAS 12-Änderungen starten sollte. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 3/2014):

> The IFRS IC received a request to clarify the accounting for deferred tax in the consolidated financial statements of the parent, when a subsidiary has only one asset within it (the asset inside) and the parent expects to recover the carrying amount of the asset inside by selling the shares in the subsidiary (the shares). The IFRS IC noted that:
>
> (a) IAS 12.11 requires the entity to determine temporary differences in the consolidated financial statements by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. In the case of an asset or liability of a subsidiary that files separate tax returns, this is the amount that will be taxable or deductible on the recovery (settlement) of the asset (liability) in the tax returns of the subsidiary.
>
> (b) The requirement in IAS 12.11 is complemented by the requirement in IAS 12.38 to determine the temporary difference related to the shares of the parent in the subsidiary by comparing the parent's share of the net assets of the subsidiary in the consolidated financial statements, including the carrying amount of goodwill, with the tax base of the shares for purposes of the parent's tax returns.
>
> The IFRS IC also noted that these paragraphs require a parent to recognise both the deferred tax related to the asset inside and the deferred tax related to the shares, if:
>
> - tax law attributes separate tax bases to the asset inside and the shares;
> - in the case of deferred tax assets, the related deductible temporary differences can be utilised as specified in IAS 12.24-31; and
> - no specific exceptions in IAS 12 apply.
>
> The IFRS IC noted that several concerns were raised with respect to the current requirements in IAS 12. However, analysing and assessing these concerns requires a broader project than the Interpretations Committee could perform on behalf of the IASB. Consequently, the IFRS IC [decided] not to take the issue onto its agenda but instead to recommend to the IASB that it should analyse and assess these concerns in its research project on Income Taxes.

29 Der IFRS-FA hatte im Ende März 2014 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten und Folgendes festgestellt: "Die Entscheidung (Vorschlag einer IAS 12-Anpassung) erscheint dem IFRS-FA unglücklich; es sollte bei Unternehmen eruiert werden, ob dies als problematisch eingeschätzt wird."

3.3.3 Zu IAS 12 – *Recognition of an uncertain tax position*

30 Das DRSC wurde Ende 2012 aufmerksam gemacht auf diesen strittigen IAS 12-Sachverhalt bzgl. der Frage der Anwendbarkeit von IAS 12, insb. der Buchung eines Aufwands oder eines Vermögenswerts, wenn bei strittigen Steuerforderungen eine Zahlung erfolgte, die Steuerschuld jedoch (weiterhin) bestritten wird. Diese Frage wurde seinerzeit in der Fachliteratur diskutiert. In der 20. Sitzung hat der IFRS-FA das Thema erörtert und kam zu folgenden Erkenntnissen:

- The issue is common and widespread in our jurisdiction with an upward trend.
- This is obviously a result of our particular national tax law. It requires that the tax authorities pay interest (at a legally fixed rate of currently 6 %) on tax payments in the case of, and until the date of, their reimbursement, e.g. if the entity successfully contested against it.
- In case the tax payment is contested, we consider recognising a tax asset for this payment to be the preferred approach. However, we observe diversity in practice.

31 Im August 2013 wurde dieser Sachverhalt im Rahmen eines *Outreach Requests* vom IFRS IC an das DRSC gesendet; und zwar mit folgendem Wortlaut:

The submitter requested the IFRSIC to clarify whether IAS 12 and a probable threshold is applied where an entity has paid cash to the tax authority but expects to recover some or all of that cash, or whether the guidance in IAS 37 for contingent assets should be applied. The question arises because some jurisdictions require an entity to make an immediate payment where a tax examination results in an additional charge, even when the entity intends to appeal against the charge.
The submitter thinks that two views exist for determining whether an asset should be recognised for the amount potentially recoverable from the tax authority.

