IFRS INTERPRETATIONS COMMITTEE - AGENDA REJECTIONS (NOVEMBER 2016)

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2016/14

Background

This Bulletin summarises issues that the IFRS Interpretations Committee (the Interpretations Committee) decided not to take onto its agenda at its November 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.

STATUS
Final

EFFECTIVE DATE
Immediate

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

Agenda decisions that were finalised at the November 2016 meeting

IAS 12 *Income Taxes - Expected manner of recovery of intangible assets with indefinite useful economic lives*

IAS 32 *Financial Instruments: Presentation - Written put options over non-controlling interests to be settled by a variable number of the parent's shares*

Tentative agenda decisions at the November 2016 meeting

IFRS 10 *Consolidated Financial Statements - Investment entities and subsidiaries*

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors - Commodity loans*

IAS 28 *Investments in Associates and Joint Ventures - Fund manager's assessment of significant influence*

Agenda decisions that were finalised at the November 2016 meeting – wide application

IAS 12 *Income taxes - Expected manner of recovery of intangible assets with indefinite useful economic lives*

The Interpretations Committee received a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful economic life for the purposes of measuring deferred tax in accordance with IAS 12 *Income Taxes*. The issue concerned whether deferred tax on temporary differences associated with such intangible assets should be measured based on the tax consequences that would arise on the sale of indefinite lived intangible assets, as is required for non-depreciable assets (such as owner-occupied land) that are measured using the revaluation model in IAS 16 *Property, Plant and Equipment*.

The Interpretations committee noted that attributing an indefinite life to an intangible asset is not the same as saying that that intangible asset is non-depreciable, which implies an indefinite (or unlimited life). Consequently, the Interpretations Committee concluded that it was inappropriate to default to measuring deferred tax on temporary differences arising on indefinite lived intangibles based on the tax consequences arising on their sale. Instead, an entity should apply the general principles in paragraphs 51 and 51A of IAS 12 which requires deferred tax to be calculated based on the expected manner of recovery of the asset's carrying value, which could be solely through use or sale, or a combination of use and sale.

In the light of existing requirements in IFRS Standards, the Interpretations Committee determined that neither an IFRIC Interpretation nor an amendment to a standard was necessary and therefore decided not to add this issue to its agenda.

IAS 32 *Financial Instruments: Presentation - Written put options over non-controlling interests to be settled by a variable number of the parent's shares*

The Interpretations Committee received a request regarding how an parent accounts for a written put option over non-controlling interests (NCI put). The NCI put has a strike price that will, or may, be settled with a variable number of the parent's own equity instruments. Specifically, the issue was whether the parent, in its consolidated financial statements should recognise:

- a financial liability representing the present value of the option's strike price – in other words, a gross liability equal to the fair value of the parent's shares that would be issued on exercise of the put; or
- a derivative liability measured at fair value – in other words a net liability equal to the difference between the fair value of the parent's shares that would be issued on exercise of the put and the fair value of the NCI that would be received in exchange for those shares.

The Interpretations committee noted that:

- it had previously discussed issues relating to NCI puts that are settled in cash and had concluded that the issue is too broad for it to address efficiently within the confines of existing IFRS requirements; and
- the Board is currently considering the requirements for all derivatives over an entity's own equity as part of the Financial Instruments with Characteristics of Equity project.

For these reasons the Interpretations Committee decided not to add this issue to its agenda.

Tentative agenda decisions at the November 2016 meeting – wide application

IFRS 10 Consolidated Financial Statements - Investment entities and subsidiaries

The Interpretations Committee discussed four issues concerning the application of IFRS 10 *Consolidated Financial Statements*, tentatively concluding in each case not to add them to its agenda.

Firstly, the Interpretations Committee considered whether an entity qualifies as an investment entity if it meets all three of the conditions specified in paragraph 27 of IFRS 10 to be classified as an investment entity, but does not have one or more of the typical characteristics of an investment entity specified in paragraph 28. It concluded that such an entity would be classified as an investment entity, although additional judgement would be required in making that determination.

