

International Financial Reporting Standards

GPF meeting, 4 November 2015
Agenda paper 2

IFRS Interpretations Committee

Update

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*

Measurement of long-term interests

Contact: Takashi Yamagami (tyamagami@ifrs.org)

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not necessarily those of the IASB or IFRS Foundation

Purpose of the session

- To receive input from GPF on its experiences with dealing with long-term interests that are included in the 'net investment' for the purpose of measurement requirements in IAS 28 (ie loss allocation and impairment)

Background information – Accounting requirements

- IFRS 9 excludes interests in associates and joint ventures that are accounted for under IAS 28 (par. 2.1(a) of IFRS 9)
- IAS 28 requires that an entity's 'net investment' should be subject to:
 - an allocation of losses of the associate (par. 38 of IAS 28); and
 - impairment under IAS 28/IAS 36 (par. 40–43 of IAS 28)
- The 'net investment' includes:
 - ordinary equity shares accounted for using the equity method; and
 - any long-term interests for which settlement is neither planned nor likely to occur in the foreseeable future (par. 38 of IAS 28)
- Examples of these long-term interests include:
 - preference shares;
 - long-term loans or receivables; but, the following are not included
 - trade receivables or trade payables; or
 - secured loans

Background information – Issue

- Should long-term interests in associates included in the ‘net investment’ be:
 - subject to IFRS 9 impairment, IAS 28/IAS 36 impairment, or both;
 - measured at amortised cost under IFRS 9, or using the equity method?

Background information – Views identified

- View A—Entirely in the scope of IFRS 9 (subject to an IAS 28.38 loss allocation)
- View B—Entirely in the scope of IFRS 9 (subject to an IAS 28.38 loss allocation) and also in the scope of IAS 28/36 for impairment
- View C—Entirely in the scope of IAS 28
- View D—In the scope of IFRS 9 for classification and measurement, excluding IFRS 9 impairment (subject to an IAS 28.38 loss allocation)

Views	IAS 28 impairment	IFRS 9 impairment	Loss allocation (Par. 38 of IAS 28)	Other IFRS 9 requirements
A		○	○	○
B	○	○	○	○
C	○		○	
D	○		○	○

Question 1

- In your experience, what types of long-term interests are included in the 'net investment'? Are they:
 - interest bearing loan, non-interest bearing loan, preferred shares, financial instruments with a conversion feature, or something else?

Question 2

- How would you deal with the interaction between allocation of losses/impairments under IAS 28 and measurement under IAS 39/IFRS 9?
 - If long-term interests are measured at amortised cost under IAS 39/IFRS 9, how would you calculate interest income after recognising share of losses/impairment in relation to these interests?
 - If long-term interests are measured at fair value under IAS 39/IFRS 9, how would you apply loss allocation and impairment requirements under IAS 28?

IAS 16 *Property, Plant and Equipment*

Accounting for proceeds and cost of testing of PPE

Contact: Koichiro Kuramochi (kkuramochi@ifrs.org)

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Purpose of the session

- To provide an update on recent discussions of the IFRS Interpretations Committee on the accounting for proceeds and cost of testing on property, plant and equipment (PPE). (This issue was discussed at the March 2015 GPF meeting)
- To receive feedback from GPF on the next steps identified by the Interpretations Committee.

Background information – Paragraph 17(e) and 20 of IAS 16

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- Paragraph 17(e) of IAS 16 states as follows (emphasis added):

17 Examples of directly attributable costs are:

(a) ...

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)

