IFRS Discussion Group

Report on the Public Meeting

October 18, 2012

The IFRS Discussion Group is a discussion forum only. The Group's purpose is to assist the Accounting Standards Board (AcSB) regarding issues arising on the application of International Financial Reporting Standards (IFRSs) in Canada. The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of the AcSB. The discussions of the Group do not constitute official pronouncements or authoritative guidance.

This document has been prepared by the staff of the AcSB and is based on discussions during the Group's meeting.

Comments made in relation to the application of IFRSs do not purport to be conclusions about acceptable or unacceptable application of IFRSs. Only the IFRS Interpretations Committee or the International Accounting Standards Board can make such a determination.

(*For a full understanding of the discussions and views expressed at the public meeting, listen to the audio clips*).

Items Presented and Discussed at the October Meeting

IFRS 6 and IAS 36: Impairment

IFRS 10: De Facto Control

IFRS 10 and 11: Retrospective Transition Issues

IFRS 10 and 11: Retrospective Transition Issue – Comparative Figures

IFRS 11: Joint Ventures – Transition from Proportionate Consolidation to the Equity Method

IAS 1: Going Concern Assessments for Development Stage Entities

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Update on Previous Items Discussed by the Group

ITEMS PRESENTED AND DISCUSSED AT THE OCTOBER MEETING

IFRS 6 and IAS 36: Impairment

IFRS 6 *Exploration for and Evaluation of Mineral Resources* requires exploration and evaluation (E&E) assets be assessed for impairment when facts and circumstances suggest that their carrying amount may exceed their recoverable amount. For purposes of assessing E&E assets, paragraph 20 of IFRS 6 applies rather than paragraphs 8-17 of IAS 36 *Impairment of Assets*.

Paragraph 12(d) of IAS 36 requires impairment testing when the carrying amount of the net assets of the entity is more than its market capitalization. This "market cap" indicator is not included in IFRS 6.

The Group considered whether IFRS 6 requires impairment testing of E&E assets when the carrying amount of the net assets of an entity is more than its market capitalization.

The Group's Discussion
Group members noted that this question arises, in part, because paragraph 20 of IFRS 6 specifies that the list it provides is not exhaustive. Group members cautioned that this sentence should not be read to mean that the IAS 36 indicators must also be considered, noting that paragraph 19 in IFRS 6 states that "… paragraph 20 of this IFRS shall be applied rather than paragraphs 8–17 of IAS 36 …". Group members suggested that the list in paragraph 20 of IFRS 6 was "instead of" not "in addition to" the IAS 36 indicators.

Group members observed that the facts and circumstances listed in paragraph 20 of IFRS 6 differ significantly from the impairment indicators in IAS 36. Group members noted that the IFRS 6 list focuses on the activity on the exploration property and is more relevant to E&E assets.

Group members expressed fairly consistent views concerning the role of market cap, noting that although it should not be completely ignored in an IFRS 6 context, it alone would not indicate that an impairment exists. Instead, when market cap is less than the carrying amount of an entity's net assets, that fact could be viewed as an indicator that E&E assets might be impaired. An entity should then carefully consider the other, more relevant facts and circumstances (i.e., those listed in paragraph 20 of IFRS 6).

Group members highlighted that paragraph 122 of IAS 1 *Presentation of Financial Statements* requires disclosure about significant judgements. An entity that goes through a thoughtful process in considering facts and circumstances that indicate a possible impairment of E&E assets should also consider what disclosures IAS 1 would require about its judgements.

IFRS 10: De Facto Control

A determination of control requires an investor to assess whether it has power over an investee (in addition to the other attributes described in paragraph B2 of IFRS 10 *Consolidated Financial Statements*). To have power over an investee, an investor must have existing rights that give it the current ability to direct the relevant activities. Power arises from rights that include voting rights as well as other rights (paragraph B15 of IFRS 10). Paragraph B38 of IFRS 10 states that "an investor can have power with less than a majority of the voting rights." Paragraphs B41-B45 of IFRS 10 elaborate on when such circumstances may arise.

Group members discussed three issues in the context of an investor that has a voting interest less than 50 per cent in an investee in which the relevant activities are directed through voting rights.

The Group's Discussion
Issue 1: What factors should an investor consider when assessing whether its voting rights give it power over an investee?

Group members noted that IFRS 10 has a broader definition of power than IAS 27 *Consolidated and Separate Financial Statements*, and it is more likely that some entities holding less than a 50 per cent voting interest in another entity would be considered to have control. The assessment under IFRS 10 depends more on facts and circumstances.

