



---

Project	<b>IFRIC 18 <i>Transfers of Assets from Customers</i></b>
Topic	<b>Applicability to the customer</b>

---

## Introduction

### *Objective of this paper*

1. The objective of this paper is to document the staff's analysis and recommendation on the applicability to the customer of IFRIC 18 *Transfers of Assets from Customers*. As such, this paper:
  - (a) provides background information on this issue;
  - (b) analyses the issue within the context of IFRSs;
  - (c) discusses the staff recommendation; and
  - (d) asks the IFRIC whether they agree with the staff recommendations.

### *Background information*

2. In March 2009, the staff received a request to add to the IFRIC agenda an issue regarding the applicability to customers of IFRIC 18. A copy of the agenda request has been included as Appendix A.

## Analysis, recommendations and questions for the IFRIC

### *Scope of IFRIC 18*

3. Paragraphs 4 and 5 of IFRIC 18, the scope paragraphs, state (emphasis added):

This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers.

Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

## IASB Staff paper

customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

4. The staff notes that paragraph 3 of IFRIC 18 clarifies that the term “customer” is used for convenience within the context of IFRIC 18 regardless of whether the transferor of the assets will receive future goods or services from the transferee in the future.
5. Additionally, paragraph BC4 of IFRIC 18 states (emphasis added):

This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. In developing the Interpretation, the IFRIC decided that it would not address how the customers should account for the transfers because the main issue is how the entity receiving the asset should recognise revenue.

6. In the staff’s opinion, IFRIC 18 is explicit that it does not apply to the accounting for the transfer of assets by the customer.

### Question 1 – Scope of IFRIC 18

Does the IFRIC agree that the scope of IFRIC 18 does not include the accounting by the customer for the transfer of assets?

### Other IFRSs

7. IFRIC 18 starts from the premise that transfers of assets from customers are exchange transactions between the customer and the goods/ services provider. This premise is inferred in paragraph 13 of IFRIC 18. Paragraphs BC14 and BC15 of IFRIC 18 provide additional information stating:

#### **How should the transferred item of property, plant and equipment be measured on initial recognition?**

The IFRIC concluded that, in a normal trading transaction, the item of property, plant and equipment is received in exchange for something, ie the provision of services such as connection to a network, provision of ongoing access to a supply of goods or services, or both.

The IFRIC noted that both paragraph 24 of IAS 16 *Property, Plant and Equipment* and paragraph 12 of IAS 18 *Revenue* lead to the same measurement attribute for such exchange transactions, ie the item received should be measured at fair value on initial recognition. Therefore, if the entity concludes that the definition of an asset is met, it should recognise the transferred asset as an item of property, plant and equipment in accordance with paragraph 7 of IAS 16 and measure it on initial recognition at its fair value in accordance with

## IASB Staff paper

paragraph 24 of that Standard. The IFRIC also noted that respondents to D24 generally agreed with that conclusion.

8. In the staff's opinion, the accounting for the transfer of assets by the customer should be consistent with the applicable accounting for other exchange transactions. This treatment would include the customer's determination of what economic benefits it received and what economic benefits it gave up as a result of the transaction and then applying the relevant IFRSs to the components of the transaction. The guidance in IFRIC 18 would naturally be relevant to determining whether the customer had actually transferred control of the asset.
9. For example, if the customer had transferred an asset that was within the scope of IAS 16 *Property, Plant and Equipment*, the customer should follow the derecognition provisions of IAS 16. Specifically paragraphs 67-72 of IAS 16 provide guidance in this example. Paragraph 69 of IAS 16 states, in part, "The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation)..."
10. The customer should also determine what goods or services was received and if the goods or service received meets the definition of an asset within the *Framework* including all relevant literature such as IFRIC 4 *Determining Whether an Arrangement contains a Lease*.
11. The customer's determination of the economic benefits received in the transaction should include consideration of whether the benefit received was "directly attributable to bringing another asset to the location and condition necessary for it to be capable of operating in a manner intended by management" as discussed in paragraph 16(b) of IAS 16 *Property, Plant and Equipment*. An example of this type of economic benefit the customer would receive in the transfer is a newly constructed building being connected to the electricity network as a result of transferring an electricity substation to the network company (as presented in Illustrative Example 1 to IFRIC 18).
12. Paragraph 6 of IFRIC 18 states that the Interpretation may also apply to the transfer of cash from customers for the acquisition or construction of such items of property, plant and equipment. In the staff's opinion, the customer should perform the same analysis for cash transfers as when property, plant and

equipment is transferred and the other scope provisions of IFRIC 18 are satisfied.