Secondly, it considered whether an entity can conclude that it provides investment management services if it outsources those services to a third party. The Interpretations Committee noted that IFRS 10 does not specify how the investment entity must provide these services, and as such does not preclude it from outsourcing the performance of these services to a third party.

Thirdly, it considered whether a subsidiary of an investment entity provides services related to its parent's investment activities by holding an investment portfolio as beneficial owner. In line with a similar issue that had arisen at its meeting in March 2014, the Interpretations Committee concluded that an investment entity does not consider that the holding of investments by a subsidiary as a beneficial owner (and hence recognised in the subsidiary's financial statements) to be a service that relates to the parent's investment activities. Consequently, the subsidiary should be accounted for at fair value through profit or loss by the parent investment entity and not consolidated on a line-by-line basis.

Lastly, it considered the extent to which an investment entity can provide investment-related services, either itself or through a subsidiary, to third parties. It was noted that paragraph B85C of IFRS 10 states that an investment entity may provide investment-related services, either directly or through a subsidiary, to third parties as well as to its investors, subject to the entity continuing to meet the definition of an investment entity. Consequently, the Interpretations Committee concluded that an investment entity can provide such services to third parties as long as those services are ancillary to its core investing activities. If extensive investment-related services are provided to third parties, then this could result in a conclusion that the business purpose of the entity is not to invest solely for capital appreciation and/or investment income meaning that one of the necessary conditions of being an investment entity set out in paragraph 27 of IFRS 10 would not be met.

For all four issues, the Interpretations Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis to enable an entity to determine the appropriate accounting. Consequently, it tentatively decided that neither an IFRIC Interpretation nor an amendment to a Standard in necessary and therefore decided not to add any of the four issues to its agenda.

Tentative agenda decisions at the November 2016 meeting – narrow application

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Commodity loans

The Interpretations Committee received a request regarding how to account for a commodity loan transaction in which a bank borrows gold from a third party (Contract 1) and then lends that gold to a different third party for the same term and for a higher fee (Contract 2).

The Interpretations Committee was asked whether, for the term of the two contracts, the bank that borrows and then lends the gold recognises:

- an asset representing the gold (or the right to receive gold); or
- a liability representing the obligation to deliver gold.

The Interpretations Committee concluded that it would be unable to resolve the question efficiently within the confines of existing IFRS Standards. It noted that an entity would need to look to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an appropriate accounting policy taking into account the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework*. The accounting policy developed would need to result in information that is:

- relevant to the economic decision-making needs of users; and
- reliable, i.e. the chosen accounting policy represents faithfully the financial position, financial performance and cash flows; it reflects the economic substance of the transaction; and is neutral, prudent and complete in all material respects.

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

IAS 28 Investment entities and subsidiaries - Fund manager's assessment of significant influence

The Interpretations Committee received a request to clarify whether and, if so, how, a fund manager assesses significant influence over a fund that it manages and in which it has an investment. In the scenario described in the submission, the fund manager applies IFRS 10 *Consolidated Financial Statements* and determines that it is an agent, and thus does not control the fund. The fund manager has also concluded that it does not have joint control of the fund.

The Interpretations Committee observed that a fund manager assesses whether it has control, joint control or significant influence over a fund that it manages by applying the relevant IFRS standard, which in the case of significant influence is IAS 28 *Investments in Associates and Joint Ventures*.

The Interpretations Committee noted that, unlike IFRS 10 in the assessment of control, IAS 28 does not contemplate whether and how decision-making authority held in the capacity of an agent affects the assessment of significant influence. It felt that developing any such requirements could not be undertaken in isolation of a comprehensive review of the definition of significant influence in IAS 28.

The Interpretations Committee therefore concluded that it would be unable to resolve the question efficiently within the confines of existing IFRS Standards. Consequently, it tentatively decided not to add the issue to its agenda.

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