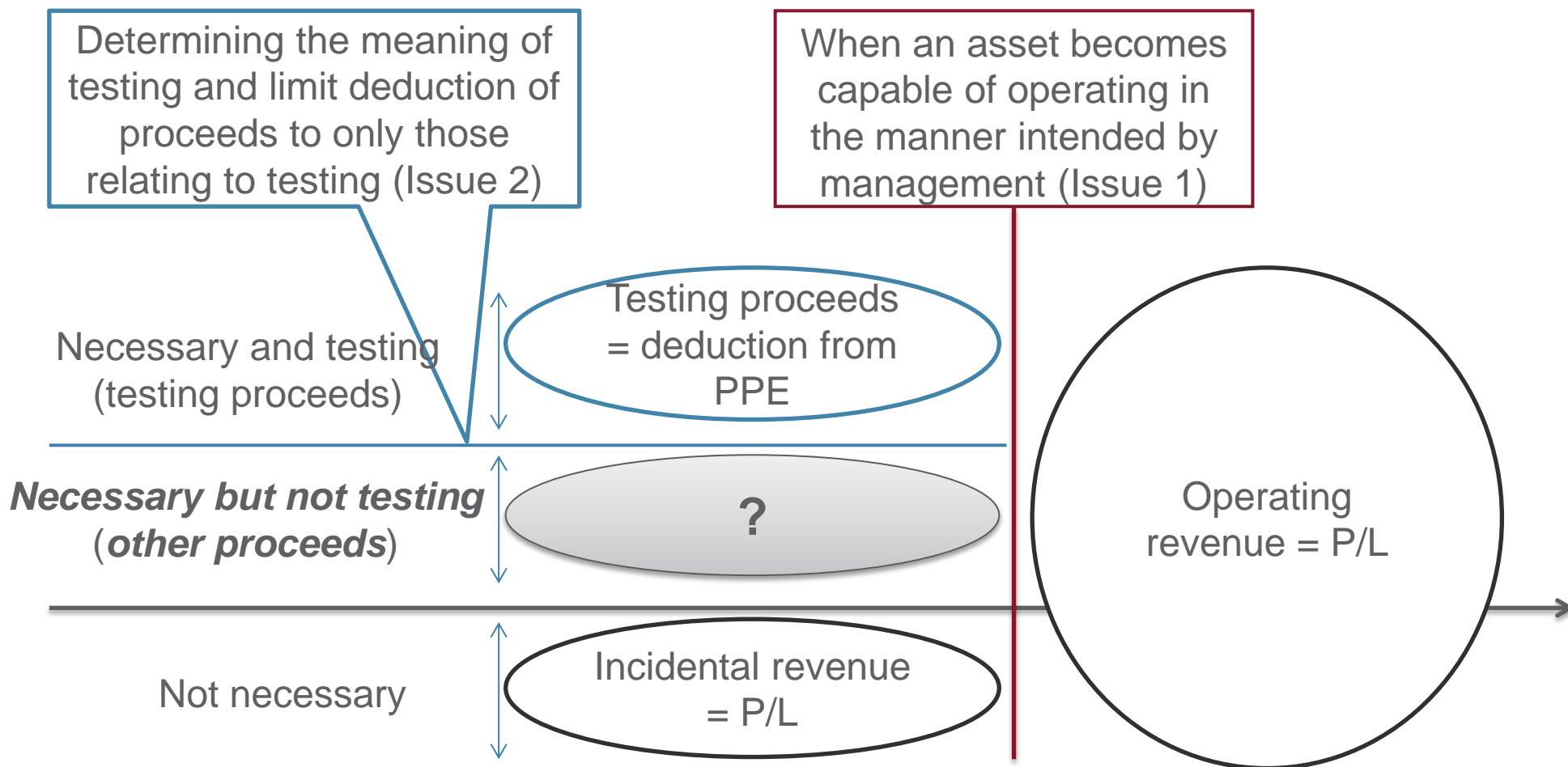
- Paragraph 20 of IAS 16 states as follows (emphasis added):

20 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

- US GAAP does not explicitly allow deducting revenue (including testing proceeds) before an asset is capable of operating.

Overview of accounting for proceeds on PPE (what is clear/not clear in principles in IAS 16)

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(Issue 1) When an asset becomes capable of operating in the manner intended by management

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Explanation of the issue

- When an asset becomes capable of operating in the manner intended by management, it:
 - ceases accumulation of cost and deduction of proceeds; and
 - triggers depreciation.
- Paragraph 17(e) of IAS 16 requires that the costs of testing are included in the cost of the asset, whereas IAS 2 requires that the cost of inventories is recorded as an inventory asset.

Staff tentative proposal

- The staff tentatively consider that an asset is capable of operating in the manner intended by management if it is capable of producing the intended items that can be sold in the ordinary course of business on a regular basis. That is, it produces items that meet the definition of inventory in paragraph 6 of IAS 2.
- The challenge is whether and to what extent the quantity aspect of the output should be considered.

