IFRIC Update

From the IFRS Interpretations Committee

March 2015

Welcome to the IFRIC *Update*

IFRIC Update *is the newsletter of the IFRS Interpretations Committee (the 'Interpretations Committee'). All conclusions reported are tentative and may be changed or modified at future Interpretations Committee meetings.*

Decisions become final only after the Interpretations Committee has taken a formal vote on an Interpretation or a Draft Interpretation, which is confirmed by the IASB.

The Interpretations Committee met in London on **24 March 2015**, when it discussed:

Items on the current agenda

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Issues relating to the requirements for scope and presentation in IFRS 5 (Agenda Papers 9, 9A and 9B)
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Draft Interpretation *Foreign Currency Transactions and Advance Consideration: What is the date of the transaction for the purpose of identifying the applicable exchange rate?* (Agenda Papers 2 and 2A)

Deliberation of comments received on proposals for narrow-scope amendments

- IAS 12 *Income Taxes*—Exposure Draft *Recognition of deferred tax assets for unrealised losses* (Proposed amendments to IAS 12) (Agenda Paper 3)

Interpretations Committee tentative agenda decision

- IFRIC 14—*IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction*: Should an entity assume continuation of a minimum funding requirement for contributions relating to future service? (Agenda Paper 8)

Interpretations Committee work in progress

- IFRS 10 *Consolidated Financial Statements*—Single-asset, single lessee lease vehicles and the assessment of control—control of a structured entity involving an operating lease and control of a structured entity by a junior lender (Agenda Papers 5 and 5A)
- Interpretations Committee work in progress update (Agenda Paper 10)

Interpretations Committee agenda decisions

- IFRS 11 *Joint Arrangements*—Classification of joint arrangements (Agenda Papers 4, 4A and 4B):
  - IFRS 11 *Joint Arrangements*—Classification of joint arrangements: the assessment of 'other facts and circumstances'
  - IFRS 11 *Joint Arrangements*—Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns
  - IFRS 11 *Joint Arrangements*—Classification of joint arrangements: consideration of two joint arrangements with similar features that are classified differently
- IFRS 11 *Joint Arrangements*—Accounting by the joint operator (Agenda Papers 4, 4A and 4B):
  - IFRS 11 *Joint Arrangements*—Accounting by the joint operator: recognition of revenue by a joint operator

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Future IFRS Interpretations Committee meetings

The next meetings are:

12 and 13 May 2015

14 and 15 July 2015

8 and 9 September 2015

10 and 11 November 2015

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB **website** before the meeting. Further information about the activities of the IFRS Interpretations Committee can be found **here**. Instructions for submitting requests for Interpretations are given on the IASB website **here**.

Archive of IFRS Interpretations Committee Newsletter

For archived copies of past issues of IFRIC Update **click here**.

    - IFRS 11 *Joint Arrangements*—Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation

- IFRS 11 *Joint Arrangements*—Accounting in separate financial statements: accounting by the joint operator in its separate financial statements (Agenda Papers 4, 4A and 4B)

- IFRS 11 *Joint Arrangements*—Accounting by the joint operation: accounting by the joint operation that is a separate vehicle in its financial statements (Agenda Papers 4, 4A and 4B)

- IAS 12 *Income Taxes*—Selection of applicable tax rate for the measurement of deferred tax relating to an investment in an associate (Agenda Paper 6)

- IAS 19 *Employee Benefits*—Should longevity swaps held under a defined benefit plan be measured as a plan asset at fair value or on another basis as a 'qualifying insurance policy'? (Agenda Paper 7)

Items on the current agenda

At this meeting, the Interpretations Committee discussed the following items on its current agenda:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Issues relating to the requirements for scope and presentation in IFRS 5 (Agenda Papers 9, 9A and 9B)

At its November 2014 meeting, the Interpretations Committee considered questions relating to the scope of IFRS 5. The Interpretations Committee asked the staff to analyse the broader question of whether 'loss of control' is key to the inclusion of an event within the scope of IFRS 5 or whether there also needs to be a disposal in order for the event to be classified as held for sale. It thought that it should consider this question along with the other new issues relating to IFRS 5 that it had received before deciding how to proceed. At this meeting, the Interpretations Committee discussed the following issues.

(a) Issue 1A: is loss of control key to the inclusion of an event within the scope of IFRS 5 or does there also need to be a disposal in order for the event to be classified as held for sale?

(b) Issue 1B: is IFRS 5 applicable to a disposal group consisting mainly, or entirely, of financial instruments?

(c) Issue 2: how to apply the notion of a 'major line of business' in presenting discontinued operations.

