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Introduction

Compilation of Agenda Decisions—Volume 1 compiles all agenda decisions published by the IFRS Interpretations Committee (Committee) in the period January to September 2019. The Committee publishes an agenda decision to explain why it does not recommend standard-setting in response to a particular application question. For ease of reference, the agenda decisions are sorted by IFRS Standard.

How the Committee supports consistency in application of IFRS Standards

The Committee works with the International Accounting Standards Board (Board) in supporting consistency in application of IFRS® Standards.

The Committee's process

Committee projects typically begin as an application question. The process is designed to:

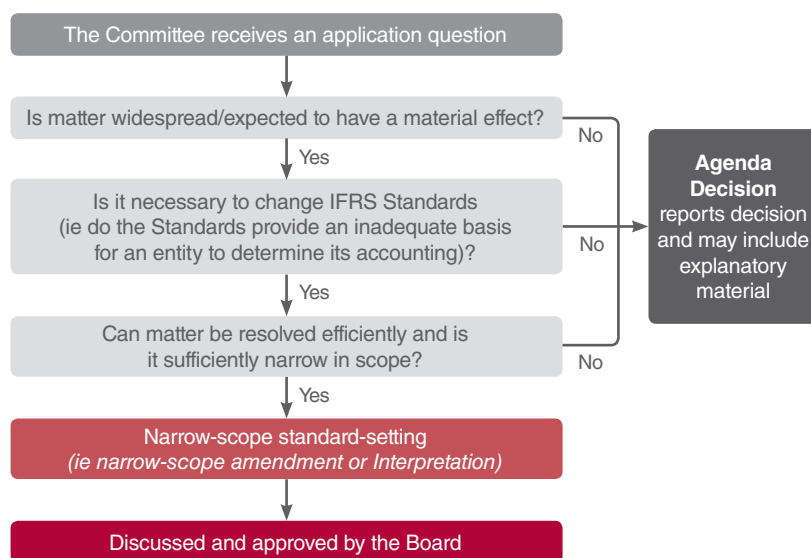
- allow any stakeholder to submit a matter for consideration; and
- be transparent—all eligible application questions are considered at a public meeting.

The Committee then decides whether to recommend standard-setting to address the application question. The Committee may decide not to do so if it concludes that standard-setting would be:

- unnecessary—typically because, in the Committee's view, IFRS Standards provide an adequate basis for an entity to determine its accounting or because there is no evidence that a widespread financial reporting problem exists; or
- not sufficiently narrow in scope—the question could be resolved only as part of a larger Board project (not a narrow-scope project).

To explain why it did not recommend standard-setting, the Committee publishes an agenda decision to report its decision, which may include explanatory material.

The following diagram summarises the criteria the Committee considers when deciding whether to recommend standard-setting:



Explanatory material in an agenda decision

Agenda decisions often include information to help entities applying IFRS Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the application question described in the agenda decision. The objective of including explanatory material in an agenda decision is to improve consistency in application of the Standards.

Agenda decisions are subject to due process. They are open for comment for 60 days and, before finalising, the Committee considers comments received.

Please visit the project pages on our website if you would like more information about the agenda decisions included in this compilation.

Agenda decisions published by the Committee are available on the 'how the IFRS Interpretations Committee helps implementation' page.

Narrow-scope standard-setting

Some questions result in narrow-scope standard-setting that follows the applicable due process. The Committee may decide to:

- develop an IFRIC Interpretation of a Standard—this adds to the requirements in a Standard without changing the Standard itself; or
- recommend a narrow-scope amendment to a Standard.

Narrow-scope standard-setting projects recommended by the Committee and approved by the Board are added to the Board's work plan as maintenance projects.

IFRS 9 *Financial Instruments*

Credit Enhancement in the Measurement of Expected Credit Losses (IFRS 9)

March 2019

The Committee received a request about the effect of a credit enhancement on the measurement of expected credit losses when applying the impairment requirements in IFRS 9. The request asked whether the cash flows expected from a financial guarantee contract or any other credit enhancement can be included in the measurement of expected credit losses if the credit enhancement is required to be recognised separately applying IFRS Standards.

For the purposes of measuring expected credit losses, paragraph B5.5.55 of IFRS 9 requires the estimate of expected cash shortfalls to ‘reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the entity.’

Accordingly, the Committee observed that the cash flows expected from a credit enhancement are included in the measurement of expected credit losses if the credit enhancement is both:

- a. part of the contractual terms; and
- b. not recognised separately by the entity.

The Committee concluded that, if a credit enhancement is required to be recognised separately by IFRS Standards, an entity cannot include the cash flows expected from it in the measurement of expected credit losses. An entity applies the applicable IFRS Standard to determine whether it is required to recognise a credit enhancement separately. Paragraph B5.5.55 of IFRS 9 does not provide an exemption from applying the separate recognition requirements in IFRS 9 or other IFRS Standards.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to determine whether to include the cash flows expected from a credit enhancement in the measurement of expected credit losses in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Curing of a Credit-impaired Financial Asset (IFRS 9)

March 2019

The Committee received a request about how an entity presents amounts recognised in the statement of profit or loss when a credit-impaired financial asset is subsequently cured (ie paid in full or no longer credit-impaired).

When a financial asset becomes credit-impaired, paragraph 5.4.1(b) of IFRS 9 requires an entity to calculate interest revenue by applying the 'effective interest rate to the amortised cost of the financial asset'. This results in a difference between (a) the interest that would be calculated by applying the effective interest rate to the gross carrying amount of the credit-impaired financial asset; and (b) the interest revenue recognised for that asset. The request asked whether, following the curing of the financial asset, an entity can present this difference as interest revenue or, instead, is required to present it as a reversal of impairment losses.

Appendix A to IFRS 9 defines a credit loss as 'the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate...'. Appendix A also defines the gross carrying amount as 'the amortised cost of a financial asset, before adjusting for any loss allowance.' The Committee noted that, based on the definitions in Appendix A to IFRS 9, the gross carrying amount, amortised cost and loss allowance are discounted amounts, and changes in these amounts during a reporting period include the effect of the unwinding of the discount.

Paragraph 5.5.8 of IFRS 9 requires an entity to 'recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.'

The Committee observed that, applying paragraph 5.5.8 of IFRS 9, an entity recognises in profit or loss as a reversal of expected credit losses the adjustment required to bring the loss allowance to the amount that is required to be recognised in accordance with IFRS 9 (zero if the asset is paid in full). The amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired, which means the reversal of impairment losses may exceed the impairment losses recognised in profit or loss over the life of the asset.

The Committee also observed that paragraph 5.4.1 specifies how an entity calculates interest revenue using the effective interest method. Applying paragraph 5.4.1(b), an entity calculates interest revenue on a credit-impaired financial asset by applying the effective interest rate to the amortised cost of the financial asset, and thus interest revenue on such a financial asset does not include the difference described in the request.

Accordingly, the Committee concluded that, in the statement of profit or loss, an entity is required to present the difference described in the request as a reversal of impairment losses following the curing of a credit-impaired financial asset.

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The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to recognise and present the reversal of expected credit losses following the curing of a credit-impaired financial asset in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Educational Material

Educational material relating to the Committee's conclusion in this agenda decision is available on the IFRS 9 supporting materials page.

Physical Settlement of Contracts to Buy or Sell a Non-financial Item (IFRS 9)

March 2019

The Committee received a request about how an entity applies IFRS 9 to particular contracts to buy or sell a non-financial item in the future at a fixed price. The request describes two fact patterns in which an entity accounts for such contracts as derivatives at fair value through profit or loss (FVPL) but nonetheless physically settles the contracts by either delivering or taking delivery of the underlying non-financial item.

IFRS 9 must be applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if those contracts were financial instruments, with one exception. That exception applies to contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ('own use scope exception' in paragraph 2.4 of IFRS 9).