(Issue 2) Determining the meaning of testing and limit deduction of proceeds to only those relating to testing

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- The Interpretations Committee tentatively decided to clarify the meaning of ‘functioning properly’ in paragraph 17(e) of IAS 16 as follows:
 - Functioning properly reflects the technical/physical performance of the PPE, and not the financial performance – such as the level of operating margin – intended by management.
- If deductions of proceeds are limited to proceeds from testing, ***other proceeds*** need to be recognised in profit or loss.
- There is an issue about allocating cost of goods sold corresponding to the ***other proceeds***.
 - If ***other proceeds*** are recognised in profit or loss, what costs should be included in profit or loss in the same period?

Background information – next steps

The Interpretations Committee directed the staff to work on the following areas:

1. develop guidance on the timing of when an asset becomes capable of operating in the manner intended by management in paragraph 20 of IAS 16 (Issue 1);
2. develop guidance that makes clear the narrowness of the scope of paragraph 17(e) of IAS 16 and the treatment of proceeds of testing in excess of the costs of testing (Issue 2);
3. consider an allocation model for cost for circumstances in which PPE and inventory are produced concurrently, before the PPE becomes capable of operating in the manner intended by management (Issue 2);
4. consider the relevance to the issue of the guidance in paragraph 21 of IAS 16, which refers to income generated by operations that occur in connection with the construction or development of an item of PPE but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management; and
5. develop a quantitative disclosure requirement for the amount of proceeds that has been deducted from the cost of PPE, in order to provide transparency of practice.

Question 3

- Do you have any comment on the next steps identified by the Interpretations Committee?

Question 4

- We are considering developing guidance on the following matters:
 - (Issue 1) the ‘capable of operating’ in paragraph 20 of IAS 16; and
 - (Issue 2) ‘testing’ in paragraph 17 of IAS 16?
- Do you have any comments on:
 - the proposal to develop guidance on the two issues above?
 - the underlined sentences in slides 13 and 14?

Overview of Interpretations Committee activities

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Finalising now

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Project Name	Description	Current Position	Next Steps
IAS 12— <i>Income taxes</i> Recognition of deferred tax assets for unrealised losses	To clarify the recognition of a deferred tax asset for unrealised losses of a debt instrument measured at fair value, when the holder has the intention to hold it and collection of cash flows is probable.	The IASB decided to publish clarifying guidance for a number of aspects of deferred tax accounting.	Publication of final amendment expected Q4 2015.

Project Name	Description	Current Position	Next Steps
IFRS 2 <i>Share-based Payment</i>	Addresses: effects of vesting conditions on the measurement of a cash-settled share-based payment; accounting for a modification to the terms that changes the classification from cash-settled to equity-settled; classification of share-based payment transactions with net settlement features.	Proposed amendments to IFRS 2 to clarify the detailed points raised.	The IASB will discuss the comment letter analysis and IC recommendations in Q4 2015.
IAS 1 <i>Presentation of Financial Statements</i> Classification of current/non-current	Clarifying the classification of liabilities, especially when there is a right to roll-over finance that is subject to covenants. The effect on classification of breaching those covenants.	The IASB propose that it is the rights to defer settlement, and compliance with those rights, as at the reporting date that determine classification.	The IASB will discuss the comments received in Q4 2015.

Publishing for comment (1/2)

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Project Name	Description	Current Position	Next Steps
Draft Interpretation: IAS 21 <i>Foreign Currency Transactions</i> Advance consideration	What is the date of the transaction for the purpose of identifying the applicable exchange rate when foreign currency consideration is paid or received in advance?	Propose that the transaction is initially recognised at the exchange rate on the date when the prepaid non-monetary prepayment asset or deferred income liability is initially recognised.	We plan to publish the draft Interpretation in Q4, 2015.
Draft Interpretation IAS 12 <i>Income Taxes</i> Uncertainty over Income Tax Treatments	Whether and how uncertainty should be reflected in the recognition and measurement of current and deferred tax.	Proposal that current and deferred tax should be based on assessments filed with tax authorities, unless probable amounts will not be accepted.	We plan to publish the draft Interpretation in Q4, 2015.

Publishing for comment (2/2)

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Project Name	Description	Current Position	Next Steps
IAS 40 – <i>Investment Property</i> Transfers of investment property	When should assets in the course of construction be recognised as investment property and when inventory?	Proposal that transfers into or out of IP should only occur when there is a change in use.	We plan to publish the proposals in Q4, 2015.
Follow-up on post-implementation review of IFRS 8 <i>Operating Segments</i>	Investigation of 6 issues identified by the IASB in the Feedback Statement for potential improvement.	Proposal to clarify the nature of the CODM; when segments should be aggregated; what line items provide useful information to investors.	We plan to publish the proposals in Q1, 2016.