With regard to Issue 1A, the Interpretations Committee noted that it is important for the Interpretations Committee to better understand the objective for the scope of IFRS 5 so that it can then decide whether the issue can be addressed through an Interpretation, or whether a broader amendment to IFRS 5 would be necessary. Consequently, the Interpretations Committee asked the staff to undertake a broader analysis of the scope of IFRS 5.

With regard to Issue 1B, the Interpretations Committee noted that a disposal group mainly, or entirely, consisting of financial instruments would meet the classification requirements for held for sale that are set out in IFRS 5. However, the Interpretations Committee noted that the question about the measurement of such a disposal group is another example of the IFRS 5 measurement challenges that it had considered in the September 2014 meeting. These related to the recognition of impairment loss for a disposal group. Consequently, the Interpretations Committee noted that this issue could be considered as part of those issues that it had considered in the September 2014 meeting (see agenda papers 3A and 3D for the Interpretations Committee meeting in September 2014).

With regard to Issue 2, the Interpretations Committee noted that this issue is about how to interpret the definition of 'discontinued operation' in terms of the concept of 'operating segment' in IFRS 8 *Operating Segments*. The Interpretations Committee noted that the definition of discontinued operations is an area that the IASB had attempted to revise in the former Financial Statement Presentation project, but had not resolved the issues related to this. Consequently, the Interpretations Committee noted that this issue could be considered along with the disclosure and presentation issues that it had considered in the September 2014 meeting (see agenda paper 3B for the Interpretations Committee meeting in September 2014).

The staff will bring a summary of the issues previously discussed but not resolved, including Issues 1B and 2, to a future meeting with a proposal on how to proceed with these outstanding items.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Draft Interpretation *Foreign Currency Transactions and Advance Consideration: What is the date of the transaction for the purpose of identifying the applicable exchange rate?* (Agenda Papers 2 and 2A)

The Interpretations Committee continued its discussions on the development of an Interpretation of paragraphs 21–22 of IAS 21. The proposed guidance addresses how to determine the date of the transaction for the purposes of IAS 21. The date of the transaction determines the spot exchange rate used to translate a foreign currency transaction on initial recognition of the asset, expense or income (or part of it) that follows the recognition of a non-monetary prepayment asset or a non-monetary deferred income liability. A non-monetary prepayment asset or a non-monetary deferred income liability typically arises on the payment or receipt of consideration in advance of the recognition of the related asset, expense or income. Thus, they represent an entity's right to receive goods or services, or an entity's obligation to transfer goods or services, respectively. At this meeting, the Interpretations Committee reviewed the proposed draft Interpretation in Agenda Paper 2A.

Scope of the proposed Interpretation

In respect of the scope of the proposed draft Interpretation, the Interpretations Committee tentatively decided that the draft Interpretation:

(a) should apply to both cash and non-cash consideration that is denominated or priced in a foreign currency.

(b) should not apply in circumstances in which the foreign currency amount of the non-monetary prepayment asset or the non-monetary deferred income liability is subsequently required to be remeasured for the purposes of the initial recognition of the related asset, expense or income (or part of it). Such remeasurement occurs when the related asset, expense or income is required to be initially recognised at:

   (i) its fair value; or

   (ii) the fair value of the consideration given or received, which is measured in the foreign currency at a date other than the date of initial recognition of the related prepayment asset or deferred income liability.

Interaction with IFRS 15 Revenue from Contracts with Customers

The Interpretations Committee considered the interaction of the proposed draft Interpretation with various aspects of IFRS 15. The Interpretations Committee noted that:

(a) an entity first applies IFRS 15 to its revenue transactions to determine how the transaction is recognised and measured in the financial statements and subsequently applies IAS 21 to determine the exchange rate(s) to apply when translating any foreign currency amounts into the entity's functional currency; and

(b) the proposed draft Interpretation is an interpretation of the requirements in IAS 21, not IFRS 15.

The Interpretations Committee noted that paragraphs 105–106 of IFRS 15 state that if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall account for the transaction as a contract liability when the payment is made or due (whichever is earlier). To accommodate this, the Interpretations Committee tentatively agreed that the date of the transaction for IAS 21 purposes should be the earlier of:

(a) the date of the initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability (which will generally be the date of the payment, or receipt, of the advance consideration); and

(b) the date that the related asset, expense or income (or part of it) is recognised in the financial statements.