Group members observed that the application guidance in Appendix B of IFRS 10 requires that "all facts and circumstances" be considered by the investor but paragraph B42 specifically includes:

(a) "the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders …";
(b) "potential voting rights held by the investor, other vote holders or other parties";
(c) "rights arising from other contractual arrangements"; and
(d) "any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings."

Group members noted that the focus in IFRS 10 is on "ability" and the guidance provides for situations in which power may exist even though less than a majority of the voting rights are held by an investor. Notwithstanding the broader notion of control, Group members observed that the intent is not to result in consolidation of every investee but rather to require a balanced assessment with consideration of all available evidence.

Group members observed that paragraphs B43-B45 of IFRS 10 provide a series of examples that illustrate how these requirements might be applied in practice.

Issue 2: When is an investor obliged to consider voting patterns at previous shareholders' meetings in the assessment of de facto power?

Paragraph B43 of IFRS 10 states that, in some circumstances, it may be clear, after considering the factors listed in paragraph B42 (a)-(c) alone, that the investor has power over the investee. Questions then arise over when voting patterns are required to be considered. Four alternatives have been advanced:

View A – Never.

View B – When the investor becomes aware of such information (i.e., cannot ignore known information).

View C – Always.

View D – It depends on the facts and circumstances.

Group members found it difficult to support *View A*, given that paragraph B42(d) of IFRS 10 refers specifically to voting patterns. Similarly, Group members struggled with *View C* because requiring additional analysis of voting patterns when, based on paragraph B42(a)-(c), it is clear that the investor has power over the investee would be contrary to paragraph B43.

Although Group members agreed that known information cannot be ignored (*View B*), many argued that the assessment depends on the specific facts and circumstances (*View D*). They supported this view because the standard is not meant to provide a "one size fits all" answer and instead, requires judgment to be used to determine when voting patterns are relevant.

Group members noted that the IFRS 10 application examples only involve circumstances in which it is either very clear that the investor has power over the investee or very clear that it does not. As a result, those examples do not illustrate the circumstances in the wide range of less clear circumstances in which the voting patterns would more likely be relevant.

Issue 3: What factors should be considered when evaluating voting patterns at previous shareholders' meetings?

Group members noted that when voting patterns need to be considered (i.e., paragraph B42(d) of IFRS 10 applies in a particular fact pattern), a range of factors could be relevant. Group members observed that, in practice, determining what data, how many periods and how to interpret the information gathered will involve judgment. Group members noted that relevant factors to consider may include:

- Any legal or regulatory requirements relating to the protection of investors.
- Whether voting history indicates an ability or lack of ability to make decisions about the relevant activities (for example, whether other investors have the practical ability to block such decisions or as explained in example 8 in paragraph B45 of IFRS10 the investor cannot "direct the relevant activities unilaterally regardless of whether the investor has directed the

relevant activities because a sufficient number of other shareholders voted in the same way as the investor.")

- Changes in ownership interests held by other investors over time affecting the ability to place reliance on voting history.
- Nature of the other shareholders (for example, investment funds).
- Relationships between shareholders (for example, related parties, major and junior mining companies).

Some Group members cautioned that looking to past voting patterns would not be appropriate following large changes in the composition of shareholders. Also, they would be skeptical of suggestions to use data selectively (for example, an argument that voting at a particular meeting was an anomaly for one reason or another).

Group members indicated that anticipated future changes in shareholdings should not override the facts existing at the reporting date (for example, an exploration entity expects that it will issue shares in the near future thereby diluting the current ownership).

Overall Comments

Group members noted that the concept of de facto control in IFRS 10 will affect a range of Canadian companies resulting in some entities being consolidated that were not previously consolidated prior to applying IFRS 10. Group members observed that the guidance on de facto control will likely give rise to some practical challenges when applied to certain fact patterns.

IFRS 10 and 11: Retrospective Transition Issues

The transition guidance in IFRS 10 *Consolidated Financial Statements* requires full retrospective application of the standard from the date that control was first obtained, with some limited exceptions. The transitional guidance in IFRS 11 *Joint Arrangements* requires a modified retrospective application and specifically addresses the transition mechanics to be applied when:

- a proportionately consolidated entity will be accounted for by the equity method under IFRS 11; and
- a joint operation accounted for by the equity method will be accounted for by recognizing the investor's interest in the assets and liabilities of the joint operation.

IFRS 11 does not provide any explicit transition guidance when an entity proportionately consolidated a joint operation previously and will account for its interest in the assets and liabilities of the joint operation upon adoption of the new standard.

An investment will often have been made before the periods covered by the financial statements issued in the year IFRS 10 and IFRS 11 are first applied. Some significant implications arise from the retrospective application of IFRS 10 and, to a lesser degree, IFRS 11 when the prior basis of accounting for an investee (portfolio investment, associate, joint venture or subsidiary) is

changed upon the adoption of IFRS 10 and IFRS 11. For example, a change in basis would occur when an investee that was not consolidated previously needs to be consolidated under IFRS 10.