- <u>View 1: IAS 12 and the ‘probable’ recognition threshold should be applied</u>. IAS 12 is the relevant Standard for the accounting for income taxes. According to IAS 12 tax assets are recognised to the extent it is probable that they will be recovered (see IAS 12.14, 24, 34). According to IAS 12.46 tax assets should be recognised for the amounts an entity 'expects' to recover from the tax authorities.
- <u>View 2: IAS 37 and the ‘virtually certain’ recognition threshold should be applied</u>. IAS 12 does not specifically address the accounting for dispute with tax authorities. According to IAS 8, in the absence of an IFRS that specifically applies to a transaction, management should refer to guidance in another Standard dealing with similar issues. The guidance in IAS 37 for the recognition of contingent assets is the guidance that most closely matches the situation. Consequently, the tax asset is recognised only when it is virtually certain that an inflow of economic benefit will arise.

For further details I have attached the submission that we received. All information has been copied without modification, except for details that would identify the submitter of the request and details that are subject to confidentiality.

Q1: *In your jurisdiction, how common is this issue? If it is common, could you provide us with information that the Interpretations Committee could use to assess how widespread the issue is?*
Q2: *In your view, is there diversity in practice in the recognition of an asset on uncertain tax position? Please describe the predominant approach that you observe in your jurisdiction.*

32 Die DRSC-Antwort vom 20. September 2013 hierzu lautete wie folgt:

- The issue is common and widespread in our jurisdiction with an upward trend.
- However, it should be noted that the issue is strongly interrelated with national tax laws, which may be complex as it is true for the German tax law.
- There is diversity in practice in the recognition of an asset on uncertain tax position in Germany. This is because both views presented in the Outreach Request find their supporters in Germany and are actually followed by the entities.
- However, as was made public through two different German accounting journals (at the end of 2012 / early in 2013), the local Financial Reporting Enforcement Panel in previous examinations considered it to be an error if entities followed View 1. At least big listed companies in Germany, therefore, follow View 2 in order not to risk errors in case of an examination. This is why view 2 is the predominant approach that we observe in Germany.

33 Das IFRS IC hatte im Januar 2014 den Sachverhalt erörtert und vorläufig beschlossen, dass eine Klarstellung oder Interpretation zu IAS 12 nicht erforderlich sei. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 1/2014):

The IFRS IC received a request for guidance on the recognition of a tax asset in the situation in which tax laws require an entity to make an immediate payment when a tax examination results in an additional charge, even if the entity intends to appeal against the charge. In the situation described by the submitter the entity expects, but is not certain, to recover some or all of that cash. The IFRS IC was asked to clarify whether IAS 12 (and a 'probable' threshold) is applied to determine whether to recognise an asset, or whether the guidance in IAS 37 (and a 'virtually certain' threshold) should be applied.

The IFRS IC noted that IAS 12.12 provides sufficient guidance on the recognition of current tax assets and current tax liabilities. It states that: current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.

The IFRS IC observed that, in this specific fact pattern, an asset is recognised if the amount of cash paid (which is a certain amount) exceeds the amount of tax expected to be due (which is an uncertain amount).

On the basis of the analysis above the IFRS IC [decided] not to add these issues to its agenda.

34 Der IFRS-FA hatte die vorläufige Entscheidung in seiner 24. Sitzung (Februar 2014) erörtert. Als Ergebnis hatte der IFRS-FA eine Sammel-Stellungnahme hierzu verfasst und am 7. April 2014 an das IFRS IC mit folgendem Wortlaut übermittelt:

... We support the decision. However, the question being answered here is also relevant in other circumstances, which look similar but are not within the scope of IAS 12 – i.e. taxes other than income taxes. The IFRS IC's decision leaves open how to account for these issues. While discussing similar issues, another (third) view has emerged: Payments to escrow accounts or deposits in court are similar to a deposit and would constitute a financial asset; hence, IAS 39 / IFRS 9 would likely be the relevant standard in these circumstances, and they require recognition of an asset. ...