13. In IFRIC 18, the IFRIC concluded that, in a normal trading transaction, transfers of assets include exchanges of other goods, services or both. In the staff's opinion, the principles included within IFRIC 18 for determining the goods or services the entity must provide in return for the transferred assets may also be relevant to the accounting treatment applied by the customer transferring the assets. Additionally, in the staff's opinion, other IFRSs provide relevant guidance for determining the appropriate accounting treatment of the other economic components of the exchange transaction.

**Question 2 – Guidance applicable to the customer**

Does the IFRIC agree that IFRIC 18 and other IFRSs provide relevant guidance for determining the appropriate accounting treatment of the economic components of the exchange transaction?

If not, what guidance do you think is appropriate for the customer to apply to the transfer of assets, and why?

**Staff recommendation**

14. Based on the explicit scope of IFRIC 18, principles explained throughout IFRIC 18 including its Basis for Conclusions and guidance in other IFRSs, in the staff's opinion, divergent interpretations are not expected in practice. Therefore the staff recommends that the IFRIC not add this issue to its agenda. Proposed wording for the tentative agenda decision is set out in Appendix B.

**Question 3**

Does the IFRIC agree with the staff's recommendation not to add this issue to its agenda? If not, how does the IFRIC recommend the staff to proceed?

Does the IFRIC have any comments on the proposed wording for the tentative agenda decision?

## Appendix A – IFRIC Agenda Request

### Staff overview

- A1. The staff received the following IFRIC agenda request. All information has been copied without modification by the staff.

### Agenda request

#### *Submission summary/ cover note*

With regard to IFRIC 18, the lacuna exists as to how the provider / contributor of the assets should account for the contributed assets. In absence of clear guidance most entities have engaged in different practices. Some are recording an immediate expense as they believe that when they are not controlling anything they should not record it as an asset in their financial statements and some are recognizing as an intangible asset so as to spread the cost over the life of the agreement.

#### *Submission*

##### **The issue**

The IFRIC has issued an interpretation (IFRIC 18- Transfer of Assets from customer) dealing with how the entity which received an asset from customer in exchange for getting an on-going service should account for the receipt of the assets.

The IFRIC has reached the consensus that the receiver should recognize the assets at fair value if it meets the recognition criteria and corresponding income depending on whether the receiver has an obligation to provide on-going service or not. However, the issuance of such an interpretation doesn't provide insight how the provider of an asset should record any such contribution. Should provider record it as an intangible asset since the provider got exclusive right to take benefit out of such contributed assets in the form of on-going service or should it be recognized as an expense once contribution made.

##### **Current practice**

Before issuance of guidance, the providers of the assets were recording the underlying assets in their financial statements. Now since the guidance has been issued, there seems to be a gap created regarding how the receiver should account for such contribution. Divergence has been noted with some entity recording as an expense by referring to the framework where it not meet control criteria and some recording it as an intangible asset by considering it as an exclusive right created by the agreement entered between receiver and provider.

## IASB Staff paper

### **Reasons for the IFRIC to address the issue**

As IFRIC has admitted that the issue is widespread i.e. such contribution of assets is widely noticed in many utilities and power sectors. Further consistency is one which is the foremost requirement of the standard setter and follower. I think IFRIC should take it on its agenda and provide guidance how to best account for such contribution in the light of current IFRS literature and which standard should be referred in order to get it right.

[Appendix B has been omitted from this Observer note]