In the fact patterns described in the request, the entity concludes that the contracts are within the scope of IFRS 9 because they do not meet the own use scope exception. Consequently, the entity accounts for the contracts as derivatives measured at FVPL. The entity does not designate the contracts as part of a hedging relationship for accounting purposes.

At the settlement date, the entity physically settles the contracts by either delivering or taking delivery of the non-financial item. In accounting for that settlement, the request explains that the entity records the cash paid (in the case of the purchase contract) or received (in the case of the sale contract) and derecognises the derivative.

In addition, the entity:

- a. recognises inventory for the non-financial item at the amount of the cash paid plus the fair value of the derivative on the settlement date (in the case of the purchase contract); or
- b. recognises revenue for the sale of the non-financial item at the amount of the cash received plus the fair value of the derivative on the settlement date (in the case of the sale contract). The request assumes the entity has an accounting policy of recognising revenue on a gross basis for such contracts.

The request asked whether, in accounting for the physical settlement of these contracts, the entity is permitted or required to make an additional journal entry that would:

- a. reverse the accumulated gain or loss previously recognised in profit or loss on the derivative (even though the fair value of the derivative is unchanged); and
- b. recognise a corresponding adjustment to either revenue (in the case of the sale contract) or inventory (in the case of the purchase contract).

The Committee observed that, in the fact patterns described in the request, the contracts are settled by the receipt (or delivery) of a non-financial item in exchange for both cash and the settlement of the derivative asset or liability. The Committee also observed that the accounting for contracts that do not meet the own use scope exception in IFRS 9 (and are accounted for as a derivative) is different from the accounting for contracts that meet that exception (and are not accounted for as a derivative). Similarly, the accounting for

contracts designated in a hedging relationship for accounting purposes is different from the accounting for contracts that are not designated in such relationships. Those differences in accounting reflect differences in the respective requirements. IFRS 9 neither permits nor requires an entity to reassess or change its accounting for a derivative contract because that contract is ultimately physically settled.

The additional journal entry described in the request would effectively negate the requirement in IFRS 9 to account for the contract as a derivative because it would reverse the accumulated fair value gain or loss on the derivative without any basis to do so. The additional journal entry would also result in the recognition of income or expenses on the derivative that do not exist.

Consequently, the Committee concluded that IFRS 9 neither permits nor requires an entity to make the additional journal entry described in the request. However, the Committee observed that an entity is required to present gains and losses on the derivative, and disclose information about those amounts, applying applicable IFRS Standards, such as IAS 1 *Presentation of Financial Statements* and IFRS 7 *Financial Instruments: Disclosures*. In determining what line items to present in profit or loss, the requirements in IAS 1 (including those related to aggregation) are applicable. IAS 1 does not specify requirements for the presentation of amounts related to the remeasurement of derivatives. However paragraph 20(a)(i) of IFRS 7 specifies disclosure requirements for net gains or net losses on financial assets or financial liabilities that are mandatorily measured at FVPL applying IFRS 9. For these purposes, in the fact patterns described in the request, there is no gain or loss on the derivative caused by settlement.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to conclude on whether it is permitted or required to make the additional journal entry described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9)

September 2019

The Committee received two requests about fair value hedge accounting applying IFRS 9. Both requests asked whether foreign currency risk can be a separately identifiable and reliably measurable risk component of a non-financial asset held for consumption that an entity can designate as the hedged item in a fair value hedge accounting relationship.

Hedge accounting requirements in IFRS 9

The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or, in some cases, other comprehensive income) (paragraph 6.1.1 of IFRS 9).

If all the qualifying criteria specified in IFRS 9 are met, an entity may choose to designate a hedging relationship between a hedging instrument and a hedged item. One type of hedge accounting relationship is a fair value hedge, in which an entity hedges the exposure to changes in fair value of a hedged item that is attributable to a particular risk and could affect profit or loss.

An entity may designate an item in its entirety, or a component of an item, as a hedged item. A risk component may be designated as the hedged item if, based on an assessment within the context of the particular market structure, that risk component is separately identifiable and reliably measurable.

In considering the request, the Committee assessed the following:

Can an entity have exposure to foreign currency risk on a non-financial asset held for consumption that could affect profit or loss?

Paragraph 6.5.2(a) of IFRS 9 describes a fair value hedge as 'a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss'.

Therefore, in the context of a fair value hedge, foreign currency risk arises when changes in exchange rates result in changes in the fair value of the underlying item that could affect profit or loss.

Depending on the particular facts and circumstances, a non-financial asset might be priced—and its fair value determined—only in one currency at a global level and that currency is not the entity's functional currency. If the fair value of a non-financial asset is determined in a foreign currency, applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the measure of fair value that could affect profit or loss is the fair value translated into an entity's functional currency (translated fair value). The translated fair value of such a non-financial asset would change as a result of changes in the applicable exchange rate in a given period, even if the fair value (determined in the foreign currency) were to remain constant. The Committee therefore observed that in such circumstances an entity is exposed to foreign currency risk.

IFRS 9 does not require changes in fair value to be expected to affect profit or loss but, rather, that those changes could affect profit or loss. The Committee observed that changes in fair value of a non-financial asset held for consumption could affect profit or loss if, for example, the entity were to sell the asset before the end of the asset's economic life.

Consequently, the Committee concluded that, depending on the particular facts and circumstances, it is possible for an entity to have exposure to foreign currency risk on a non-financial asset held for consumption that could affect profit or loss. This would be the case when, at a global level, the fair value of a non-financial asset is determined only in one currency and that currency is not the entity's functional currency.

If an entity has exposure to foreign currency risk on a non-financial asset, is it a separately identifiable and reliably measurable risk component?

Paragraph 6.3.7 of IFRS 9 permits an entity to designate a risk component of an item as the hedged item if, 'based on an assessment within the context of the particular market structure, the risk component is separately identifiable and reliably measurable'.

Paragraph 82 of IAS 39 *Financial Instruments: Recognition and Measurement* permits the designation of non-financial items as hedged items only for a) foreign currency risks, or b) in their entirety for all risks, 'because of the difficulty of isolating and measuring the appropriate portion of the cash flows or fair value changes attributable to specific risks other than foreign currency risks'. Paragraph BC6.176 of IFRS 9 indicates that, in developing the hedge accounting requirements in IFRS 9, the Board did not change its view that there are situations in which foreign currency risk can be separately identified and reliably measured. That paragraph states that the Board 'learned from its outreach activities that there are circumstances in which entities are able to identify and measure many risk components (not only foreign currency risk) of non-financial items with sufficient reliability'.

Consequently, the Committee concluded that foreign currency risk can be a separately identifiable and reliably measurable risk component of a non-financial asset. Whether that is the case will depend on an assessment of the particular facts and circumstances within the context of the particular market structure.

The Committee observed that foreign currency risk is separately identifiable and reliably measurable when the risk being hedged relates to changes in fair value arising from translation into an entity's functional currency of fair value that, based on an assessment within the context of the particular market structure, is determined globally only in one currency and that currency is not the entity's functional currency. The Committee noted, however, that the fact that market transactions are commonly settled in a particular currency does not necessarily mean that this is the currency in which the non-financial asset is priced – and thus the currency in which its fair value is determined.

Can the designation of foreign currency risk on a non-financial asset held for consumption be consistent with an entity's risk management activities?

Paragraph 6.4.1(b) of IFRS 9 requires that, at the inception of a hedging relationship, 'there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge'. Accordingly, the Committee observed that, applying IFRS 9, an entity can apply hedge accounting only if it is consistent with the entity's risk management objective and strategy for managing

its exposure. An entity therefore cannot apply hedge accounting solely on the grounds that it identifies items in its statement of financial position that are measured differently but are subject to the same type of risk.