3.3.4 Zu IAS 34 – *Condensed statement of cash flows*

35 Im Dezember 2013 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

> **Background of the issue**
>
> IAS 34.10 requires an entity that publishes a set of condensed financial statements in its interim financial report to "include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading".
>
> **Submitter's views**
>
> The submitter observes that there are two divergent views on the application of the IAS 34 requirements regarding presentation and content of the condensed statement of cash flows.
>
> <u>View 1:</u> Present a three-line condensed statement of cash flows that shows only a total for each of the operating, investing and financing activities. This view is consistent with the requirements of IAS 34.10.
>
> <u>View 2:</u> Present a more detailed structure of the condensed statement of cash flows reflecting the different nature of an entity's activities. The submitter claims that this view is consistent with:
>
> (a) IAS 1.17(b), which requires information to be presented in a manner that provides relevant, reliable, comparable and understandable information;
>
> (b) IAS 1.29, which requires each material class of similar items to be presented separately;
>
> (c) IAS 7.20, which requires a reconciliation between profit or loss and cash flows from operating activities when the indirect method is used to report cash flows from operating activities; and
>
> (d) IAS 7.21, which states that an entity should separately report major classes of gross cash receipts and gross cash payments arising from investing and financing activities.
>
> **Request for information**
>
> *In response to this issue, I would very much appreciate if you could please provide me with qualitative and/or quantitative information on what the <u>prevalent approach</u> in your jurisdiction is for presenting a condensed statement of cash flows. Is it common for an entity to present:*
>
> *(a) a three-line condensed financial statement of cash flows that shows only a total for each of the operating, investing and financing activities? or*
>
> *(b) a more detailed structure of the condensed financial statement of cash flows reflecting the different nature of an entity's activities?*

36 Die DRSC-Antwort vom 10. Januar 2014 hierzu lautete wie folgt:

> In our jurisdiction the overwhelming population of entities present detailed condensed cash flow statements, but with varying structures. The only exception is that in the financial industry (banking and insurance) some entities present a three-line condensed cash flow statement - for the reason that more detailed statements in this sector are deemed not much relevant.
>
> However, this does not mean that a three-line statement is considered not in line with IFRSs. Rather, it is consensus that formally a three-line statement would be sufficient to meet the requirements of IFRS.

> The fact that more details are usually presented is not a matter of negative diversity, but it results from the specific entity and/or business that leads - for a good reason - to an individual structure of the statement. Given this, we like to mention that there is no typical example of a condensed cash flow statement. For illustration purposes, we have attached a selection of interim (condensed) cash flow statements from DAX 30 entities - the first two examples are a three-line statement.

37 Das IFRS IC hatte im Januar und März 2014 den Sachverhalt erörtert und vorläufig beschlossen, dass eine Klarstellung oder Interpretation zu IAS 34 nicht erforderlich sei. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 3/2014):

> The IFRS IC received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34.
>
> The submitter observed that there are divergent views on the presentation and content of the condensed statement of cash flows. One view is that an entity should present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity may present a three-line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities.
>
> The IFRS IC noted that a condensed statement of cash flows is one of the primary statements that is included as part of an interim financial report as prescribed by IAS 34.8. IAS 34.10 specifies that each of the condensed statements shall include, at a minimum, each of the headings and subtotals there were included in the most recent annual financial statements. Para. 10 also requires additional line items to be included if their omission would make the interim financial statements misleading.
>
> The IFRS IC also noted that in an interim financial report:
>
> (a) an entity shall include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report" (IAS 34.15).
>
> (b) the overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period (IAS 34.25).
>
> In this respect, the IFRS IC noted that to meet the requirements in IAS 34.10/15/25 a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows, and that a three-line presentation would generally not meet the requirements in IAS 34.
>
> On the basis of the analysis above, the IFRS IC determined that an interpretation or an amendment to IFRSs was not necessary. Consequently, the IFRS IC [decided] not to add this issue to its agenda.