When retrospective application is required by IFRS 10 or IFRS 11 and the basis of accounting for the investee changes, the entire suite of IFRSs would also have to be applied to the investee retrospectively from the date determined by the transition guidance in order to determine the appropriate carrying amount of the assets and liabilities of, or investment in, the investee, with limited exceptions.

For example, when the investee that is now being consolidated on adoption of IFRS 10 has property plant and equipment recognized in its statement of financial position, the transition guidance requires that the carrying amount of the property, plant and equipment on the date that control was first obtained be determined in accordance with IFRS 3. To determine the carrying amount of the investee's property plant and equipment at the beginning of the comparative period, the investor must consider the recognition and measurement requirements of all standards that affect property, plant and equipment including, but not necessarily limited to, IAS 16 *Property, Plant and Equipment*, IAS 23 *Borrowing Costs*, IAS 36 *Impairment of Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (for example, for asset retirement obligations).

The four most common transition scenarios expected to occur in the Canadian marketplace are:

- a change from non-consolidation to consolidation upon adoption of IFRS 10;
- deconsolidation of a subsidiary upon adoption of IFRS 10;
- a change from the equity method of accounting to accounting for a share of assets and liabilities of a joint operation upon adoption of IFRS 11; and
- a change from proportionate consolidation to the equity method for a joint venture upon adoption of IFRS 11 (considered in the separate agenda item "IFRS 11: Joint Ventures – Transition from Proportionate Consolidation to the Equity Method").

The Group considered some of the general and standard-specific implementation challenges that financial statement preparers may experience when applying certain IFRSs on a retrospective or modified retrospective basis upon a change in the basis of accounting for the investee upon adoption of IFRS 10 or IFRS 11.

The Group's Discussion

Although not an exhaustive list, Group members discussed the following four IFRSs that may be most likely to give rise to complex issues:

- IAS 21 *The Effects of Changes in Foreign Exchange Rates*;
- IAS 23 *Borrowing Costs;*
- IAS 36 *Impairment of Assets;* and
- IFRS 3 *Business Combinations.*

In the context of IAS 21, Group members observed that when an investee was not consolidated or accounted for by the equity method previously, the investee's functional currency would not have been determined previously. Group members noted that when the functional currency of an investee differs from that of the investor, the transitional requirements of IFRS 10 require that IAS 21 be applied retrospectively to determine the cumulative translation differences to be recognized by the investor. In addition, the functional currency determination will be relevant in determining the amounts to recognize for foreign currency monetary and non-monetary balances when consolidation is applied for the first time. Group members observed that complexities arise in determining the cumulative translation differences balance because the investee's net assets must be determined at each past reporting date and the appropriate exchange rate applied to each of those amounts.

Group members noted that those issues become more troublesome when considering how the exemptions and elections under IFRS 1 *First-time Adoption of International Financial Reporting Standards* utilized on transition to IFRSs interact with the transitional requirements of IFRS 10 and IFRS 11 for periods prior to the date of transition. Group members observed that applying IFRS 10 and IFRS 11 on a retrospective or modified retrospective basis when changing the basis of accounting for the investee can be similar to the initial application of IFRSs, but without any of the relief provided by the IFRS 1 elections or exemptions. Group members cautioned that this is an area of judgment. Careful consideration should be given to whether and how the IFRS 1 exemptions and elections applied by the investor upon adoption of IFRSs affect any balances recognized as a result of adopting IFRS 10 and IFRS 11. For example, if an entity chose to set its cumulative translation account to zero on adoption of IFRSs, it would need to consider whether to create a balance as a result of retrospectively applying IFRS 10 or IFRS 11.

Group members observed that a similar issue arises when considering how IAS 23 applies on transition to IFRS 10 and IFRS 11. Group members discussed the potential complexity in determining the amount of borrowing costs that should be capitalized to qualifying assets. Group members noted that obtaining the data to perform this work, such as the amount and timing of expenditures and the capitalization rate, will not be a small task.

Similarly, Group members discussed whether adjustments to the carrying amount of the investee's assets within the scope of IAS 36, including goodwill, are required to reflect additional impairment charges or to reverse previously recorded impairment charges. When the investor is required to apply IAS 36 retrospectively to any assets in the investee's statement of financial position that are within the scope of that standard, the investor will have to determine how to do so. Group members observed that the transition guidance in IFRS 10 does not address this issue. Group members noted that the IAS 36 implications are particularly troublesome because of the potential use of hindsight. In many cases, goodwill was only tested as at the date of transition to IFRSs and not earlier and, accordingly, cash-generating units may not have been determined for those earlier periods. Some Group members noted that the analysis might expose weaknesses in how cash-generating units were previously determined. Group members

expressed concern over how to deal with this issue on transition and determine the necessary disclosures about any adjustments required.