To the extent that an entity intends to consume a non-financial asset (rather than to sell it), the Committee observed that changes in the fair value of the non-financial asset may be of limited significance to the entity. In such cases, an entity is unlikely to be managing and using hedging instruments to hedge risk exposures on the non-financial asset and, in that case, it cannot apply hedge accounting.

The Committee expects that an entity would manage and hedge exposure to foreign currency risk on the fair value of non-financial assets held for consumption only in very limited circumstances—in such circumstances, an entity would use hedging instruments to hedge only foreign currency risk exposure that it expects will affect profit or loss. This may be the case, for example, if (a) the entity expects to sell the non-financial asset (eg an item of property, plant and equipment) part-way through its economic life; (b) the expected residual value of the asset at the date of expected sale is significant; and (c) the entity manages and uses hedging instruments to hedge the foreign currency risk exposure only on the residual value of the asset.

Furthermore, the Committee observed that risk management activities that aim only to reduce foreign exchange volatility arising from translating a financial liability denominated in a foreign currency applying IAS 21 are inconsistent with the designation of foreign exchange risk on a non-financial asset as the hedged item in a fair value hedge accounting relationship. In such circumstances, the entity is managing the foreign currency risk exposure arising on the financial liability, rather than managing the risk exposure arising on the non-financial asset.

Other considerations

An entity applies all other applicable requirements in IFRS 9 in determining whether it can apply fair value hedge accounting in its particular circumstances, including requirements related to the designation of the hedged item and hedging instrument, and hedge effectiveness. For example, an entity would consider how its hedge accounting designation addresses any differences in the size, depreciation/amortisation pattern and expected sale/maturity of the hedged item and the hedging instrument.

For any risk exposure for which an entity elects to apply hedge accounting, the entity also makes the disclosures required by IFRS 7 *Financial Instruments: Disclosures* related to hedge accounting. The Committee noted, in particular, that paragraphs 22A–22C of IFRS 7 require the disclosure of information about an entity's risk management strategy and how it is applied to manage risk.

The Committee concluded that the principles and requirements in IFRS 9 provide an adequate basis for an entity to determine whether foreign currency risk can be a separately identifiable and reliably measurable risk component of a non-financial asset held for consumption that an entity can designate as the hedged item in a fair value hedge accounting relationship. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IFRS 9 *Financial Instruments* and IAS 39 *Financial instruments: Recognition and Measurement*

Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument (IFRS 9 and IAS 39)

March 2019

The Committee received a request about the requirement in IFRS 9 and IAS 39 that a forecast transaction must be ‘highly probable’ to qualify as a hedged item in a cash flow hedge relationship. The request asked how an entity applies that requirement when the notional amount of the derivative designated as a hedging instrument (load following swap) varies depending on the outcome of the hedged item (forecast energy sales).

The responses to outreach performed on the request and those received in comment letters confirmed that the financial instrument described in the request is not common. The comment letters also confirmed the views expressed by some Committee members that the request relates to the broader matter of how uncertainty over the timing and magnitude of a forecast transaction affects the highly probable assessment applying IFRS 9 and IAS 39.

The Committee observed that, in a cash flow hedge, a forecast transaction can be a hedged item if, and only if, it is highly probable (paragraphs 6.3.1 and 6.3.3 of IFRS 9 and paragraphs 86(b) and 88(c) of IAS 39). When assessing whether a forecast transaction (in the request, the forecast energy sales) is highly probable, an entity considers uncertainty over both the timing and magnitude of the forecast transaction (paragraphs F.3.7 and F.3.11 of the Implementation Guidance accompanying IAS 39).

The Committee also observed that, for hedge accounting purposes, the entity must document the forecast energy sales with sufficient specificity in terms of timing and magnitude so that when such transactions occur the entity can identify whether the transaction is the hedged transaction. Consequently, the forecast energy sales cannot be specified solely as a percentage of sales during a period because that would lack the required specificity (paragraphs F.3.10 and F.3.11 of the Implementation Guidance accompanying IAS 39).

In addition, the Committee observed that the terms of the hedging instrument (in the request, the load following swap) do not affect the highly probable assessment because the highly probable requirement is applicable to the hedged item.

The Committee noted that the highly probable requirement in IFRS 9 is not new; IAS 39 includes the same requirement. The Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39; nonetheless paragraph BC6.95 of IFRS 9 explains that not carrying forward the Implementation Guidance did not mean that the Board had rejected that guidance.

The Committee concluded that the requirements in IFRS 9 and IAS 39 provide an adequate basis for an entity to determine whether a forecast transaction is highly probable. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

IFRS 11 *Joint Arrangements*

Liabilities in relation to a Joint Operator's Interest in a Joint Operation (IFRS 11)

March 2019

The Committee received a request about the recognition of liabilities by a joint operator in relation to its interest in a joint operation (as defined in IFRS 11). In the fact pattern described in the request, the joint operation is not structured through a separate vehicle. One of the joint operators, as the sole signatory, enters into a lease contract with a third-party lessor for an item of property, plant and equipment that will be operated jointly as part of the joint operation's activities. The joint operator that signed the lease contract (hereafter, the operator) has the right to recover a share of the lease costs from the other joint operators in accordance with the contractual arrangement to the joint operation.

The request asked about the recognition of liabilities by the operator.

In relation to its interest in a joint operation, paragraph 20(b) of IFRS 11 requires a joint operator to recognise 'its liabilities, including its share of any liabilities incurred jointly'. Accordingly, a joint operator identifies and recognises both (a) liabilities it incurs in relation to its interest in the joint operation; and (b) its share of any liabilities incurred jointly with other parties to the joint arrangement.

Identifying the liabilities that a joint operator incurs and those incurred jointly requires an assessment of the terms and conditions in all contractual agreements that relate to the joint operation, including consideration of the laws pertaining to those agreements.

The Committee observed that the liabilities a joint operator recognises include those for which it has primary responsibility.

The Committee highlighted the importance of disclosing information about joint operations that is sufficient for a user of financial statements to understand the activities of the joint operation and a joint operator's interest in that operation. The Committee noted that, applying paragraph 20(a) of IFRS 12 *Disclosure of Interests in Other Entities*, a joint operator is required to disclose information that enables users of its financial statements to evaluate the nature, extent and financial effects of its interests in a joint operation, including the nature and effects of its contractual relationship with the other investors with joint control of that joint operation.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the operator to identify and recognise its liabilities in relation to its interest in a joint operation. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Sale of Output by a Joint Operator (IFRS 11)

March 2019

The Committee received a request about the recognition of revenue by a joint operator for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled. In the fact pattern described in the request, the joint operator has the right to receive a fixed proportion of the output arising from the joint operation and is obliged to pay for a fixed proportion of the production costs incurred. For operational reasons, the output received by the joint operator and transferred to its customers in a particular reporting period is different from the output to which it is entitled. That difference will be settled through future deliveries of output arising from the joint operation—it cannot be settled in cash. Applying IFRS 15 *Revenue from Contracts with Customers*, the joint operator recognises revenue as a principal for the transfer of all the output to its customers.

The request asked whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.

In relation to its interest in a joint operation, paragraph 20(c) of IFRS 11 requires a joint operator to recognise 'its revenue from the sale of its share of the output arising from the joint operation'. Accordingly, the revenue recognised by a joint operator depicts the output it has received from the joint operation and sold, rather than for example the production of output. The joint operator accounts for the revenues relating to its interest in the joint operation applying the IFRS Standards applicable to the particular revenues (paragraph 21 of IFRS 11).

The Committee concluded that, in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognised applying IFRS 15. This means, for example, the joint operator does not recognise revenue for the output to which it is entitled but which it has not received from the joint operation and sold.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of output arising from a joint operation as described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

IFRS 15 Revenue from Contracts with Customers

Assessment of promised goods or services (IFRS 15)

January 2019

The Committee received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.

Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:

- a. a good or service (or a bundle of goods or services) that is distinct; or
- b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In paragraph BC87 of IFRS 15, the Board noted that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.

Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.

Accordingly, the Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.

Application of IFRS 15 to the fact pattern in the request

The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the facts and circumstances of the contract.

Accordingly, the outcome of an entity's assessment depends on those facts and circumstances.

In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, such as:

- performing due diligence for new applications;
- reviewing the customer's listing application (including assessing whether to accept the application);
- issuing reference numbers and tickers for the new security;
- processing the listing and admission to the market;
- publishing the security on the order book; and
- issuing the dealing notice on the admission date.

The Committee observed that the activities performed by the entity at or near contract inception are required to transfer the goods or services for which the customer has contracted—ie the service of being listed on the exchange. However, the entity's performance of those activities does not transfer a service to the customer.

The Committee also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.

Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Costs to Fulfil a Contract (IFRS 15)

June 2019

The Committee received a request about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time. In the fact pattern described in the request, the entity (a) transfers control of a good over time (ie one (or more) of the criteria in paragraph 35 of IFRS 15 is met) and, therefore, satisfies a performance obligation and recognises revenue over time; and (b) measures progress towards complete satisfaction of the performance obligation using an output method applying paragraphs 39–43 of IFRS 15. The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

The Committee first noted the principles and requirements in IFRS 15 relating to the measurement of progress towards complete satisfaction of a performance obligation satisfied over time. Paragraph 39 states that ‘the objective when measuring progress is to depict an entity’s performance in transferring control of goods or services promised to a customer’. The Committee also observed that when evaluating whether to apply an output method to measure progress, paragraph B15 requires an entity to ‘consider whether the output selected would faithfully depict the entity’s performance towards complete satisfaction of the performance obligation’.

In considering the recognition of costs, the Committee noted that paragraph 98(c) of IFRS 15 requires an entity to recognise as expenses when incurred ‘costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (ie costs that relate to past performance)’.

The Committee observed that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract – ie they are costs that relate to the entity’s past performance. Those costs do not, therefore, generate or enhance resources of the entity that will be used in continuing to satisfy the performance obligation in the future (paragraph 95(b)). Consequently, those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine how to recognise costs incurred in fulfilling a contract in the fact pattern described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Compensation for Delays or Cancellations (IFRS 15)

September 2019

The Committee received a request about an airline's obligation to compensate customers for delayed or cancelled flights. In the fact pattern described in the request:

- a. legislation gives a flight passenger (customer) the right to be compensated by the flight provider (entity) for delays and cancellations subject to specified conditions in the legislation. The legislation stipulates the amount of compensation, which is unrelated to the amount the customer pays for a flight.
- b. the legislation creates enforceable rights and obligations, and forms part of the terms of a contract between the entity and a customer.
- c. applying IFRS 15 to a contract with a customer, the entity identifies as a performance obligation its promise to transfer a flight service to the customer.

The request asked whether the entity accounts for its obligation to compensate customers either: (a) as variable consideration applying paragraphs 50–59 of IFRS 15; or (b) applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, separately from its performance obligation to transfer a flight service to the customer.

Paragraph 47 of IFRS 15 requires an entity to 'consider the terms of the contract and its customary business practices in determining the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer...The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both'. Paragraph 51 of IFRS 15 lists examples of common types of variable consideration—'discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items'.

Paragraph B33 of IFRS 15 specifies requirements for an entity's obligation to pay compensation to a customer if its products cause harm or damage. An entity accounts for such an obligation applying IAS 37, separately from its performance obligation in the contract with the customer.

The Committee observed that, in the fact pattern described in the request, the entity promises to transport the customer from one specified location to another within a specified time period after the scheduled flight time. If the entity fails to do so, the customer is entitled to compensation. Accordingly, any compensation for delays or cancellations forms part of the consideration to which the entity expects to be entitled in exchange for transferring the promised service to the customer; it does not represent compensation for harm or damage caused by the entity's products as described in paragraph B33. The fact that legislation, rather than the contract, stipulates the compensation payable does not affect the entity's determination of the transaction price—the compensation gives rise to variable consideration in the same way that penalties for delayed transfer of an asset give rise to variable consideration as illustrated in Example 20 of the Illustrative Examples accompanying IFRS 15.

Consequently, the Committee concluded that compensation for delays or cancellations, as described in the request, is variable consideration in the contract. Accordingly, the entity applies the requirements in paragraphs 50–59 of IFRS 15 in accounting for its obligation to compensate customers for delays or cancellations. The Committee did not

consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine its accounting for obligations to compensate customers for delays or cancellations. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IFRS 16 *Leases*

Subsurface Rights (IFRS 16)

June 2019

The Committee received a request about a particular contract for subsurface rights. In the contract described in the request, a pipeline operator (customer) obtains the right to place an oil pipeline in underground space for 20 years in exchange for consideration. The contract specifies the exact location and dimensions (path, width and depth) of the underground space within which the pipeline will be placed. The landowner retains the right to use the surface of the land above the pipeline, but it has no right to access or otherwise change the use of the specified underground space throughout the 20-year period of use. The customer has the right to perform inspection, repairs and maintenance work (including replacing damaged sections of the pipeline when necessary).

The request asked whether IFRS 16, IAS 38 *Intangible Assets* or another IFRS Standard applies in accounting for the contract.

Which IFRS Standard does an entity consider first?

Paragraph 3 of IFRS 16 requires an entity to apply IFRS 16 to all leases, with limited exceptions. Paragraph 9 of IFRS 16 states: ‘At inception of a contract, an entity shall assess whether the contract is, or contains, a lease’.

The Committee observed that, in the contract described in the request, none of the exceptions in paragraphs 3 and 4 of IFRS 16 apply—in particular, the Committee noted that the underground space is tangible. Accordingly, if the contract contains a lease, IFRS 16 applies to that lease. If the contract does not contain a lease, the entity would then consider which other IFRS Standard applies.

The Committee therefore concluded that the entity first considers whether the contract contains a lease as defined in IFRS 16.

The definition of a lease

Paragraph 9 of IFRS 16 states that ‘a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration’.

Applying paragraph B9 of IFRS 16, to meet the definition of a lease the customer must have both:

- a. the right to obtain substantially all the economic benefits from use of an identified asset throughout the period of use; and
- b. the right to direct the use of the identified asset throughout the period of use.

Identified asset

Paragraphs B13–B20 of IFRS 16 provide application guidance on an identified asset. Paragraph B20 states that a ‘capacity portion of an asset is an identified asset if it is physically distinct’. But ‘a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use’ (paragraph B14).

The Committee observed that, in the contract described in the request, the specified underground space is physically distinct from the remainder of the land. The contract’s specifications include the path, width and depth of the pipeline, thereby defining a physically distinct underground space. The space being underground does not in itself affect whether it is an identified asset—the specified underground space is physically distinct in the same way that a specified area of space on the land’s surface would be physically distinct.

The landowner does not have the right to substitute the underground space throughout the period of use. Consequently, the Committee concluded that the specified underground space is an identified asset as described in paragraphs B13–B20.

Right to obtain substantially all the economic benefits from use

Paragraphs B21–B23 of IFRS 16 provide application guidance on the right to obtain substantially all the economic benefits from use of an identified asset throughout the period of use. Paragraph B21 specifies that a customer can have that right, for example, by having exclusive use of the identified asset throughout the period of use.

The Committee observed that, in the contract described in the request, the customer has the right to obtain substantially all the economic benefits from use of the specified underground space throughout the 20-year period of use. The customer has exclusive use of the specified underground space throughout that period of use.