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

3.3.5 Zu IAS 39 – *Holder's classification of a hybrid FI*

39 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 different views exist about how the holder of certain types of financial instruments should analyse and account for those instruments. In particular, the different views exist in respect of how to identify the host contract and embedded derivatives of a hybrid financial instrument. The question arises of whether the host contract of such an instrument would be considered as an equity or as a debt instrument.
>
> The hybrid FI described in the submission has the following main terms and conditions:
>
> - Maturity: 30 years,
> - Revolving maturity option every 30 years (at the option of the issuer),
> - Early settlement option after 10 years from the date of issuance (at the option of the issuer),
> - Interest payment stop option (at the option of the issuer).
>
> The submitter explains that it is unclear how to identify the host contract and embedded derivatives of the hybrid financial instruments and identifies two possible views:
>
> - View 1 The host contract is an equity instrument: The host contract is identified as an equity instrument at first and then the residual component of the hybrid instrument (i.e. the early settlement option) is identified as an embedded derivative.
> - <u>View 2 The host contract is a debt instrument</u>: The host contract is identified as a debt instrument with the stated maturity of 30 years, after identifying embedded derivatives (i.e. the early settlement option, the revolving maturity option and the interest payment stop option).
>
> **Q1.** *Is the type of hybrid financial instrument described in the submission typical for you jurisdiction? If yes, are you aware of any difficulties or challenges in your jurisdiction in identifying a host contract and embedded derivatives of such hybrid financial instruments by holders?*
>
> **Q2.** *If you answered 'Yes' to Q1, what is the prevalent interpretation or approach to classification of such hybrid financial instruments by the holders of such instruments? In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment?*
>
> **Q3.** *If you answered 'Yes' to Q1, to what extent do you observe diversity in practice in respect of the issue above?*

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

> **Zu Q1+Q2**: No, this type of instrument is not typical. None of our constituents has ever experienced identical instruments, in particular instruments with a 30y maturity and all the options from the example. However, there are similar instruments where the same questions arise. Though, we do not see a prevalent approach, since it very much depends on individual features.
>
> **Zu Q3**: It is the nature of financial engineering that hybrid instruments with brand new, sometimes unique, structuring elements emerge. Therefore, the difficulty of how to classify any such instrument (as equity or liability) emerges every day and in an increasing manner. Given the fact that the IFRS IC encounters similar submissions every month, and we expect them to arise even more often.

> In general, and with respect to this particular submission, the deem the most crucial question still to be answered is the hierarchy of applying IAS 39 (separation of embeddeds) and IAS 32 (classification of the instrument). Both standards do not provide an ultimate answer on this. We deem the outcome alters depending on whether one classifies the entire hybrid instrument or, if bifurcation is the first step, only the host contract.
>
> A second crucial question is whether the classification by the holder depends on the issuer's classification of the same instrument. However, we think that this question is sufficiently answered by both standards, which is that the issuer's and the holder's classification are not necessarily symmetrical.
>
> Finally, we doubt whether it is useful if the IFRS IC answers every individual submission providing a case for a specific hybrid instrument which is obviously engineered to be close to the dividing line between equity and liabilities.
>
> This all said, we consider a new and robust concept of distinguishing equity from liabilities being the only "sustainable solution". Therefore, we urge the IASB and/or the IFRS IC to retain, or accelerate, its efforts to revise the equity/liability distinction in IAS 32.

41 Das IFRS IC hatte im März 2014 den Sachverhalt erörtert und vorläufig beschlossen, dass eine Klarstellung oder Interpretation zu IAS 39 nicht erforderlich sei. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 3/2014):

> The IFRS IC received a request to clarify the classification by the holder of a hybrid financial instrument with a revolving maturity option, an early settlement option and a suspension of interest payments option (all at the option of the issuer). Specifically, the submitter raised the question of whether the host of such a financial instrument should be classified by the holder as an equity or as a debt instrument under IAS 39.
>
> On the basis of the responses to the outreach request, the IFRS IC observed that the issue is not widespread. The IFRS IC also noted that the financial instrument described in the submission is specific and it would not be appropriate to provide guidance on this particular issue.
>
> The IFRS IC noted that IFRS 9 would resolve the question of whether the instrument should be classified before or after identifying the embedded derivatives, because it would not require bifurcation for hybrid contracts with financial asset hosts and a holder would be required to classify the instrument as a whole. As a result, the IFRS IC considered that developing accounting guidance on this issue would not be effective for a reasonable time period.
>
> The IFRS IC considered that its agenda criteria are not met. Consequently, the IFRS IC [decided] not to add this issue to its agenda.