Finally, when considering IFRS 3, Group members discussed the transitional requirements when an investee is required to be consolidated for the first time upon adoption of IFRS 10 and the investee does not meet the IFRS 3 definition of a business. The Group considered whether certain specialized accounting requirements within IFRS 3, which generally relate only to the acquisition of a business, are required to be applied when a non-business investee is first consolidated upon adoption of IFRS 10. Those specialized accounting requirements include accounting for contingent consideration, transaction costs and deferred income taxes. Group members noted that this issue arises because IFRS 10 requires the use of the "acquisition method" in IFRS 3 to recognize assets, liabilities and non-controlling interests initially, except for goodwill, and the term "acquisition method" is not clearly defined in IFRS 3.

Overall Comments

The Group noted that many of the standard-specific implementation challenges arise upon transition to IFRS 10 and IFRS 11 when the investee's past financial statements were not prepared in accordance with IFRSs. Group members observed that the list of standards discussed is not exhaustive. For example, there will likely be many tax accounting issues that will be challenging in applying the transition requirements in IFRS 10 and IFRS 11.

The Group agreed that because IFRS 10 and IFRS 11 will be applied first by calendar year companies in the first quarter of 2013, it is not possible to seek resolution from the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) before Canadian companies need to file first quarter interim financial statements.

Group members emphasized that preparers need to think broadly about the repercussions of the retrospective application of IFRS 10 and IFRS 11. Group members noted that given the complexity that some issuers may face in applying these standards retrospectively, preparers need to start work now and consult with their advisers to navigate the complexities that arise when a change of basis occurs upon adoption of IFRS 10 and IFRS 11. Group members noted that judgment will be required and early consideration of all the circumstances, including the interaction with IFRS 1 elections and exemptions, will be required for a successful implementation of these new standards.

IFRS 10 and 11: Retrospective Transition Issue – Comparative Figures

Recent amendments to IFRS 10 *Consolidated Financial Statements* clarify that it was the IASB's intention not to require an entity to make adjustments to previous accounting for its involvement with other entities when the consolidation conclusion reached at the date of initial application of IFRS 10 is the same as when applying IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities*. The IASB also confirmed, in paragraph

BC199B of IFRS 10, that relief from retrospective application of IFRS 10 would apply to an investor's interest in investees that were disposed of during a comparative period.

The issue considered by the Group was how to apply the transition requirements of IFRS 10 and IFRS 11 *Joint Arrangements* when an entity obtained control over a joint venture in the comparative period and the previous interest in the joint venture was accounted for using proportionate consolidation in accordance with IAS 31 *Interests in Joint Ventures*.

The Group's Discussion

Group members noted that an entity that acquired control over a joint venture in the comparative year should restate its comparative figures for the period prior to the business combination in accordance with the transitional provisions in IFRS 11.

Group members observed that the transitional provisions for IFRS 10 and IFRS 11 differ and must be carefully read. Further, the transitional relief provided in IFRS 10 does not apply in this fact pattern because IFRS 11 applies to the joint venture.

The Group considered whether any relief exists for the application of the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* for the comparative period when an entity acquires control over a joint venture in the comparative period. Group members noted that no relief exists because the IFRS 12 disclosures should be provided for the joint venture in the comparative period in an IFRS 11 context.

IFRS 11: Joint Ventures – Transition from Proportionate Consolidation to the Equity Method

The classification of joint arrangements required by IFRS 11 *Joint Arrangements* depends upon the parties' rights and obligations arising from the arrangement in the normal course of business. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. In accordance with paragraph 24 of IFRS 11, a joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures,* unless IAS 28 exempts the entity from applying the equity method. Accordingly, IFRS 11 eliminates proportionate consolidation as a basis of accounting for interests in joint ventures.

Adoption of IFRS 11 requires modified retrospective application. In June 2012, the IASB issued amendments to the standard to provide relief from the presentation or restatement of comparative information for periods prior to the immediately preceding period. As outlined in paragraph C2 of amended IFRS 11, when changing from proportionate consolidation to the equity method, an entity recognizes its investment in the joint venture as at the beginning of the immediately preceding period. Paragraph C6 indicates that, after initial recognition of the equity method investment (i.e., subsequent to January 1, 2012 for an entity with a calendar year-end), an entity

accounts for its investment in the joint venture using the equity method in accordance with IAS 28, thereby requiring restatement of the immediately preceding period.

