IFRS INTERPRETATIONS COMMITTEE - AGENDA REJECTIONS (SEPTEMBER 2016)

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2016/12

STATUS
Final

EFFECTIVE DATE
Immediate

ACCOUNTING IMPACT
Clarification of IFRS requirements.
May lead to changes in practice.

Background

This Bulletin summarises issues that the IFRS Interpretations Committee (the Interpretations Committee) decided not to take onto its agenda at its September 2016 meeting, which were reported in its public newsletter (the IFRIC Update). Although these agenda rejections do not represent authoritative guidance issued by the International Accounting Standards Board (IASB), in practice they are regarded as being highly persuasive. All entities that report in accordance with IFRS need to be aware of these agenda rejections, and may need to modify their accounting approach. More detailed background about agenda rejections is set out below.

The Interpretations Committee is the interpretative body of the IASB. The role of the Interpretations Committee is to provide guidance on financial reporting issues which have been identified and which are not specifically addressed in IFRS, or where unsatisfactory or conflicting interpretations either have developed, or appear likely to develop.

Any party which has an interest in financial reporting is encouraged to submit issues to the Interpretations Committee when it is considered to be important that the issue is addressed by either the Interpretations Committee itself, or by the IASB. When issues are raised, the Interpretations Committee normally consults a range of other parties, including national accounting standard setting bodies, other organisations involved with accounting standard setting, and securities regulators.

At each of its meetings, the Interpretations Committee considers new issues that have been raised, and decides whether they should be added to its agenda. For those issues that are not added to the agenda, a tentative agenda decision is published in the IFRIC Update newsletter which is issued shortly after each of the Interpretations Committee's meetings. These tentative agenda decisions are open to public comment for a period of 60 days, after which point they are taken back to the Interpretations Committee for further consideration in the light of any comment letters which have been received and further analysis carried out by the Staff. The tentative agenda decision is then either confirmed and reported in the next IFRIC Update, or the issue is either subjected to further consideration by the Interpretations Committee's agenda or referred to the IASB.

Interpretations Committee agenda decisions do not represent authoritative guidance. However, they do set out the Interpretations Committee's rationale for not taking an issue onto its agenda (or referring it to the IASB). It is noted on the IFRS Foundation's website that they 'should be seen as helpful, informative and persuasive'. In practice, it is expected that entities reporting in accordance with IFRS will take account of and follow the agenda decisions and this is the approach which is followed by securities regulators worldwide.

Agenda decisions that were finalised at the September 2016 meeting

IFRIC 12 *Service concession arrangements with leased infrastructure*

Tentative agenda decisions at the September 2016 meeting

IAS 12 *Recognition of deferred taxes when acquiring a single-asset entity that is not a business*

Agenda decisions at the September 2016 meeting – narrow application

IFRIC 12 *Service concession arrangements with leased infrastructure*

The Interpretations Committee received a request to clarify how an operator accounts for a service concession arrangement in which the infrastructure is leased. In this arrangement, the operator is not required to provide any construction or upgrade service with respect to the infrastructure.

The arrangement involves three parties: a grantor, an operator and a lessor. The lessor and the grantor may be controlled by the same governmental body. The operator is contractually required to pay the lessor for the lease of the infrastructure. The operator has an unconditional contractual right to receive cash from the grantor to reimburse those payments. In arrangements in which the lessor and the grantor are not controlled by the same governmental body, the grantor provides the lessor with a guarantee of the lease payments to be made during the lease term, and of any residual value at the end of the lease term. The grantor also has an option to renew the lease at the end of the initial non-cancellable period of the contract.

The submitter asked the Interpretations Committee to clarify whether the arrangement is within the scope of IFRIC 12. If the arrangement is determined to be within the scope of IFRIC 12, the submitter noted that the lease of the infrastructure is not within the scope of IFRS 16 *Leases* (IAS 17 *Leases*). Thus, the submitter also asked the Interpretations Committee to clarify how the operator accounts for any assets and liabilities arising from the arrangement with the lessor.

With respect to the scope issue, the Interpretations Committee observed that:

a) assessing whether the arrangement (including the leased infrastructure) is within the scope of IFRIC 12 requires consideration of the specific facts and circumstances. In particular, the operator has to assess whether the control conditions in paragraph 5 of IFRIC 12 and the condition relating to the infrastructure in paragraph 7 of IFRIC 12 apply;
b) the operator is not required to provide construction or upgrade services with respect to the infrastructure for the arrangement to be within the scope of IFRIC 12.

With respect to the recognition and presentation issues, if the arrangement (including the leased infrastructure) described in the submission is determined to be within the scope of IFRIC 12, the Interpretations Committee observed that the grantor, rather than the operator, controls the right to use the infrastructure. Accordingly, the Interpretations Committee observed that:

a) the operator has to assess whether it is obliged to make payments to the lessor for the lease or whether the grantor has this obligation. This assessment requires consideration of the specific facts and circumstances. If the grantor is obliged to make payments to the lessor, then in that case the operator is collecting cash from the grantor that it remits to the lessor on the grantor's behalf;
b) if the operator is obliged to make payments to the lessor as part of the service concession arrangement, then the operator recognises a liability for this obligation when it is committed to the service concession arrangement and the infrastructure is made available by the lessor. At the time the operator recognises the liability, it also recognises a financial asset because the operator has a contractual right to receive cash from the grantor to reimburse those payments; and
c) the operator's liability to the lessor described in b) above is a financial liability. Accordingly, the operator offsets the liability to make payments to the lessor against the corresponding receivable from the grantor only when the criteria for offsetting a financial asset and a financial

liability in IAS 32 *Financial Instruments: Presentation* are met.

The Interpretations Committee concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for such an arrangement.

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

Tentative agenda decisions at the September 2016 meeting – wide application

IAS 12 *Recognition of deferred taxes when acquiring a single-asset entity that is not a business*

The Interpretations Committee received a request to clarify how an entity accounts, in its consolidated financial statements, for a transaction in which an entity acquires all of the shares of another entity that has an investment property as its only asset. In the fact pattern submitted, the acquiree had recognised in its statement of financial position a deferred tax liability arising from measuring the investment property at fair value. The amount paid for the shares was less than the fair value of the investment property because of the associated deferred tax liability. The transaction was not a business combination because the acquired entity was not a business. The acquiring entity applies the fair value model in IAS 40 *Investment Property*.

The Interpretations Committee was asked to consider whether the requirements in paragraph 15(b) of IAS 12 should be amended.

The Interpretations Committee noted that:

a) because the transaction is not a business combination, paragraph 2(b) of IFRS 3 requires the acquiring entity, in its consolidated financial statements, to allocate the purchase price to the assets acquired and liabilities assumed; and
b) paragraph 15(b) of IAS 12 states that an entity does not recognise a deferred tax liability for taxable temporary differences that arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit or loss nor taxable profit (tax loss).

Accordingly, on acquisition, the acquiring entity recognises only the investment property and not a deferred tax liability in its consolidated financial statements. The acquiring entity therefore allocates the entire purchase price to the investment property.

The Interpretations Committee concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for the transaction. Consequently, it [decided] not to add this issue to its agenda.

The Interpretations Committee also noted that the IASB had recently considered whether to add a project on IAS 12 *Income Taxes* to its agenda, but had decided not to do so. Consequently, the Interpretations Committee did not recommend that the IASB consider adding a project to its agenda on this topic.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO Member Firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO Member Firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent Member Firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Zaventem.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the Member Firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the Member Firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

© 2016 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com