The Interpretations Committee tentatively agreed that the proposed draft Interpretation and accompanying examples should not explicitly include guidance on the accounting for contract assets or significant financing components for foreign currency revenue transactions in accordance with IFRS 15. In addition, the Interpretations Committee tentatively agreed that Examples 2 and 4 of the proposed draft Interpretation should refer to the fact that the entity determines that the variable consideration requirements in IFRS 15 do not apply on the basis that the amount of consideration in the foreign currency is fixed.

Use of the term 'deferred income liability'

The Interpretations Committee did not object to the use of the term 'deferred income liability', but suggested that the staff consider whether a more appropriate term, which represents an obligation to transfer goods or services, could be found.

Transition

The Interpretations Committee tentatively agreed that, on initial application, an entity can either apply the draft Interpretation:

(a) retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) prospectively to the initial recognition of an asset, expense or income from, but without restating the previously reported balance sheet at:

   (i) the start of the reporting period in which the entity first applies the draft Interpretation; or

   (ii) the start of a prior reporting period for which comparative information is presented in the financial statements of the reporting period in which an entity first applies the draft Interpretation.

Next steps

The Interpretations Committee confirmed that it had addressed all relevant matters in developing the proposed draft Interpretation.

The staff will present a paper to the IASB at one of its future meetings, which will summarise the technical analysis and due process that the Interpretations Committee has undertaken to develop the proposed draft Interpretation.

The Interpretations Committee reached a general agreement that the staff should prepare the draft Interpretation for a written ballot, subject to no significant matters arising from discussions at the IASB meeting (twelve of the thirteen members of the Interpretations Committee present agreed).

Deliberation of comments received on proposals for narrow-scope amendments

IAS 12 *Income Taxes*—Exposure Draft *Recognition of deferred tax assets for unrealised losses* (Proposed amendments to IAS 12) (Agenda Paper 3)

In August 2014, the IASB published for comment the Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12). The comment period ended on 18 December 2014.

At this meeting, the Interpretations Committee was presented with a summary and an analysis of the 68 comment letters received on the Exposure Draft.

Most respondents broadly support the proposals. They think that the proposed amendments are consistent with the principles in IAS 12 and reduce the risk of diversity in practice.

However, some respondents requested further clarification or simplification of the proposed amendments. Some respondents disagreed with the proposed limited retrospective application of the amendment.

The Interpretations Committee decided to propose that the IASB should proceed with the proposed amendments, subject to some amendments to the proposed wording as follows:

(a) revise the example illustrating paragraph 26(d) to clarify that the debt instrument is measured at fair value and remove information that is superfluous to the objective of the example;

(b) delete the last two sentences of paragraph 29A and the examples in the last sentence of paragraph BC15;

(c) add a sentence in paragraph BC18 to clarify 'taxable profit excluding tax deductions' used for assessing the utilisation of deductible temporary differences;

(d) clarify what is meant by limited retrospective application in paragraph BC24; and

(e) shorten Illustrative Example 7 and amend it to be consistent with paragraph 63.

The Interpretations Committee also recommended that:

(a) the example illustrating paragraph 26(d) should be further shortened and an additional explanation about the identification of the tax base should be included in the Basis for Conclusions; and

(b) limited retrospective application should be further clarified and consideration given to the need to recycle amounts from other comprehensive income in subsequent periods.

The Interpretations Committee expressed concern about the ability of an entity to recover an asset for more than its carrying amount when it is measured at fair value and when recovery is not based on contractual cash flows. The Interpretations Committee asked the staff to include a discussion of the concern in the Basis for Conclusions.

The staff will present the Interpretations Committee's recommendations at a future IASB meeting.

Interpretations Committee tentative agenda decision

*The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to its agenda. This tentative decision, including recommended reasons for not adding the item to the Interpretations Committee's agenda, will be reconsidered at the Interpretations Committee meeting in July 2015. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to email those concerns by 2 June 2015 to **ifric@ifrs.org**. Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

IFRIC 14—*IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction*: Should an entity assume continuation of a minimum funding requirement for contributions relating to future service? (Agenda Paper 8)

The Interpretations Committee received a request to clarify whether the future minimum funding requirement for contributions to cover future service would apply for only the minimum fixed period, in the following circumstances:

(a) the contribution rate under the minimum funding arrangement is regularly renegotiated with the pension fund trustees, for example, on an annual or triennial basis;

(b) the agreed amounts of the contributions in the arrangement must then be paid for a fixed period;

(c) a pension regulation requires the Trustees to prepare funding principles for securing that the statutory funding objective is met;

(d) a pension regulation or a contractual agreement, or both, require the entity and the Trustees to renew the agreement to decide the schedule of contributions regularly under the existing funding principles, if the plan is continued;

(e) this agreement does not need to be renewed if the plan is wound up;

(f) the entity can decide to wind up or close a plan for future accruals, if it agrees with the Trustees; and

(g) neither a plan wind-up nor a plan closure for future accruals has been decided at the end of the reporting period.