Accordingly, entities may need to consider a number of consequential effects when adopting IFRS 11, particularly when changing from proportionate consolidation to the equity method. The Group considered the potential recognition and measurement differences and how such differences would be adjusted for on the application of IFRS 11 for the following six issues:

- Limits on the recognition of losses of the joint venture.
- Assessment of indicators of impairment rather than annual impairment testing.
- Full reversal of impairment losses, as there is no attribution of impairment to any underlying goodwill in respect of the joint venture.
- Capitalization of borrowing costs in the accounts of the investor.
- Discontinuance of hedge accounting.
- Reperformance of goodwill impairment testing.

The Group's Discussion
Group members noted that the first four issues are relatively straightforward, whereas issues five and six raise more conceptual issues about the transitional guidance.

Issue 1: Limits on the recognition of losses of the joint venture

Group members noted that a measurement difference may arise upon transition from proportionate consolidation to the equity method under IFRS 11 when losses in excess of the carrying amount of the entity's interest in the joint venture had been recognized previously. Group members observed that paragraph C4 of IFRS 11 provides specific guidance for when negative net assets should be recognized as a liability or adjusted to retained earnings at the beginning of the immediately preceding period.

Issue 2: Assessment of indicators of impairment rather than annual impairment testing

Group members noted that the timing and methodology for impairment assessment of an investment under the equity method may differ from annual impairment testing performed on goodwill that was separately recognized under proportionate consolidation. IAS 39 *Financial Instruments: Recognition and Measurement*, applicable to investments accounted for by the equity method, and IAS 36 *Impairment of Assets*, applicable to goodwill reported separately under proportionate consolidation, use different impairment indicators. Group members observed that paragraph C3 of IFRS 11 provides specific guidance on assessing whether the investment is impaired on the adoption of IFRS 11 and the treatment of any resulting impairment loss.

Issue 3: Full reversal of impairment losses as there is no attribution of impairment to any underlying goodwill in respect of the joint venture

An impairment loss related to goodwill recorded under proportionate consolidation would not be reversed. IAS 36 does not permit the reversal of a write-down of goodwill. On the other hand, an impairment loss recognized under the equity method may reverse to the extent that the recoverable amount of the investment subsequently increases. Group members observed that paragraphs C2 and C3 of IFRS 11 do not permit the reversal of goodwill impairments recorded prior to the determination of the opening balance of the investment (i.e., prior to January 1, 2012). However, an entity may need to assess whether an impairment loss recognized on or after January 1, 2012 no longer exists or has decreased.

Issue 4: Capitalization of borrowing costs in the accounts of the investor

Group members noted that borrowing costs that were capitalized under proportionate consolidation may not be eligible for capitalization under the equity method, in particular when the investor borrows the funds, but makes a capital injection, rather than a loan, to the joint venture. Group members observed that paragraphs C2 and BC61 of IFRS 11 suggest that the initial investment would not be adjusted for borrowing costs capitalized in the carrying amount of property, plant and equipment of the joint venture. However, any borrowing costs previously capitalized in the comparative period, which are no longer eligible for capitalization, would need to be reversed.

Issue 5: Discontinuance of hedge accounting

Group members noted that a joint venturer applying proportionate consolidation to a joint venture interest may have been able to apply hedge accounting to a specific risk exposure in the joint venture. In contrast, when a joint venture is equity accounted for, an investor cannot hedge its indirect risk in its exposure because paragraph 84 of IAS 39 does not permit hedging of an overall net position.

Group members observed that upon initial application of the equity method on adoption of IFRS 11, an entity will need to discontinue hedge accounting because the underlying item being hedged will no longer be proportionately consolidated into an entity's accounts.

The Group's discussion focused on how the discontinuance of hedge accounting upon transition from proportionate consolidation to the equity method should be reflected by the investor:

View A – Recognize the adjustment to retained earnings at the beginning of the immediately preceding period (and, accordingly, derecognize the effects of hedge accounting in the comparative period).

View B – Apply the change retrospectively in accordance with paragraph 19 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

View C – Apply the guidance in IAS 39 with respect to the discontinuance of hedge accounting upon transition and:

- *recognize the effect of the hedge in profit or loss when the hedged item will affect the results of the joint venture; or*
- *recognize the effect of the hedge in profit or loss immediately at the date of transition (i.e., in the first interim period of the preceding period).*

Group members had a robust debate, with individual members expressing support for each of the various views and identifying a few additional approaches. Throughout the discussion, Group members raised several interesting questions, including when the termination of the hedged item occurs.

Group members emphasized that the discussion was trying to deal only with the cumulative effects of hedge accounting during the period the investment was proportionately consolidated. The Group discussed various aspects of this issue, including which standard applies, what to do with the cumulative effect of hedge accounting, and what ordering should occur in applying the various relevant aspects of IFRSs.