Right to direct the use

Paragraphs B24–B30 of IFRS 16 provide application guidance on the right to direct the use of an identified asset throughout the period of use. Paragraph B24 specifies that a customer has that right if either:

- a. the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
- b. the relevant decisions about how and for what purpose the asset is used are predetermined and (i) the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or (ii) the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

The Committee observed that, in the contract described in the request, the customer has the right to direct the use of the specified underground space throughout the 20-year period of use because the conditions in paragraph B24(b)(i) exist. How and for what purpose the specified underground space will be used (ie to locate the pipeline with specified dimensions through which oil will be transported) is predetermined in the contract. The customer has the right to operate the specified underground space by

having the right to perform inspection, repairs and maintenance work. The customer makes all the decisions about the use of the specified underground space that can be made during the 20-year period of use.

Consequently, the Committee concluded that the contract described in the request contains a lease as defined in IFRS 16. The customer would therefore apply IFRS 16 in accounting for that lease.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting for the contract described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Lessee's Incremental Borrowing Rate (IFRS 16)

September 2019

The Committee received a request about the definition of a lessee's incremental borrowing rate in IFRS 16. The request asked whether a lessee's incremental borrowing rate is required to reflect the interest rate in a loan with both a similar maturity to the lease and a similar payment profile to the lease payments.

Applying IFRS 16, a lessee uses its incremental borrowing rate in measuring a lease liability when the interest rate implicit in the lease cannot be readily determined (paragraph 26 of IFRS 16). Appendix A to IFRS 16 defines a lessee's incremental borrowing rate as 'the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'. The lessee's incremental borrowing rate is therefore a lease-specific rate that the Board defined 'to take into account the terms and conditions of the lease' (paragraph BC162).

In determining its incremental borrowing rate, the Board explained in paragraph BC162 that, depending on the nature of the underlying asset and the terms and conditions of the lease, a lessee may be able to refer to a rate that is readily observable as a starting point. A lessee would then adjust such an observable rate as is needed to determine its incremental borrowing rate as defined in IFRS 16.

The Committee observed that the definition of a lessee's incremental borrowing rate requires a lessee to determine its incremental borrowing rate for a particular lease considering the terms and conditions of the lease, and determine a rate that reflects the rate it would have to pay to borrow:

- a. over a similar term to the lease term;
- b. with a similar security to the security (collateral) in the lease;
- c. the amount needed to obtain an asset of a similar value to the right-of-use asset arising from the lease; and
- d. in a similar economic environment to that of the lease.

The definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the lease payments. Nonetheless, the Committee observed that, in applying judgement in determining its incremental borrowing rate as defined in IFRS 16, it would be consistent with the Board's objective when developing the definition of incremental borrowing rate for a lessee to refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease.

The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for a lessee to determine its incremental borrowing rate. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IAS 1 *Presentation of Financial Statements*

Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1)

September 2019

The Committee received a request about the presentation of liabilities or assets related to uncertain tax treatments recognised applying IFRIC 23 *Uncertainty over Income Tax Treatments* (uncertain tax liabilities or assets). The request asked whether, in its statement of financial position, an entity is required to present uncertain tax liabilities as current (or deferred) tax liabilities or, instead, can present such liabilities within another line item such as provisions. A similar question could arise regarding uncertain tax assets.

The definitions in IAS 12 of current tax and deferred tax liabilities or assets

When there is uncertainty over income tax treatments, paragraph 4 of IFRIC 23 requires an entity to ‘recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying IFRIC 23’. Paragraph 5 of IAS 12 *Income Taxes* defines:

- a. current tax as the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period; and
- b. deferred tax liabilities (or assets) as the amounts of income taxes payable (recoverable) in future periods in respect of taxable (deductible) temporary differences and, in the case of deferred tax assets, the carryforward of unused tax losses and credits.

Consequently, the Committee observed that uncertain tax liabilities or assets recognised applying IFRIC 23 are liabilities (or assets) for current tax as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12.

Presentation of uncertain tax liabilities (or assets)

Neither IAS 12 nor IFRIC 23 contain requirements on the presentation of uncertain tax liabilities or assets. Therefore, the presentation requirements in IAS 1 apply. Paragraph 54 of IAS 1 states that ‘the statement of financial position shall include line items that present: ... (n) liabilities and assets for current tax, as defined in IAS 12; (o) deferred tax liabilities and deferred tax assets, as defined in IAS 12...’.

Paragraph 57 of IAS 1 states that paragraph 54 ‘lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position’. Paragraph 29 requires an entity to ‘present separately items of a dissimilar nature or function unless they are immaterial’.

Accordingly, the Committee concluded that, applying IAS 1, an entity is required to present uncertain tax liabilities as current tax liabilities (paragraph 54(n)) or deferred tax liabilities (paragraph 54(o)); and uncertain tax assets as current tax assets (paragraph 54(n)) or deferred tax assets (paragraph 54(o)).

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of uncertain tax liabilities and assets. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IAS 7 Statement of Cash Flows

Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7)

September 2019

The Committee received a request from users of financial statements (investors) about the disclosure requirements in IAS 7 that relate to changes in liabilities arising from financing activities. Specifically, investors asked whether the disclosure requirements in paragraphs 44B–44E of IAS 7 are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7.

Meeting the disclosure objective (Paragraph 44A of IAS 7)

Paragraph 44A of IAS 7 requires an entity to provide ‘disclosures that enable [investors] to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes’.

To the extent necessary to satisfy the objective in paragraph 44A, paragraph 44B specifies that an entity discloses the following changes in liabilities arising from financing activities:

- a. changes from financing cash flows;
- b. changes arising from obtaining or losing control of subsidiaries or other businesses;
- c. the effect of changes in foreign exchange rates;
- d. changes in fair values; and
- e. other changes.

The Board explained in paragraph BC16 that it developed the disclosure objective in paragraph 44A to reflect the needs of investors, including those summarised in paragraph BC10. The Board also noted in paragraph BC18 that when considering whether it has fulfilled the objective in paragraph 44A, an entity takes into consideration the extent to which information about changes in liabilities arising from financing activities provides relevant information to investors, considering the needs of investors summarised in paragraph BC10. These investor needs are:

- a. to check their understanding of the entity’s cash flows and use that understanding to improve their confidence in forecasting the entity’s future cash flows;
- b. to provide information about the entity’s sources of finance and how those sources have been used over time; and
- c. to help them understand the entity’s exposure to risks associated with financing.

Reconciling between the opening and closing balances of liabilities arising from financing activities

Paragraph 44D of IAS 7 states that ‘one way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B’.

When an entity discloses such a reconciliation it provides information that enables investors to link items included in the reconciliation to other areas of the financial statements. In doing this, an entity applies:

- a. paragraph 44C to identify liabilities arising from financing activities and use them as the basis of the reconciliation. Paragraph 44C defines these liabilities as ‘liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities’. If an entity also chooses to define, and reconcile, a different ‘net debt’ measure, this does not remove the requirement for the entity to identify its liabilities arising from financing activities as defined in paragraph 44C.
- b. paragraph 44E to disclose changes in liabilities arising from financing activities separately from changes in any other assets and liabilities.
- c. paragraph 44D to provide sufficient information to enable investors to link the items included in the reconciliation to amounts reported in the statement of financial position and the statement of cash flows, or related notes. An entity develops disclosures that enable investors to link (i) the opening and closing balances of the liabilities arising from financing activities reported in the reconciliation, to (ii) amounts reported in the entity’s statement of financial position (or related notes) regarding those liabilities.

