Commodity loans (March 2017)

The Committee received a request on how to account for a commodity loan transaction. Specifically, the transaction is one in which a bank borrows gold from a third party (Contract 1) and then lends that gold to a different third party for the same term and for a higher fee (Contract 2). The bank enters into the two contracts in contemplation of each other, but the contracts are not linked—ie the bank negotiates the contracts independently of each other. In each contract, the borrower obtains legal title to the gold at inception and has an obligation to return, at the end of the contract, gold of the same quality and quantity as that received. In exchange for the loan of gold, each borrower pays a fee to the respective lender over the term of the contract but there are no cash flows at inception of the contract.

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

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

The Committee observed that the particular transaction in the submission might not be clearly captured within the scope of any IFRS Standard.[1] In the absence of a Standard that specifically applies to a transaction, an entity applies paragraphs 10 and 11 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in developing and applying an accounting policy to the transaction. In doing so, paragraph 11 of IAS 8 requires an entity to consider:

a. whether there are requirements in IFRS Standards dealing with similar and related issues; and, if not;
b. how to account for the transaction applying the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.

The Committee noted that, applying paragraph 10 of IAS 8, the accounting policy developed must result in information that is (i) relevant to the economic decision-making needs of users of financial statements; and (ii) reliable—ie represents faithfully the financial position, financial performance and cash flows of the entity; reflects the economic substance; and is neutral, prudent and complete in all material respects. The Committee observed that, in considering the requirements that deal with similar and related issues, an entity considers all the requirements dealing with those similar and related issues, including relevant disclosure requirements.

The Committee also observed that the requirements in paragraph 112(c) of IAS 1 Presentation of Financial Statements are relevant if an entity develops an accounting policy applying paragraphs 10 and 11 of IAS 8 for a commodity loan transaction such as that described in the submission. In applying these requirements, an entity considers whether additional disclosures are needed to provide information relevant to an understanding of the accounting for, and risks associated with, such commodity loan transactions

The Committee concluded that it would be unable to resolve the question asked efficiently within the confines of existing IFRS Standards. The wide range of transactions involving commodities means that any narrow-scope standard-setting activity would be of limited benefit to entities and would have a high risk of unintended consequences. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

[1] The Committee observed, however, that particular IFRS Standards would apply to other transactions involving commodities (for example, the purchase of commodities for use in an entity's production process, or the sale of commodities to customers).