Group members observed that IFRS 11 does not address any consequential adjustments that an entity may have to make beyond those made to the assets and liabilities of the joint venture that are directly affected by the transition from proportionate consolidation to the equity method. In light of the diversity of views expressed, Group members observed that entities facing this issue should think about the complexities involved in their specific fact pattern and consult with their advisors before making any decisions about appropriate accounting treatments.

Issue 6: Reperformance of goodwill impairment testing

Group members considered circumstances in which the goodwill associated with a joint venture that previously was allocated to a larger cash-generating unit or group of cash-generating units for goodwill impairment testing. Group members observed that, upon transition from proportionate consolidation to the equity method, the goodwill previously allocated to a group of cash-generating units should be reallocated to the joint venture and the other cash-generating unit or group of cash-generating units to which it belonged on the basis of their relative carrying amounts in accordance with paragraph C2 of IFRS 11.

Following this reallocation, the remaining goodwill balance will be supported solely by the cash flows of the remaining cash-generating unit(s). This may result in an issue if, for example, the joint venture generated disproportionately higher cash flows relative to its share of the carrying amount of goodwill.

Group members discussed the reperformance of goodwill impairment testing as a result of the goodwill associated with the joint venture being previously allocated to a larger cash-generating unit or group of cash-generating units. Specifically, Group members considered two questions:

1. Does the change in the level of testing driven by the transition from proportionate consolidation to the equity method require reperformance of the goodwill impairment test by the venturer for the goodwill that is allocated to the remaining cash-generating unit(s) and, if so, at what date(s)?

   Group members noted that if there were indicators of impairment as at January 1, 2012, it would seem reasonable that an impairment test of the remaining cash-generating unit(s) would be tested. Group members noted that the transition provisions of IFRS 11 provide for a modified retrospective application requiring an entity to reperform the goodwill impairment at the beginning of the immediately preceding period (similar to *View A* in *Issue 5*). Group members observed that paragraph BC61 of IFRS 11 explains that, in response to concerns expressed about undue cost and effort of applying the requirements retrospectively, the IASB decided instead to require aggregating the carrying amounts of the assets and liabilities into a single line item. The IASB's recent amendments to the transitional provisions make it clear that the intent was to provide relief from full retrospective application by not requiring restatement of any additional comparative periods before the immediately preceding period.

2. When the above-noted impairment test is completed as at the beginning of the immediately preceding period presented or earlier, how should any resulting impairment loss be reflected in the accounts on adoption of IFRS 11?

   Group members noted that the specific guidance on the determination of the equity method investment appears to support that any additional impairment could be adjusted through opening retained earnings (similar to *View A* in *Issue 5*).

Overall Comments

Group members noted that this agenda item discussed the unique transitional relief in IFRS 11 that is specific to an entity moving from proportionate consolidation to the equity method. Group members cautioned that these unique transition provisions cannot be applied by analogy to other circumstances, such as moving from non-consolidation to consolidation. Similarly, the views expressed about hedge accounting and impairment are unique to the specific circumstances discussed and the same views would not necessarily apply under different circumstances.

Group members suggested that preparers should start thinking about their 2012 comparative figures when moving from proportionate consolidation to the equity method for periods beginning on or after January 1, 2013. Preparers should track any differences so they will be in a position to present comparative financial statements that appropriately reflect the necessary adjustments. Group members encouraged preparers to give some thought to the final two issues for which there is a lack of clear guidance on their treatment on adoption of IFRS 11, to gain an early understanding of the significance of the amounts involved and consult appropriately.

IAS 1: Going Concern Assessments for Development Stage Entities

Paragraph 25 of IAS 1 *Presentation of Financial Statements* requires management of an entity to disclose material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. The issue for consideration is what criteria should an entity that is in a development stage use to determine whether it must provide such disclosure.

An entity is generally considered to be in a development stage when it devotes substantially all of its efforts to establishing a new business for which planned principal operations have not commenced or have commenced but are not yet generating significant revenue. Typically, the entity does not have a stable source of revenue. Often, the entity has no material current or non-current liabilities and limited contractual commitments requiring cash outflows in the next twelve months. While the entity has significant levels of planned future spending, the existing funding is typically not sufficient to carry out such activity. Instead, the entity is reliant on future funding to achieve its business objectives and to meet its near- to medium-term capital expenditure budget. This entity could defer planned future expenditures necessary to achieve its business objectives until such funding is available, and typically does not face the risk of forced liquidation, nor does it have the intent to liquidate in the foreseeable future.