The Committee observed that an entity applies judgement in determining the extent to which it disaggregates and explains the changes in liabilities arising from financing activities included in the reconciliation to meet the objective in paragraph 44A. In this respect, the Committee noted the following:

- a. in disaggregating liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraph 30A of IAS 1 *Presentation of Financial Statements*. Paragraph 30A of IAS 1 states that an entity ‘shall not reduce the understandability of its financial statements...by aggregating material items that have different natures or functions’. Accordingly, an entity discloses any individually material items separately in the reconciliation. Such items include material classes of liability (or asset) arising from financing activities and material reconciling items (ie cash or non-cash changes).
- b. in explaining liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraph 112(c) of IAS 1. Paragraph 112(c) of IAS 1 requires an entity to disclose ‘information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them’. Accordingly, applying paragraphs 44A–44E, an entity determines the appropriate structure for its reconciliation including the appropriate level of disaggregation. Thereafter, the entity

determines whether additional explanation is needed to meet the disclosure objective in paragraph 44A. An entity would explain each class of liability (or asset) arising from financing activities included in the reconciliation and each reconciling item in a way that (i) provides information about its sources of finance, (ii) enables investors to check their understanding of the entity's cash flows, and (iii) enables investors to link items to the statement of financial position and the statement of cash flows, or related notes.

Accordingly, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to disclose information about changes in liabilities arising from financing activities that enables investors to evaluate those changes. Accordingly, the Committee concluded that the disclosure requirements in paragraphs 44B–44E of IAS 7, together with requirements in IAS 1, are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Effect of a Potential Discount on Plan Classification (IAS 19)

June 2019

The Committee received a request about the classification of a post-employment benefit plan applying IAS 19. In the fact pattern described in the request, an entity sponsors a post-employment benefit plan that is administered by a third party. The relevant terms and conditions of the plan are as follows:

- a. the entity has an obligation to pay fixed annual contributions to the plan. The entity has determined that it will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
- b. the entity is entitled to a potential discount on its annual contributions. The discount arises if the ratio of plan assets to plan liabilities exceeds a set level. Thus, any discount might be affected by actuarial assumptions and the return on plan assets.

The request asked whether, applying IAS 19, the existence of a right to a potential discount would result in a defined benefit plan classification.

Paragraph 8 of IAS 19 defines defined contribution plans as ‘post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods’. Defined benefit plans are ‘post-employment benefit plans other than defined contribution plans’.

Paragraphs 27–30 of IAS 19 specify requirements relating to the classification of post-employment benefit plans as either defined contribution plans or defined benefit plans.

Paragraph 27 states that ‘[p]ost-employment benefit plans are classified as either defined contribution or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions’. The Committee therefore noted the importance of assessing all relevant terms and conditions of a post-employment benefit plan, as well as any informal practices that might give rise to a constructive obligation, in classifying the plan. That assessment would identify whether:

- a. the entity’s legal or constructive obligation towards employees is limited to the amount that it agrees to contribute to the fund (a defined contribution plan as described in paragraph 28); or
- b. the entity has an obligation to provide the agreed benefits to current and former employees (a defined benefit plan as described in paragraph 30).

The Committee noted that, in the fact pattern described in the request, assessing the relevant terms and conditions of the plan would include, for example, assessing (a) the manner and frequency in which annual contributions and any potential discount (including the target ratio) are determined; and (b) whether the manner and frequency of determining the contributions and any discount transfers actuarial risk and investment risk (as described in IAS 19) to the entity.

The Committee observed that, to meet the definition of a defined contribution plan, an entity must (a) have an obligation towards employees to pay fixed contributions into a fund; and (b) not be obliged to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods. For example, there should be no possibility that future contributions could be set to cover shortfalls in funding employee benefits relating to employee service in the current and prior periods.

The Committee also observed that paragraphs 28 and 30 of IAS 19 specify that, under defined contribution plans, actuarial risk and investment risk fall in substance on the employee whereas, under defined benefit plans, those risks fall in substance on the entity. Paragraphs 28 and 30 describe (a) actuarial risk as the risk that benefits will cost the entity more than expected or will be less than expected for the employee; and (b) investment risk as the risk that assets invested will be insufficient to meet expected benefits. Paragraph BC29 of IAS 19 explains that the definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected.

Consequently, the Committee concluded that, applying IAS 19, the existence of a right to a potential discount would not in itself result in classifying a post-employment benefit plan as a defined benefit plan. Nonetheless, the Committee reiterated the importance of assessing all relevant terms and conditions of a plan, as well as any informal practices that might give rise to a constructive obligation, in classifying the plan.

The Committee noted that, applying paragraph 122 of IAS 1 *Presentation of Financial Statements*, an entity would disclose the judgements that its management has made regarding the classification of post-employment benefit plans, if those are part of the judgements that had the most significant effect on the amounts recognised in the financial statements.

The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the classification of a post-employment benefit plan as a defined contribution plan or a defined benefit plan. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IAS 23 *Borrowing Costs*

Over Time Transfer of Constructed Good (IAS 23)

March 2019

The Committee received a request about the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development (building).

In the fact pattern described in the request:

- a. a real estate developer (entity) constructs the building and sells the individual units in the building to customers.
- b. the entity borrows funds specifically for the purpose of constructing the building and incurs borrowing costs in connection with that borrowing.
- c. before construction begins, the entity signs contracts with customers for the sale of some of the units in the building (sold units).
- d. the entity intends to enter into contracts with customers for the remaining part-constructed units (unsold units) as soon as it finds suitable customers.
- e. the terms of, and relevant facts and circumstances relating to, the entity's contracts with customers (for both the sold and unsold units) are such that, applying paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers*, the entity transfers control of each unit over time and, therefore, recognises revenue over time. The consideration promised by the customer in the contract is in the form of cash or another financial asset.

The request asked whether the entity has a qualifying asset as defined in IAS 23 and, therefore, capitalises any directly attributable borrowing costs.

Applying paragraph 8 of IAS 23, an entity capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Paragraph 5 of IAS 23 defines a qualifying asset as 'an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'.

Accordingly, the entity assesses whether, in the fact pattern described in the request, it recognises an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Depending on the particular facts and circumstances, the entity might recognise a receivable, a contract asset and/or inventory.

The Committee concluded that, in the fact pattern described in the request:

- a. a receivable that the entity recognises is not a qualifying asset. Paragraph 7 of IAS 23 specifies that financial assets are not qualifying assets.
- b. a contract asset that the entity recognises is not a qualifying asset. The contract asset (as defined in Appendix A to IFRS 15) would represent the entity's right to consideration that is conditioned on something other than the passage of time in exchange for transferring control of a unit. The intended use of the contract asset – to collect cash or another financial asset – is not a use for which it necessarily takes a substantial period of time to get ready.

- c. inventory (work-in-progress) for unsold units under construction that the entity recognises is not a qualifying asset. In the fact pattern described in the request, this asset is ready for its intended sale in its current condition—ie the entity intends to sell the part-constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer.

The Committee concluded that the principles and requirements in IAS 23 provide an adequate basis for an entity to determine whether to capitalise borrowing costs in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Educational Material

Educational material relating to the Committee's conclusion in this agenda decision is available on the IAS 23 supporting materials page.

IAS 27 *Separate Financial Statements*

Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27)

January 2019

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.
- holds an initial investment in a subsidiary (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*.
- subsequently disposes of part of its investment and loses control of the investee. After the disposal, the entity has neither joint control of, nor significant influence over, the investee.

The request asked whether:

- a. the investment retained (retained interest) is eligible for the presentation election in paragraph 4.1.4 of IFRS 9 *Financial Instruments*. That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income (OCI) (Question A).
- b. the entity presents in profit or loss or OCI any difference between the cost of the retained interest and its fair value on the date of losing control of the investee (Question B).

