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International
Accounting Standards
Board

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**January 2009, London**
Project:	**Ratification of IFRIC Interpretation**
Subject:	**IFRIC X *Transfers of Assets from Customers*: Cover note (Agenda paper 17)**

Purpose of this paper

1. This agenda item asks the Board to ratify an Interpretation on transfers of assets from customers. This paper provides an overview of the Interpretation to assist the Board in its review.

Agenda papers for this meeting

2. The following agenda papers are provided:
   - AP 17 — Cover note (this agenda paper)
   - AP 17A — Interpretation IFRIC X *Transfers of Assets from Customers*

Project history

3. The IFRIC received a request to issue guidance on the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Divergence has arisen in practice with some entities recognising the transferred item at fair value and others recognising it at a cost of nil. Among those that record the item at fair value, some recognise the resulting credit as revenue immediately, while others recognise it over some longer service period. The IFRIC decided to develop an Interpretation in response to that divergence in practice.

4. The IFRIC released draft Interpretation D24 *Customer Contributions* for public comment in January 2008. The IFRIC received 59 comment letters in response and redeliberated the issue at its meetings in July, September and November 2008. At its meeting in November 2008, the IFRIC voted and confirmed the consensus in the Interpretation. The Near Final Draft Interpretation IFRIC X *Transfers of Assets from Customers* was published on the IASB Website on 12 December 2008.

Consensus

5. The IFRIC reached consensus on the following issues:

   (a) Is the definition of an asset met?

   (b) If the definition of an asset is met, how should the transferred item of property, plant and equipment be measured on initial recognition?

   (c) If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?

   (d) How should the entity account for a transfer of cash from its customer?

Implications

6. The staff would like to highlight several of the implications of the IFRIC's conclusions to assist the Board in reviewing the Interpretation.

Scope

7. The Interpretation applies to the accounting for transfers of items of property, plant and equipment as well as transfers of *cash* that often occur in practice (for a transfer of cash, see paragraphs 1, 6 and 21 of agenda paper 17A).

8. The Interpretation might also be relevant to industries other than utilities. In the background section of the Interpretation, the IFRIC added an example of an information technology outsourcing agreement (see paragraph 2 of agenda paper 17A).

9. Some respondents to D24 questioned whether transfers of assets other than those in the scope of this Interpretation, ie transfers of intangible assets from customers, would lead to the same answer. In its redeliberations, the IFRIC decided not to expand the scope to assets other than those already considered in D24 but did not prohibit application by analogy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (see paragraph BC5 of agenda paper 17A).

Is the definition of an asset met?

10. D24 required an entity to determine whether an asset should be recognised, including the consideration of IFRIC 4 *Determining whether an Arrangement contains a Lease* and IAS 17 *Leases*.

11. In its redeliberations, the IFRIC decided to simplify the requirements by focusing on who controls the asset. The Interpretation provides guidance based on the definition of an asset set out in paragraph 49(a) of the Framework and the additional guidance in paragraphs 55 and 57 of the Framework (see paragraphs 9 and 10 of agenda paper 17A).

Revenue recognition - Identifying the separately identifiable services

12. D24 identified only one service to be delivered in exchange for the transferred item of property, plant and equipment: the provision of ongoing access to a supply of goods or services.

13. Many respondents, including utility entities, questioned whether an entity receiving an asset from a customer *always* has an obligation to provide ongoing access to a supply of goods or services as a result of the transfer. For example, some respondents argued that, when a utility company is required by law or regulation to provide access to a supply of a commodity to all customers at the same price, it may have no further obligation once connection to the service has been made. They also argued that an obligation to provide ongoing services to the customer who transferred the asset may exist only if the customer obtains in exchange some exclusive right of access to a supply of goods or services, eg a reduced price. Overall, these respondents asked the IFRIC to reconsider the revenue recognition issue based on an IAS 18 approach.

14. In its redeliberations, the IFRIC noted that an entity may agree to deliver one or two services in exchange for the transferred item of property, plant and equipment, such as connecting the customer to a network, providing the customer with ongoing access to a supply of goods or services, or both. The IFRIC concluded that identifying the separately identifiable services of a single agreement depends on facts and circumstances and that judgement is required. The IFRIC also acknowledged that a practical weakness of IAS 18 is that it gives insufficient guidance on agreements that deliver more than one good or service to the customer. Therefore, the IFRIC decided to develop guidance based on paragraph 13 of IAS 18 to help identify the services to be delivered in exchange for the transferred asset. This decision resulted in the indicators in paragraphs 15-17 of the Interpretation and the examples illustrating their application.

Re-exposure

15. At its November 2008 meeting, the IFRIC acknowledged that the changes made to D24 in respect of revenue recognition were significant. However, the IFRIC concluded that re-exposure would not result in the identification of new issues and any benefits from re-exposing the Interpretation would be too small to justify the delay in issuing it. Consequently, the IFRIC decided that the near-final draft of

the Interpretation should be posted on the Website for a longer than normal period to give those constituents who wished to do so the opportunity to comment on it.

16. The near-final draft Interpretation IFRIC X *Transfers of Assets from Customers* was published on the IASB Website on 12 December 2008 and the IFRIC received comments from four constituents. The staff incorporated the technical comments in agenda paper 17A marked up for changes.

Effective date and transition

17. The IFRIC decided that the Interpretation should be applied prospectively to transfers of assets from customers received on or after three months from the date of publication of the final Interpretation. Therefore, if the Board ratifies the Interpretation at this meeting and the Interpretation is published by the end of January, the effective date should be 1 May 2009.

Amendment to IFRS 1

18. The IFRIC recommends that the Board approve an amendment to IFRS 1 as part of its approval of the Interpretation (see page 6 of agenda paper 17A).

Question for the Board

19. Are you in favour of ratifying the Interpretation?