42 Der IFRS-FA hatte Ende März 2014 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten. In der März-Sitzung sowie in der April-Sitzung des IFRS-FA wurde das Thema erörtert und folgendes festgestellt:

- "... Erneutes Beispiel, wie schwierig (und kasuistisch) die Beantwortung von Fragen zur Klassifizierung ist - hier zudem die Frage der einheitlichen Klassifizierung bei Gläubiger und Schuldner. Es wird auch eine DRSC-Eingabe aus dem Jahre 2008 hierzu erwähnt."

- "Beim IAS 39-Sachverhalt (*Classification of a hybrid instrument by the holder*) lässt die Entscheidung wichtige Fragen unbeantwortet: inwieweit die Klassifizierung beim Emittenten und Gläubiger identisch oder unterschiedlich sein muss/darf und ob die Klassifizierung vor oder nach Splitting eines eingebetteten Derivats erfolgt. Zudem ist die Begründung unzutreffend, dass unter IFRS 9 mangels Splittingpflicht das Problem nicht auftrete."

43 Schließlich hatte der IFRS-FA eine Stellungnahme hierzu verfasst und am 27. Mai 2014 an das IFRS IC mit folgendem Wortlaut übermittelt:

... We do not agree with the decision not to take the issue onto the IFRS IC's agenda and, in particular, with the rationale that the issue is not widespread and too specific to warrant further discussion.

Although we acknowledge (as communicated vis-à-vis the IASB's staff) during the outreach that this particular type of instrument is not typical in our environment, there are many similar instruments for which the same questions arise. It is in the nature of financial engineering that hybrid instruments with brand new, sometimes unique, structuring elements emerge. Therefore, the difficulty of how to classify any such instrument (as equity or liability) emerges every day and in an increasing manner. We note that the IFRS IC seemed to have received similar submissions over recent months, and we would not be surprised if this trend continued. However, even though any assessment requires consideration of the specific facts and circumstances and is, hence, dependent on individual features, we believe that it would be beneficial for all stakeholders if the IFRS IC developed and published its view. That being said, we prefer this being dealt with in as much a holistic manner as possible and less on a submission-by-submission basis.

We take the view that the most crucial question to be addressed is the sequence of applying IAS 39 (regarding the separation of embedded derivatives) and IAS 32 (as regards classification of the instrument). Neither standard provides an ultimate answer on this. We believe that the outcome might alter depending on the sequence that the two standards are applied.

Another fundamental question is whether classification of an instrument by the holder depends on the issuer's classification of the same instrument. Again, we think that neither standard is abundantly clear on this, resulting in that the issuer's and the holder's classification not necessarily being symmetrical.

Further, we do not agree with the argument that IFRS 9 partially resolves the classification issue. Even if IFRS 9 no longer required, or permitted, bifurcation of financial assets, this question would still be valid. The reason is that both IAS 39 and IFRS 9 refer back to IAS 32. Hence, the question whether classification by the holder follows classification by the issuer still arises. Since the bifurcation requirements continue to apply to non-financial assets as well as to financial liabilities under IFRS 9, a hybrid instrument's classification still depends on the question of whether classification or bifurcation is the first step among these two.

Therefore, to meet the confines of the IFRS IC, we propose that the IFRS IC deals with the two questions mentioned – the sequence of applying IAS 39/IFRS 9 and IAS 32, and under which circumstances or conditions the holder's and the issuer's classification can or shall be symmetrical.

In addition, to achieve a comprehensive solution, we urge the IASB to retain, or accelerate, its efforts to revise the equity/liability through pursuing the research project, subsequently revising IAS 32, and to a certain extent possibly the Conceptual Framework. ...