The issue could affect the amount of the net defined benefit asset to be recognised in the entity's statement of financial position.

The Interpretations Committee noted that an entity's minimum funding requirements at a given date can be analysed into the contributions that are required to cover:

(a) an existing shortfall for past service on the minimum funding basis; and

(b) future service as explained in paragraph BC25 of IFRIC 14.

This issue is related to the minimum funding requirement for contributions to cover future service.

The Interpretations Committee also noted that the level of the contributions will be subject to future negotiations, although the entity must continue to make contributions for future service under the existing funding principles, if the plan continues after the minimum period.

When the entity estimates the future minimum funding requirement contributions in the circumstances described, the Interpretations Committee noted that the entity should assume a continuation of the existing funding principles for future service, because:

(a) for any factors not specified by the minimum funding basis (for example, the period to continue the plan is not specified by the existing funding principles), the assumptions for determining future service costs and those used to estimate the future minimum funding requirement contributions for future service must be consistent. This is because paragraphs 17 and 21 of IFRIC 14 require an entity to use assumptions that are consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period.

(b) the estimate should not include changes to the funding principles to determine contributions for future service, if such changes require future negotiations with the Trustees, in accordance with paragraphs 21 and BC30 of IFRIC 14.

On the basis of this analysis, the Interpretations Committee 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 and therefore [decided] not to add this issue to its agenda.

Interpretations Committee work in progress

IFRS 10 *Consolidated Financial Statements*—Single-asset, single lessee lease vehicles and the assessment of control—control of a structured entity involving an operating lease and control of a structured entity by a junior lender (Agenda Papers 5 and 5A)

The Interpretations Committee discussed two tentative agenda decisions recorded at its November 2014 meeting. In each submission, a structured entity (the 'SE') had been created to lease a single asset to a single lessee. In one submission the lease is an operating lease; in the other it is a finance lease. The submitter whose example related to an operating lease asked whether the lessee should consolidate the SE; the submitter of the finance lease example asked whether the junior lender should consolidate the SE. In both cases that decision would be based on an assessment of which entity has power over the relevant activities of the SE. In particular, the submitters asked whether the lessee's use of the leased asset is a relevant activity of the SE.

In November 2014, the Interpretations Committee tentatively decided not to add this topic to the agenda. In its meeting on 24 March 2015, the Interpretations Committee discussed the comment letters received on the two tentative agenda decisions.

The Interpretations Committee noted that two of the comment letters received on the tentative agenda decisions had highlighted concerns about diversity in practice on this issue. Some members of the Interpretations Committee suggested that it would be helpful to expand the wording of the tentative agenda decisions to include some of the discussion included in paragraph 15 of Agenda Paper 5 about the assessment required in such circumstances when making conclusions about control.

Accordingly, the Interpretations Committee asked the staff to bring a revised tentative agenda decision for discussion and public re-exposure to a future meeting.

Interpretations Committee work in progress update (Agenda Paper 10)

The Interpretations Committee received a report about ongoing issues that were not discussed at this meeting.

Interpretations Committee agenda decisions

The following explanations are published for information only and do not change existing IFRS requirements. Interpretations Committee agenda decisions are not IFRIC Interpretations. IFRIC Interpretations are determined only after extensive deliberations and due process, including a formal vote, and become final only when approved by the IASB.

IFRS 11 *Joint Arrangements*—Classification of joint arrangements: the assessment of 'other facts and circumstances'

In May 2014, the Interpretations Committee published an agenda decision in the IFRIC *Update* with regard to an issue of how an assessment of 'other facts and circumstances' as noted in paragraph 17 of IFRS 11 should be performed.

The Interpretations Committee considered whether the assessment of other facts and circumstances should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities, or whether that assessment should also consider the design and purpose of the joint arrangement, the entity's business needs and the entity's past practices.

The Interpretations Committee noted that paragraph 14 of IFRS 11 requires the classification of a joint arrangement as a joint operation or a joint venture to depend on each party's rights to the assets and obligations for the liabilities of the joint arrangement, and that the rights and obligations are enforceable.

The Interpretations Committee also noted that paragraph B30 of IFRS 11 explains that the assessment of other facts and circumstances would lead to the joint arrangement being classified as a joint operation when those other facts and circumstances give each party both rights to the assets, and obligations for the liabilities, relating to the arrangement.

Consequently, the Interpretations Committee noted that the assessment of other facts and circumstances should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities.