Fact Pattern:

- An entity in the exploration stage in the mining industry:
    - has planned levels of exploration spending on its properties that exceed its cash balance;
    - expects that future capital raising will provide the necessary funding;
    - does not have material current or non-current liabilities; and
    - has minimal contractual commitments other than payments required to maintain its exploration property and permit rights.
- If it becomes difficult to raise financing in the capital markets currently, the entity can take the following actions until a financing is possible:
    - slow its rate of exploration activity and associated spending to a level that can be sustained for a significant period of time based on its existing financial resources; or
    - defer exploration spending to the level necessary to keep its exploration property and permit rights, and reduce its operational spending to a level that enables it to "keep the lights on" for a significant period of time.
- The entity does not intend to curtail its operations permanently nor does it intend to pursue liquidation. Rather, it is pursuing additional financing to continue its activities.

How should the requirement in paragraph 25 of IAS 1 to provide going concern material uncertainty disclosures be applied in this fact pattern?

The Group's Discussion
Group members observed that the International Auditing and Assurance Standards Board has requested the IFRS Interpretations Committee to clarify the requirements in paragraph 25 of IAS 1 (for further details on that submission, refer to the IFRS Interpretation Committee's September 2012 Agenda Paper 17, "IFRS Interpretations Committee Work in Progress" (pages 8-9 and 24-29)).[1]

Group members noted that the criteria for an entity to discontinue the use of the going concern assumption when preparing financial statements (i.e., it intends to liquidate or to cease trading, or has no realistic alternative but to do so) are not the same as those that should be used for the disclosure of material going concern uncertainties. Group members did not express support for the view that the proximity to liquidation should be the trigger for going concern disclosure (*View A*).

Group members observed that going concern disclosures should be based on the entity's ability to satisfy its obligations (*View B*) but expressed some diversity in views around how to apply this requirement in the context of a development stage company.

Group members discussed whether in the fact pattern above, the entity's assessment of its ability to discharge its obligations should focus on existing obligations (*View B1*) or obligations that will arise in the normal course of business (*View B2*).

In this fact pattern, some Group members supported the view that going concern uncertainty disclosure is necessary because the entity does not have sufficient funds and faces significant uncertainty about its ability to raise funds. However, other Group members proposed that going concern disclosure is not necessary because:

- only contractually required payments should be considered;
- the entity can scale back and modify its business plan to "keep the lights on" until additional financing is available; and
- disclosures that are required by other IFRSs, such as IFRS 7 *Financial Instruments: Disclosures*, are sufficient to inform users of the risks that the entity faces.

Group members observed that in this fact pattern, the nature of the business and the entity's stage in the business life cycle requires a different approach to assessing going concern. Group members expressed concern that if all development stage entities disclose going concern uncertainties, the information becomes meaningless and disclosures tend to be boilerplate.

Group members noted that it is challenging to apply paragraph 25 in IAS 1 in a consistent manner across different types of entities that are in different stages of the business cycle. For example, going concern disclosure in the financial statements of a financial institution would become a self-fulfilling prophecy but this disclosure for an exploration mining entity verges on

[1] The November 2012 IFRIC agenda papers 12 to 12C are available on the IASB's website at: http://www.ifrs.org/Meetings/Pages/IFRSInterNov012.aspx

being irrelevant. Group members suggested that a one-size fits all solution may not work well in this area.

Overall, Group members agreed that while it may not be necessary to provide going concern disclosure, disclosure of some sort is required for the fact pattern discussed. Group members noted that to be useful those disclosures should be specific to the entity and avoid being boilerplate. Group members agreed that sufficient disclosure is necessary for a user to have a proper understanding of the nature of the business and the stage of the business cycle. However, Group members expressed different views on the form and content of the disclosures.

IAS 39: Meaning of "Significant or Prolonged" Decline in Fair Value

Paragraph 58 of IAS 39 *Financial Instruments: Recognition and Measurement* requires that entities assess, at the end of each reporting period, whether there is any objective evidence that a financial asset (or group of financial assets) is impaired. Paragraph 61 of IAS 39 states that "a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment."

In 2009, the IFRS Interpretations Committee rejected a request to develop an interpretation on the meaning of "significant or prolonged". In the resulting rejection notice, the Committee provided some insight into the use of those terms in IAS 39 and some incorrect understandings arising in practice. For example, the Committee noted that anticipated recovery of the market value of an instrument is not a relevant factor in determining whether a decline is significant or prolonged. For further details, refer to the IFRS Interpretations Committee's schedule of "Items not taken onto the agenda" under IAS 39 - 24 July 2009.

The issue for consideration is whether there is significant diversity in practice when determining whether a decline in fair value of an investment in an equity instrument below its cost is significant or prolonged.