Question A

Paragraph 9 of IAS 27 requires an entity to apply all applicable IFRS Standards in preparing its separate financial statements, except when accounting for investments in subsidiaries, associates and joint ventures to which paragraph 10 of IAS 27 applies. After the partial disposal transaction, the investee is not a subsidiary, associate or joint venture of the entity. Accordingly, the entity applies IFRS 9 for the first time in accounting for its retained interest in the investee. The Committee observed that the presentation election in paragraph 4.1.4 of IFRS 9 applies at initial recognition of an investment in an equity instrument. An investment in an equity instrument within the scope of IFRS 9 is eligible for the election if it is neither held for trading (as defined in Appendix A of IFRS 9) nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In the fact pattern described in the request, assuming the retained interest is not held for trading, the Committee concluded that (a) the retained interest is eligible for the presentation election in paragraph 4.1.4 of IFRS 9, and (b) the entity would make this presentation election when it first applies IFRS 9 to the retained interest (ie at the date of losing control of the investee).

Question B

Any difference between the cost of the retained interest and its fair value on the date the entity loses control of the investee meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Accordingly, the Committee concluded that, applying paragraph 88 of IAS 1 *Presentation of Financial Statements*, the entity recognises this difference in profit or loss. This is the case regardless of whether the entity presents subsequent changes in fair value of the retained interest in profit or loss or OCI.

The Committee also noted that its conclusion is consistent with the requirements in paragraph 22(b) of IAS 28 *Investments in Associates and Joint Ventures* and paragraph 11B of IAS 27, which deal with similar and related issues.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for a partial disposal transaction in its separate financial statements. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27)

January 2019

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.
- holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 *Financial Instruments* in accounting for its initial investment (initial interest).
- subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee—ie the investee becomes a subsidiary of the entity.

The request asked:

- a. whether the entity determines the cost of its investment in the subsidiary as the sum of:
 - i. the fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or
 - i. the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A).
- b. how the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B).

Question A

IAS 27 does not define 'cost', nor does it specify how an entity determines the cost of an investment acquired in stages. The Committee noted that cost is defined in other IFRS Standards (for example, paragraph 6 of IAS 16 *Property Plant and Equipment*, paragraph 8 of IAS 38 *Intangible Assets* and paragraph 5 of IAS 40 *Investment Property*). The Committee observed that the two approaches outlined in the request arise from different views of whether the step acquisition transaction involves:

- a. the entity exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee, or
- b. purchasing the additional interest while retaining the initial interest.

Based on its analysis, the Committee concluded that a reasonable reading of the requirements in IFRS Standards could result in the application of either one of the two approaches outlined in this agenda decision (ie fair value as deemed cost approach or accumulated cost approach).

The Committee observed that an entity would apply its reading of the requirements consistently to step acquisition transactions. An entity would also disclose the selected approach applying paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* if that disclosure would assist users of financial statements in understanding how step acquisition transactions are reflected in reporting financial performance and financial position.

Question B

In applying the accumulated cost approach, any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Accordingly, the Committee concluded that, applying paragraph 88 of IAS 1, the entity recognises this difference in profit or loss, regardless of whether, before obtaining control, the entity had presented subsequent changes in fair value of the initial interest in profit or loss or other comprehensive income.

For Question A, the Committee considered whether to develop a narrow-scope amendment to address how an entity determines the cost of an investment acquired in stages. The Committee observed that:

- a. it did not have evidence to assess whether the application of the two acceptable approaches to determining cost, outlined in this agenda decision, would have a material effect on those affected.
- b. the matter could not be resolved without also considering the requirements in paragraph 10 of IAS 28 to initially measure an investment in an associate or joint venture at cost. The Committee did not obtain information to suggest that the Board should reconsider this aspect of IAS 28 at this stage, rather than as part of its wider consideration of IAS 28 within its research project on the Equity Method.

On balance, the Committee decided not to undertake standard-setting to address Question A.

For Question B, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting.

Consequently, the Committee decided not to add these matters to its standard-setting agenda.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Deposits relating to taxes other than income tax (IAS 37)

January 2019

The Committee received a request about how to account for deposits relating to taxes that are outside the scope of IAS 12 *Income Taxes* (ie deposits relating to taxes other than income tax). In the fact pattern described in the request, an entity and a tax authority dispute whether the entity is required to pay the tax. The tax is not an income tax, so it is not within the scope of IAS 12. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37. Taking account of all available evidence, the preparer of the entity's financial statements judges it probable that the entity will not be required to pay the tax—it is more likely than not that the dispute will be resolved in the entity's favour. Applying IAS 37, the entity discloses a contingent liability and does not recognise a liability. To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will be required to either refund the tax deposit to the entity (if the dispute is resolved in the entity's favour) or use the deposit to settle the entity's liability (if the dispute is resolved in the tax authority's favour).

Whether the tax deposit gives rise to an asset, a contingent asset or neither

The Committee observed that if the tax deposit gives rise to an asset, that asset may not be clearly within the scope of any IFRS Standard. Furthermore, the Committee concluded that no IFRS Standard deals with issues similar or related to the issue that arises in assessing whether the right arising from the tax deposit meets the definition of an asset. Accordingly, applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Committee referred to the two definitions of an asset in IFRS literature—the definition in the *Conceptual Framework for Financial Reporting* issued in March 2018 and the definition in the previous *Conceptual Framework* that was in place when many existing IFRS Standards were developed. The Committee concluded that the right arising from the tax deposit meets either of those definitions. The tax deposit gives the entity a right to obtain future economic benefits, either by receiving a cash refund or by using the payment to settle the tax liability. The nature of the tax deposit—whether voluntary or required—does not affect this right and therefore does not affect the conclusion that there is an asset. The right is not a contingent asset as defined by IAS 37 because it is an asset, and not a possible asset, of the entity.

Consequently, the Committee concluded that in the fact pattern described in the request the entity has an asset when it makes the tax deposit to the tax authority.

Recognising, measuring, presenting and disclosing the tax deposit

In the absence of a Standard that specifically applies to the asset, an entity applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy for the asset. The entity's management uses its judgement in developing and applying a policy that results in information that is relevant to the economic decision-making needs of users of financial statements and reliable. The Committee noted that the issues that need to be addressed in developing and applying an accounting policy for the tax deposit may be similar or related to those that arise for the recognition, measurement, presentation and

disclosure of monetary assets. If this is the case, the entity's management would refer to requirements in IFRS Standards dealing with those issues for monetary assets.

The Committee concluded that the requirements in IFRS Standards and concepts in the *Conceptual Framework for Financial Reporting* provide an adequate basis for an entity to account for deposits relating to taxes other than income tax. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud (IAS 38)

March 2019

The Committee received a request about how a customer accounts for a 'Software as a Service' cloud computing arrangement in which the customer contracts to pay a fee in exchange for a right to receive access to the supplier's application software for a specified term. The supplier's software runs on cloud infrastructure managed and controlled by the supplier. The customer accesses the software on an as needed basis over the internet or via a dedicated line. The contract does not convey to the customer any rights over tangible assets.

Does the customer receive a software asset at the contract commencement date or a service over the contract term?

The Committee noted that a customer receives a software asset at the contract commencement date if either (a) the contract contains a software lease, or (b) the customer otherwise obtains control of software at the contract commencement date.

A software lease

IFRS 16 *Leases* defines a lease as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. Paragraphs 9 and B9 of IFRS 16 explain that a contract conveys the right to use an asset if, throughout the period of use, the customer has both:

- a. the right to obtain substantially all the economic benefits from use of the asset (an identified asset); and
- b. the right to direct the use of that asset.

Paragraphs B9–B31 of IFRS 16 provide application guidance on the definition of a lease. Among other requirements, that application guidance specifies that a customer generally has the right to direct the use of an asset by having decision-making rights to change how and for what purpose the asset is used throughout the period of use. Accordingly, in a contract that contains a lease the supplier has given up those decision-making rights and transferred them to the customer at the lease commencement date.