3.3.6 Zu IFRS 2 – *IPO Dual pricing issue*

44 Im Juli 2013 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt und mit folgenden Fragen versehen:

> The submitter refers that the final retail price could be different from the institutional price due to:
> (a) an unintentional difference arising from the book building process; or
> (b) an intentional difference arising from a discount given to retail investors as indicated in the prospectus.
> The submitter observes that two views have arisen in practice. Some think that in the event the consideration received by an entity for the issue of equity instruments is lower than the fair value of the equity instruments granted, the entity is deemed to have received or will receive unidentifiable goods or services in accordance with IFRS 2 *Share-based Payment*. Others think that the price differential is not due to any goods or services received and consequently IFRS 2 would not apply.
>
> ***Q1**: In your jurisdiction, do you observe differences in the share price between the retail offer price and the institutional offer price in the context of an IPO? If yes, could you please describe these differences and how or why they arise?*
> ***Q2**: If yes to Q1 what is the prevalent approach in your jurisdiction to account for differences in prices arising from the share price offered to retail investors and to institutional investors? If you see diversity in practice in that accounting, please explain how.*

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

> **Zu Q1**: In our jurisdiction (Germany) we have not observed such differences.
> Section 53a of the German Stock Corporation Law (Aktiengesetz - AktG) requires that 'shareholders shall be treated equally under equivalent circumstances'. It is our understanding that this requirement does not allow differences in the share price between the retail offer price and the institutional offer price in the context of an IPO.
> **Zu Q2**: n/a.

46 Das IFRS IC hatte im September und November 2013 den Sachverhalt erörtert und vorläufig beschlossen, dass eine Klarstellung oder Interpretation zu IFRS 2 nicht erforderlich sei. Der Beschluss wurde wie folgt begründet (Auszug IFRIC Update 11/2013):

> The IFRS IC received a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO). The submitter refers to the fact that the final retail price could be different from the institutional price because of:
> (a) an unintentional difference arising from the book-building process; or
> (b) an intentional difference arising from a discount given to retail investors by the issuer of the equity instruments as indicated in the prospectus.
> The submitter asked the IFRS IC to clarify whether the transaction should be analysed within the scope of IFRS 2.

> The IFRS IC considered whether the transaction analysed involves the receipt of identifiable or unidentifiable goods or services from the retail shareholder group, and therefore whether it is a share-based payment transaction within the scope of IFRS 2. IFRS 2.13A requires that if consideration received by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, then this situation typically indicates that other consideration (ie unidentified goods or services) has been (or will be) received by the entity. The IFRS IC noted that applying this guidance requires judgement and consideration of the specific facts and circumstances of each transaction.
>
> In the circumstances underlying the submission, the IFRS IC concluded that no unidentified goods or services have been (or will be) received. This is because the price agreed between each shareholder group reflected only a transaction to raise funds and the retail shareholder group did not provide any goods or services, only the cash consideration to acquire the shares.
>
> The IFRS IC also noted that the entity has issued shares in two different markets (the institutional market and the retail market). It was unclear from the submission which price (the retail price or the institutional price) represents the fair value of a share in accordance with IFRS 13. However, IFRS 13.B4(d) states that a transaction price may differ from fair value if the transaction takes place in a market other than the principal market (or most advantageous market). The IFRS IC concluded that the difference, if any, between the retail price and the fair value of a share in the fact pattern considered appeared to relate to the existence of different markets rather than the receipt of additional goods or services. Consequently, the IFRS IC observed that the guidance in IFRS 2 is not applicable because there is no share-based payment transaction.
>
> The IFRS IC noted that this situation is different to the issue on which it had issued an agenda decision in March 2013. In that agenda decision (“Accounting for reverse acquisitions that do not constitute a business”) the IFRS IC had concluded that any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree’s identifiable net assets represents a service received by the accounting acquirer. The IFRS IC observed that in that fact pattern, the service received from the other entity was a stock exchange listing for its shares, whereas in the fact pattern considered in this submission the stock exchange listing was not received in exchange for, or conditional on, the issue of the shares for less than fair value.
>
> The IFRS IC noted that the equity instruments issued by the entity to the investors should be recognised in equity in accordance with IAS 32.33 and be measured at the fair value of the consideration received.
>
> On the basis of the analysis above, the IFRS IC determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the IFRS IC [decided] not to add this issue to its agenda.

47 Der IFRS-FA hatte im Dezember 2013 Kenntnis von der vorläufigen Entscheidung des IFRS IC erhalten, aber keinen weiteren Diskussionsbedarf festgestellt.