The Group's Discussion

Group members expressed broadly consistent views. Group members noted that while an accounting policy with quantitative thresholds is helpful, judgement is always necessary and disclosure about those significant judgements is required under IAS 1 *Presentation of Financial Statements*. That policy should contain enough specificity that it is helpful in assessing which investments to consider further but not be overly definitive and remove the need for judgement.

Group members observed that any accounting policy with quantitative thresholds should be applied on a security by security basis. When its thresholds are breached, an entity must use judgement in assessing all relevant information to decide whether the investment is impaired.

Group members noted that if an entity does not have internal thresholds to use as guidelines, it may be more difficult to support the judgements made and whether disclosures about those judgements are sufficient. Group members observed that at some point, quantitative thresholds may be difficult to overcome but that will depend on the specific facts and circumstances.

Group members emphasized the importance of paragraph 122 of IAS 1, which requires disclosures about significant judgements. Adequate disclosures about judgements made in this area are critical, particularly when an investment is not considered impaired but quantitative thresholds have been breached.

UPDATE ON PREVIOUS ISSUES DISCUSSED BY THE GROUP

AcSB staff provided an update on the six issues on which work is currently underway, as recommended by the Group in a previous meeting:

- IAS 10: Reissuing Financial Statements in Connection with an Offering Document;
- IFRS 11: Unit of Account in Classifying Joint Arrangements with Multiple Separate Vehicles;
- IAS 1: Classification of Long-term Debt to be Repaid From an Offering;
- IFRS 3 and IAS 12: Uncertain Tax Positions Acquired in a Business Combination;
- IAS 12: Part VI.I Tax on Dividends Paid to Preferred Shareholders; and
- IAS 8: IFRSs Issued but Not Yet Effective.

IAS 10: Reissuing Financial Statements in Connection with an Offering Document

The Report for the July 2012 meeting noted that the AcSB had considered the Group's recommendation and directed the staff to undertake further research and discuss the issue with the staff of the IFRS Interpretations Committee.

At the October 2012 meeting AcSB staff reported that, following a discussion with IFRIC staff in early September, the AcSB had sent a submission[2] to IFRIC and expects the issue to be discussed at IFRIC's November meeting.[3]

IFRS 11: Unit of Account in Classifying Joint Arrangements with Multiple Separate Vehicles

At the July 2012 meeting, the Group recommended that the AcSB should bring this issue to the attention of the IASB or IFRS Interpretations Committee.

[2] The November 2012 IFRIC staff agenda paper 13B includes the AcSB's submission and is available on the IASB's website at: http://www.ifrs.org/Meetings/Pages/IFRSInterNov012.aspx

[3] The November 2012 IFRIC staff agenda paper 13 and audio webcast are available on the IASB's website at: http://www.ifrs.org/Meetings/Pages/IFRSInterNov012.aspx

At the October 2012 meeting, the AcSB staff reported that the AcSB agreed with the Group's recommendation and directed staff to communicate with the staff of the IASB to determine the best path to clarify whether the activity or the vehicle is the unit of account for a joint arrangement that involves one activity with multiple separate vehicles.

There have been two discussions with the IFRIC staff to explore the issue and further work is required to determine the best path forward.

IAS 1: Classification of Long-term Debt to be Repaid From an Offering

At the July 2012 meeting, the Group recommended that the AcSB should bring this issue to the attention of the IFRS Interpretations Committee.

At the October 2012 meeting, the AcSB staff reported that the AcSB directed the staff to undertake further research and discuss this issue with the staff of the IFRIC.

IFRS 3 and IAS 12: Uncertain Tax Positions Acquired in a Business Combination

The Report on the July 2012 meeting noted that the AcSB agreed with the Group's recommendation to refer this issue to the IFRS Interpretations Committee.

At the October 2012 meeting, the AcSB staff reported that the next step is to gather evidence that diversity in practice in Canada exists with regards to this issue.

IAS 12: Part VI.I Tax on Dividends Paid to Preferred Shareholders

At the October 2012 meeting, the AcSB staff reported that it circulated an outreach request and received responses from ten jurisdictions. No jurisdictions have indicated they have a similar fact pattern.

IAS 8: IFRSs Issued but Not Yet Effective

At the July 2012 meeting, the Group recommended that the AcSB consider including guidance in the Handbook to clarify this issue.

The AcSB staff has posted a "featured item" article "Staff Commentary – Newly Issued IFRSs: Early Adoption and Advance Disclosure Issues" to help stakeholders understand the issues and the considerations affecting what they may be permitted or required to do in satisfying their financial reporting obligations.

The AcSB has approved an exposure draft proposing amendments to clarify the Preface to the CICA Handbook – Accounting and Introduction to Part I regarding newly issued, revised or amended IFRSs.