The Committee observed that a right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not in itself give the customer any decision-making rights about how and for what purpose the software is used—the supplier would have those rights by, for example, deciding how and when to update or reconfigure the software, or deciding on which hardware (or infrastructure) the software will run. Accordingly, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the contract does not contain a software lease.

A software intangible asset

IAS 38 defines an intangible asset as ‘an identifiable non-monetary asset without physical substance’. It notes that an asset is a resource controlled by the entity and paragraph 13 specifies that an entity controls an intangible asset if it has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

The Committee observed that, if a contract conveys to the customer only the right to receive access to the supplier’s application software over the contract term, the customer does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier’s software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others’ access to those benefits.

Consequently, the Committee concluded that a contract that conveys to the customer only the right to receive access to the supplier’s application software in the future is a service contract. The customer receives the service—the access to the software—over the contract term. If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to account for fees paid or payable to receive access to the supplier’s application software in Software as a Service arrangements. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Holdings of Cryptocurrencies

June 2019

The Committee discussed how IFRS Standards apply to holdings of cryptocurrencies.

The Committee noted that a range of cryptoassets exist. For the purposes of its discussion, the Committee considered a subset of cryptoassets with all the following characteristics that this agenda decision refers to as a ‘cryptocurrency’:

- a. a digital or virtual currency recorded on a distributed ledger that uses cryptography for security.
- b. not issued by a jurisdictional authority or other party.
- c. does not give rise to a contract between the holder and another party.

Nature of a cryptocurrency

Paragraph 8 of IAS 38 *Intangible Assets* defines an intangible asset as ‘an identifiable non-monetary asset without physical substance’.

Paragraph 12 of IAS 38 states that an asset is identifiable if it is separable or arises from contractual or other legal rights. An asset is separable if it ‘is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability’.

Paragraph 16 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* states that ‘the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency’.

The Committee observed that a holding of cryptocurrency meets the definition of an intangible asset in IAS 38 on the grounds that (a) it is capable of being separated from the holder and sold or transferred individually; and (b) it does not give the holder a right to receive a fixed or determinable number of units of currency.

Which IFRS Standard applies to holdings of cryptocurrencies?

The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies. The Committee considered the following in reaching its conclusion.

Intangible Asset

IAS 38 applies in accounting for all intangible assets except:

- a. those that are within the scope of another Standard;
- b. financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;
- c. the recognition and measurement of exploration and evaluation assets; and

- d. expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Accordingly, the Committee considered whether a holding of cryptocurrency meets the definition of a financial asset in IAS 32 or is within the scope of another Standard.

Financial asset

Paragraph 11 of IAS 32 defines a financial asset. In summary, a financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right to receive cash or another financial asset from another entity; (d) a contractual right to exchange financial assets or financial liabilities with another entity under particular conditions; or (e) a particular contract that will or may be settled in the entity's own equity instruments.

The Committee concluded that a holding of cryptocurrency is not a financial asset. This is because a cryptocurrency is not cash (see below). Nor is it an equity instrument of another entity. It does not give rise to a contractual right for the holder and it is not a contract that will or may be settled in the holder's own equity instruments.

Cash

Paragraph AG3 of IAS 32 states that 'currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability'.

The Committee observed that the description of cash in paragraph AG3 of IAS 32 implies that cash is expected to be used as a medium of exchange (ie used in exchange for goods or services) and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements.

Some cryptocurrencies can be used in exchange for particular good or services. However, the Committee noted that it is not aware of any cryptocurrency that is used as a medium of exchange and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements. Consequently, the Committee concluded that a holding of cryptocurrency is not cash because cryptocurrencies do not currently have the characteristics of cash.

Inventory

IAS 2 applies to inventories of intangible assets. Paragraph 6 of that Standard defines inventories as assets:

- a. held for sale in the ordinary course of business;
- b. in the process of production for such sale; or
- c. in the form of materials or supplies to be consumed in the production process or in the rendering of services.

The Committee observed that an entity may hold cryptocurrencies for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is inventory for the entity and, accordingly, IAS 2 applies to that holding.

The Committee also observed that an entity may act as a broker-trader of cryptocurrencies. In that circumstance, the entity considers the requirements in paragraph 3(b) of IAS 2 for commodity broker-traders who measure their inventories at fair value less costs to sell. Paragraph 5 of IAS 2 states that broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.

Disclosure

In addition to disclosures otherwise required by IFRS Standards, an entity is required to disclose any additional information that is relevant to an understanding of its financial statements (paragraph 112 of IAS 1 *Presentation of Financial Statements*). In particular, the Committee noted the following disclosure requirements in the context of holdings of cryptocurrencies:

- a. An entity provides the disclosures required by (i) paragraphs 36–39 of IAS 2 for cryptocurrencies held for sale in the ordinary course of business; and (ii) paragraphs 118–128 of IAS 38 for holdings of cryptocurrencies to which it applies IAS 38.
- b. If an entity measures holdings of cryptocurrencies at fair value, paragraphs 91–99 of IFRS 13 *Fair Value Measurement* specify applicable disclosure requirements.
- c. Applying paragraph 122 of IAS 1, an entity discloses judgements that its management has made regarding its accounting for holdings of cryptocurrencies if those are part of the judgements that had the most significant effect on the amounts recognised in the financial statements.
- d. Paragraph 21 of IAS 10 *Events after the Reporting Period* requires an entity to disclose details of any material non-adjusting events, including information about the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made). For example, an entity holding cryptocurrencies would consider whether changes in the fair value of those holdings after the reporting period are of such significance that non-disclosure could influence the economic decisions that users of financial statements make on the basis of the financial statements.

IAS 41 Agriculture**Subsequent Expenditure on Biological Assets (IAS 41)***September 2019*

The Committee received a request about the accounting for costs related to the biological transformation (subsequent expenditure) of biological assets measured at fair value less costs to sell applying IAS 41. The request asked whether an entity capitalises subsequent expenditure (ie adds it to the carrying amount of the asset) or, instead, recognises subsequent expenditure as an expense when incurred.

IAS 41 does not specify the accounting for subsequent expenditure for biological assets measured at fair value less costs to sell. Paragraph B62 of the Basis for Conclusions on IAS 41 explains that ‘...the [IASC] Board decided not to explicitly prescribe the accounting for subsequent expenditure related to biological assets in the Standard, because it believes to do so is unnecessary with a fair value measurement approach’.

Accordingly, the Committee concluded that, applying IAS 41, an entity either capitalises subsequent expenditure or recognises it as an expense when incurred. The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss. In assessing how to present such subsequent expenditure in the statement of profit or loss, an entity would apply the requirements in paragraphs 81–105 of IAS 1 *Presentation of Financial Statements*. In particular, the Committee observed that the entity would:

- a. applying paragraph 85, ‘present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance’; and
- b. applying paragraph 99, present in the statement(s) presenting profit or loss and other comprehensive income or in the notes an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

Applying paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity would apply its accounting policy for subsequent expenditure consistently to each group of biological assets. An entity would also disclose the selected accounting policy applying paragraphs 117–124 of IAS 1 if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance.

In the light of its analysis, the Committee considered whether to add a project to its standard-setting agenda on the accounting for subsequent expenditure on biological assets. The Committee has not obtained evidence to suggest that standard-setting on this matter at this time would result in an improvement to financial reporting that would be sufficient to outweigh the costs. The Committee therefore decided not to add the matter to its standard-setting agenda.



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Columbus Building | 7 Westferry Circus | Canary Wharf | London E14 4HD | United Kingdom

Telephone: +44 (0)20 7246 6410

Email: info@ifrs.org | Web: www.ifrs.org

Publications Department

Telephone: +44 (0)20 7332 2730

Email: publications@ifrs.org

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