The Interpretations Committee also discussed how and why particular facts and circumstances create rights to the assets and obligations for the liabilities. This discussion is described in the following paragraphs.

How and why particular facts and circumstances create rights and obligations

The Interpretations Committee discussed how and why particular facts and circumstances create rights and obligations that result in the joint arrangement being classified as a joint operation, when the joint arrangement is structured through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right.

The Interpretations Committee noted that the assessment of other facts and circumstances is performed when there is no contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle through which the arrangement has been structured. The assessment of other facts and circumstances thus focuses on whether the other facts and circumstances establish, for each party to the joint arrangement, rights to the assets and obligations for the liabilities relating to the joint arrangement.

The Interpretations Committee, referring to paragraphs B31–B32 of IFRS 11, observed that parties to the joint arrangement have rights to the assets of the joint arrangement through other facts and circumstances when they:

(a) have rights to substantially all of the economic benefits (for example, ‘output’) of assets of the arrangement; and

(b) have obligations to acquire those economic benefits and thus assume the risks relating to those economic benefits (for example, the risks relating to the output).

The Interpretations Committee, referring to paragraphs B14 and B32–B33 of IFRS 11, also observed that parties to the joint arrangement have obligations for liabilities of the joint arrangement through other facts and circumstances when:

(a) as a consequence of their rights to, and obligations for, the assets of the joint arrangement, they provide cash flows that are used to settle liabilities of the joint arrangement; and

(b) settlement of the liabilities of the joint arrangement occurs on a continuous basis.

On the basis of these observations, the Interpretations Committee noted that when each party to a joint arrangement meets the criteria and therefore has both rights to the assets of the joint arrangement and obligations for the liabilities of the joint arrangement through other facts and circumstances, a joint arrangement structured through a separate vehicle is a joint operation.

Consequently, the Interpretations Committee observed that, in order to classify the joint arrangement as a joint operation as a result of assessing other facts and circumstances, it is necessary to demonstrate that:

(a) each party to the joint arrangement has rights and obligations relating to economic benefits of the assets of the arrangement; and

(b) each party is obliged to provide cash to the arrangement through enforceable obligations, which is used to settle the liabilities of the joint arrangement on a continuous basis.

Implication of ‘economic substance’

Some members of the Interpretations Committee observed that the concept of ‘economic substance’ may not be consistently understood or applied in practice with regard to the assessment of other facts and circumstances.

The Interpretations Committee confirmed that the assessment of other facts and circumstances should focus on whether each party to the joint arrangement has rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Consequently, the Interpretations Committee, by referring to paragraph BC43 of IFRS 11, noted that the consideration of other facts and circumstances is not a test of whether each party to the joint arrangement is closely or fully involved with the operation of the separate vehicle, but is instead a test of whether other facts and circumstances override the rights and obligations conferred upon the party by the legal form of the separate vehicle.

On the basis of this analysis, the Interpretations Committee determined that the assessment of other facts and circumstances should be undertaken with a view towards whether those facts and circumstances create enforceable rights to assets and obligations for liabilities. That assessment is made in the light of the existing IFRS requirements. Accordingly, the Interpretations Committee concluded that sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

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

IFRS 11 *Joint Arrangements*—Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns

The Interpretations Committee discussed how 'other facts and circumstances' should be applied to some specific fact patterns. It identified four different cases and considered how particular features of those fact patterns would affect the classification of the joint arrangement when assessing other facts and circumstances. The observations from the discussions are as follows.

Output sold at a market price

The Interpretations Committee discussed whether the fact that the output from the joint arrangement is sold to the parties of the joint arrangement at a market price prevents the joint arrangement from being classified as a joint operation, when assessing other facts and circumstances.

The Interpretations Committee observed that the sale of output from the joint arrangement to the parties at market price, on its own, is not a determinative factor for the classification of the joint arrangement. It noted that the parties would need to consider, among other things, whether the cash flows provided to the joint arrangement through the parties' purchase of the output from the joint arrangement at market price, along with any other funding that the parties are obliged to provide, would be sufficient to enable the joint arrangement to settle its liabilities on a continuous basis.

Accordingly, the Interpretations Committee noted that exercising judgement is needed in this situation in order to determine whether the arrangement is a joint operation based on other facts and circumstances.

Financing from a third party

The Interpretations Committee discussed whether financing from a third party prevents a joint arrangement from being classified as a joint operation.