Annual Improvements 2014-2016

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Project Name	Description	Current Position	Next Steps
IFRS 1 <i>First-time Adoption of IFRS</i>	The Standard included several short-term exemptions with respect to IFRS 7, IAS 19 and IAS 40.	The IASB thinks that these transition arrangements have now served their purpose and can be removed.	This ED is likely to be published in Q 4 2015
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Clarifies when these disclosure requirements apply to an entity's interest that is held for sale.	Proposals confirm that these requirement also apply to interests that are held for sale.	
IAS 28 <i>Investments in Associates and Joint Ventures</i>	Entities can account for these investees using the equity method or measure them at fair value. Should this election be made for all investments or investment-by-investment?	Propose that this election is available investment-by-investment.	

Annual Improvements 2015-2017

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Project Name	Description	Current Position	Next Steps
IAS 23 <i>Borrowing Costs</i>	Do funds borrowed to construct a specific asset become part of general borrowings after construction is complete?	The IC tentatively propose that these borrowings are general and included in the overall capitalisation rate.	The proposed improvement will be presented to a future meeting of the IASB.
IFRS 11 <i>Joint Arrangements</i>	Should pre-existing interests in a joint operation that is a business be remeasured when: 1. obtaining control; and 2. obtaining joint control?	The IC tentatively proposed: 1. remeasurement when obtaining control; and 2. no remeasurement when obtaining joint control.	The proposed improvement will be presented to a future meeting of the IASB.

On-going development (1/2)

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Project Name	Description	Current Position	Next Steps
IFRS 11 <i>Joint Arrangements</i>	Should retained interests be remeasured when loss of control results in an entity obtaining joint control in, or being a party to, a joint a operation.	IC decided to obtain views of the IASB on whether it should postpone discussions due to similarities with a related issue being discussed by the IASB.	Will be discussed at a future meeting.
IAS 16 <i>Property, Plant and Equipment</i> IFRIC 12 <i>Service Concessions</i>	Variable, contractual payments for the purchase of PPE and payments made by an operator to a grantor.	IC considered the leasing project's principles for accounting for variable payments. GPF feedback presented to IC in September 2015.	Will be discussed further at future meetings.

On-going development (2/2)

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Project Name	Description	Current Position	Next Steps
IAS 39 - Holder's accounting for exchange of equity instruments	IC finalised an agenda decision in November 2014. The specific issue was rejected because not widespread and limited diversity in practice.	IC asked the Staff to define a sufficiently narrow-scope issue about the derecognition of modified financial assets for referral to the IASB.	Plan to discuss derecognition of modified financial assets at a future meeting of the IC.

New issues – not analysed yet

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- IFRS 9: measurement of hedge effectiveness
- IAS 12: expected manner of recovery when calculating deferred tax on an indefinite life intangible
- IAS 12: tax of interest payments on equity instruments
- IAS 20: recoverable cash advances provided by government
- IAS 32: offsetting for certain cash pooling arrangements
- IAS 36: recoverable amount and carrying amount of a cash-generating unit
- IFRIC 12: combined service concessions and lease arrangements

- Finalised since last meeting:
 - IAS 24: definition of close members of the family
 - IFRIC 14: continuation of a minimum funding requirement for future service contributions
- Currently out for comment:
 - IFRS 5: various matters
 - IFRS 9: transition for hedge accounting
 - IFRS 11: remeasurement of a previously held interest that does not constitute a business
 - IAS 2: accretion of interest on long-term prepayments
 - IAS 12: effect of exchange rate changes on deferred tax
 - IAS 32: classification of a liability for a prepaid card
 - IAS 39: separation of an embedded interest-rate floor
 - IAS 39: embedded derivatives in a negative interest environment

The word cloud features the words 'individual', 'views', 'and', 'comments', 'questions', 'expressions of', 'feedback', and 'a' in various sizes and orientations. The words are arranged in a way that they appear to be floating or scattered, with some words being larger and more prominent than others. The colors are primarily shades of gray, with some words in red and blue. The background is white.