The Interpretations Committee noted that if the cash flows to the joint arrangement from the sale of output to the parties, along with any other funding that the parties are obliged to provide, satisfy the joint arrangement's liabilities, then third-party financing alone would not affect the classification of the joint arrangement, irrespective of whether the financing occurs at inception or during the course of the joint arrangement's operations. The Interpretations Committee noted that in this situation, the joint arrangement will, or may, settle some of its liabilities using cash flows from third-party financing, but the resulting obligation to the third-party finance provider will, in due course, be settled using cash flows that the parties are obliged to provide.

Nature of output (ie fungible or bespoke output)

The Interpretations Committee discussed whether the nature of the output (ie fungible or bespoke output) produced by the joint arrangement determines the classification of a joint arrangement when assessing other facts and circumstances.

The Interpretations Committee noted that whether the output that is produced by the joint arrangement and purchased by the parties is fungible or bespoke is not a determinative factor for the classification of the joint arrangement. It also noted that the focus of 'obligation for the liabilities' in IFRS 11 is on the existence of cash flows flowing from the parties to satisfy the joint arrangement's liabilities as a consequence of the parties' rights to, and obligations for, the assets of the joint arrangement, regardless of the nature of the product (ie fungible or bespoke output).

Determining the basis for 'substantially all of the output'

The Interpretations Committee discussed whether volumes or monetary values of output should be the basis for determining whether the parties to the joint arrangement are taking 'substantially all of the output' from the joint arrangement when assessing other facts and circumstances.

The Interpretations Committee, referring to paragraphs B31–B32 of IFRS 11, observed that parties to the joint arrangement have rights to the assets of the joint arrangement through other facts and circumstances when they:

(a) have rights to substantially all of the economic benefits (for example, 'output') of the assets of the arrangement; and

(b) have obligations to acquire those economic benefits and thus assume the risks relating to those economic benefits (for example, the risks relating to the output).

The Interpretations Committee also noted from paragraphs B31–B32 of IFRS 11 that in order to meet the criteria for classifying the joint arrangement as a joint operation through the assessment of other facts and circumstances:

(a) the parties to the joint arrangement should have rights to substantially all the economic benefits of the assets of the joint arrangement; and

(b) the joint arrangement should be able to settle its liabilities from the 'cash flows' received as a consequence of the parties' rights to and obligations for the assets of the joint arrangement, along with any other funding that the parties are obliged to provide.

The Interpretations Committee therefore noted that the economic benefits of the assets of the joint arrangement would relate to the cash flows arising from the parties' rights to, and obligations for, the assets. Consequently, it noted that the assessment is based on the monetary value of the output, instead of physical quantities.

On the basis of this analysis, the Interpretations Committee 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 Interpretations Committee decided not to add these issues to its agenda.

IFRS 11 *Joint Arrangements*—Classification of joint arrangements: consideration of two joint arrangements with similar features that are classified differently

The Interpretations Committee discussed a circumstance in which two joint arrangements would be classified differently when they have similar features, apart from the fact that one is structured through a separate vehicle and the other is not (in circumstances in which the legal form confers separation between the parties and the separate vehicle). Two such joint arrangements could be classified differently because:

(a) the legal form of a joint arrangement structured through a separate vehicle must be overridden by other contractual arrangements or specific other facts and circumstances for the joint arrangement to be classified as a joint operation; but

(b) a joint arrangement that is not structured through a separate vehicle is classified as a joint operation.

The Interpretations Committee noted that IFRS 11 could lead to two joint arrangements being classified differently if one is structured through a separate vehicle and the other is not, but in other respects they have apparently similar features. This is because the legal form of the separate vehicle could affect the rights and obligations of the parties to the joint arrangement. The Interpretations Committee noted that the legal form of the separate vehicle is relevant in assessing the type of joint arrangement, as noted, for example, in paragraphs B22 and BC43 of IFRS 11.

The Interpretations Committee thought that such different accounting would not conflict with the concept of economic substance. This is because, according to the approach adopted in IFRS 11, the concept of economic substance means that the classification of the joint arrangement should reflect the rights and obligations of the parties to the joint arrangement and the presence of a separate vehicle plays a significant role in determining the nature of those rights and obligations.

The Interpretations Committee noted that the requirements of IFRS 11 provide the principles necessary for determining the classification of joint arrangements, including assessing the impact of a separate vehicle. The assessment of the classification would depend on specific contractual terms and conditions and requires a full analysis of features involving the joint arrangement.

On the basis of this analysis, the Interpretations Committee 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 Interpretations Committee decided not to add this issue to its agenda.

IFRS 11 *Joint Arrangements*—Accounting by the joint operator: recognition of revenue by a joint operator

The Interpretations Committee discussed whether a joint operator should recognise revenue in relation to the output purchased from the joint operation by the parties. This issue relates to the application of paragraph 20(d) of IFRS 11, which requires a joint operator to recognise its share of the revenue from the sale of the output by the joint operation.

Examining paragraph 20(d) of IFRS 11, the Interpretations Committee noted that if the joint arrangement is structured through a separate vehicle and the assessment of other facts and circumstances results in the joint arrangement being classified as a joint operation, in circumstances in which the parties take all the output of the joint arrangement in proportion to their rights to the output, the application of paragraph 20(d) of IFRS 11 would not result in the recognition of revenue by the parties. This is because, if the joint operators purchase all the output from the joint operation in proportion to their rights to the output, they would recognise 'their revenue' only when they sell the output to third parties.

In other words, the joint operators would not recognise any amount in relation to the 'share of the revenue from the sale of the output by the joint operation'. This is because a joint operator that has an obligation to purchase the output from the joint operation has rights to the assets of the joint operation. Accordingly, the sale of the output by the joint operation to the joint operator would mean selling output to itself and, therefore, the joint operator would not recognise a share of the revenue from the sale of that output by the joint operation.

Consequently, paragraph 20(d) of IFRS 11 would result in the recognition of revenue by a joint operator only when the joint operation sells its output to third parties. For this purpose, third parties do not include other parties who have rights to the assets and obligations for the liabilities relating to the joint operation.

On the basis of this analysis, the Interpretations Committee 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 Interpretations Committee decided not to add this issue to its agenda.

IFRS 11 *Joint Arrangements*—Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation

The Interpretations Committee discussed the accounting in the circumstance in which the joint operator's share of the output purchased differs from its share of ownership interest in the joint operation.

For the purposes of this discussion, the Interpretations Committee considered a fact pattern in which the joint arrangement is structured through a separate vehicle and for which the parties to the joint arrangement have committed themselves to purchase substantially all of the output produced at a price designed to achieve a break-even result. In this fact pattern, the parties to the joint arrangement would be considered to have rights to the assets and obligations for the liabilities. Such a joint arrangement is presented in Example 5 of the application guidance to IFRS 11 and is classified as a joint operation. A variation of such a fact pattern could (and does) arise in circumstances in which the parties' percentage ownership interest in the separate vehicle differs from the percentage share of the output produced, which each party is obliged to purchase.

The Interpretations Committee, referring to paragraph 20 of IFRS 11, noted that the joint operators of such a joint operation would account for their assets, liabilities, revenues and expenses in accordance with the shares specified in the contractual arrangement. However, when an assessment of other facts and circumstances has concluded that the joint arrangement is a joint operation, and the joint arrangement agreement does not specify the allocation of assets, liabilities, revenues or expenses, the question arises about what share of assets, liabilities, revenue and expenses each joint operator should recognise. Specifically, should the share of assets, liabilities, revenue and expenses recognised reflect the percentage of ownership of the legal entity, or should it reflect the percentage of output purchased by each joint operator?

The Interpretations Committee noted that there could be many different scenarios in which the joint operator's share of the output purchased differs from its share of ownership interest in the joint operation: for example, when the share of output purchased by each party varies over the life of the joint arrangement. A key issue that arises in this situation is over what time horizon should the share of output be considered.

The Interpretations Committee also noted that if the joint operators made a substantial investment in the joint operation that differed from their ownership interest, there may be other elements of the arrangements that could explain why there is a difference between the percentage of ownership interest and the percentage share of the output produced, which each party is obliged to purchase. It noted that the identification of the other elements may provide relevant information to determine how to account for the difference between the two.

Consequently, the Interpretations Committee noted that it is important to understand why the share of the output purchased differs from the ownership interests in the joint operation. Judgement will therefore be needed to determine the appropriate accounting.

The Interpretations Committee noted that notwithstanding these observations, there remained concerns about the sufficiency of the guidance in IFRS 11 on the accounting by a joint operator in the circumstances described. The Interpretations Committee noted that to develop additional guidance for this issue would require a broader analysis than could be achieved by the Interpretations Committee.

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

IFRS 11 *Joint Arrangements*—Accounting in separate financial statements: accounting by the joint operator in its separate financial statements

The Interpretations Committee discussed the issue of the accounting by a joint operator in its separate financial statements for its share of assets and liabilities of a joint operation when that joint operation is structured through a separate vehicle. The Interpretations Committee noted that IFRS 11 requires the joint operator to account for its rights and obligations in relation to the joint operation. It also noted that those rights and obligations, in respect of that interest, are the same regardless of whether separate or consolidated financial statements are prepared, by referring to paragraph 26 of IFRS 11. Consequently, the same accounting is required in the consolidated financial statements and in the separate financial statements of the joint operator.

The Interpretations Committee also noted that IFRS 11 requires the joint operator to account for its rights and obligations, which are its share of the assets held by the entity and its share of the liabilities incurred by it. Accordingly, the Interpretations Committee observed that the joint operator would not additionally account in its separate or consolidated financial statements its shareholding in the separate vehicle, whether at cost in accordance with IAS 27 *Separate Financial Statements* or at fair value in accordance with IFRS 9 *Financial Instruments*.

On the basis of this analysis, the Interpretations Committee 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 Interpretations Committee decided not to add this issue to its agenda.

IFRS 11 *Joint Arrangements*—Accounting by the joint operation: accounting by the joint operation that is a separate vehicle in its financial statements

The Interpretations Committee discussed the issue of the accounting by a joint operation that is a separate vehicle in its financial statements. The recognition by joint operators in both consolidated and separate financial statements of their share of assets and liabilities held by the joint operation leads to the question of whether those same assets and liabilities should also be recognised in the financial statements of the joint operation itself.

The Interpretations Committee noted that IFRS 11 applies only to the accounting by the joint operators and not to the accounting by the separate vehicle that is a joint operation. The financial statements of the separate vehicle would therefore be prepared in accordance with applicable Standards.

Company law often requires a legal entity/separate vehicle to prepare financial statements. Consequently, the reporting entity for the financial statements would include the assets, liabilities, revenues and expenses of that legal entity/separate vehicle.

However, when identifying the assets and liabilities of the separate vehicle, it is necessary to understand the joint operators' rights and obligations relating to those assets and liabilities and how those rights and obligations affect those assets and liabilities.

On the basis of this analysis, the Interpretations Committee 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 Interpretations Committee decided not to add this issue to its agenda.

IAS 12 *Income Taxes*—Selection of applicable tax rate for the measurement of deferred tax relating to an investment in an associate

The Interpretations Committee received a request to clarify the selection of the applicable tax rate for the measurement of deferred tax relating to an investment in an associate in a multi-tax rate jurisdiction. The submitter asked how the tax rate should be selected when local tax legislation prescribes different tax rates for different manners of recovery (for example, dividends, sale, liquidation, etc). The submitter described a situation in which the carrying amount of an investment in an associate could be recovered by:

(a) receiving dividends (or other distribution of profit);

(b) sale to a third party; or

(c) receiving residual assets upon liquidation of the associate.

The submitter stated that an investor normally considers all of these variants of recovery. One part of the temporary difference will be received as dividends during the holding period, and another part will be recovered upon sale or liquidation.

The Interpretations Committee noted that paragraph 51A of IAS 12 states that an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. Accordingly, the tax rate should reflect the expected manner of recovery or settlement. If one part of the temporary difference is expected to be received as dividends, and another part is expected to be recovered upon sale or liquidation (for example, an investor has a plan to sell the investment later and expects to receive dividends until the sale of the investment), different tax rates would be applied to the parts of the temporary difference in order to be consistent with the expected manner of recovery.

The Interpretations Committee observed that it had received no evidence of diversity in the application of IAS 12 and that the Standard contains sufficient guidance to address the matters raised. Accordingly, the Interpretations Committee thought that neither an Interpretation of nor an amendment to IAS 12 was necessary.

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

IAS 19 *Employee Benefits*—Should longevity swaps held under a defined benefit plan be measured as a plan asset at fair value or on another basis as a ‘qualifying insurance policy’?

The Interpretations Committee received a request to clarify the measurement of longevity swaps held under an entity’s defined benefit pension plan.

The submitter raised a question about whether an entity should:

(a) account for a longevity swap as a single instrument and measure its fair value as part of plan assets in accordance with paragraphs 8 and 113 of IAS 19 and IFRS 13 *Fair Value Measurement*, with changes in fair value being recorded in other comprehensive income; or

(b) split a longevity swap into two components and use another basis of measurement for a qualifying insurance policy for one of the components, applying paragraph 115 of IAS 19.

The submitter also raised questions about presentation if the measurement in criterion (b) were to be used. The outreach did not provide evidence that the use of longevity swaps is widespread. The Interpretations Committee understands that when such transactions take place, the predominant practice is to account for a longevity swap as a single instrument, and measure it at fair value as part of plan assets, by applying paragraphs 8 and 113 of IAS 19 and IFRS 13.

On the basis of this analysis, the Interpretations Committee concluded that it did not expect diversity to develop in the application of IAS 19 and it therefore decided not to add this issue to its agenda.

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ISSN 1477-206X