IFRIC® *Update*

From the IFRS® Interpretations Committee

September 2016

Welcome to the September IFRIC *Update*

The IFRIC *Update* is a summary of the tentative decisions reached by the IFRS Interpretations Committee (the Interpretations Committee) in its public meetings. All conclusions reported are tentative and may be changed or modified at future Interpretations Committee meetings.

Decisions become final only after the Interpretations Committee has taken a formal vote on an Interpretation or a draft Interpretation, which is then ratified by the International Accounting Standards Board (the Board).

The Interpretations Committee met in London on **6 and 7 September 2016**, and discussed:

Contact us

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: **ifric@ifrs.org**
Website: **www.ifrs.org**

Future IFRS Interpretations Committee meetings

The next meeting is:

8 and 9 November 2016

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IFRS **website** before the meeting. Further information about the activities of the IFRS Interpretations Committee can be found **here**. Instructions for submitting requests for Interpretations are given on the IFRS website **here**.

Archive of the IFRS Interpretations Committee *Update*

For archived copies of past issues of the IFRIC *Update* **click here**.

Items on the current agenda

At this meeting, the Interpretations Committee discussed the following items on its current agenda:

IAS 12 *Income Taxes—Uncertainty over Income Tax Treatments*—analysis of matters raised in comment letters (Agenda Papers 2 and 2A)

The Interpretations Committee completed its discussion of matters raised in comment letters on the draft

Interpretation *Uncertainty over Income Tax Treatments*.

The Interpretations Committee tentatively decided to retain in the Interpretation the following proposals included in the draft Interpretation:

a. the scope, ie the Interpretation would apply to income taxes within the scope of IAS 12 and would not explicitly address interest and penalties;
b. the assumption that a taxation authority with the right to do so will (re-)examine amounts reported to it, and have full knowledge of all relevant information;
c. the probable threshold for the recognition of the effect of uncertainty, and the measurement methods to reflect uncertainty;
d. the reference to relevant disclosure requirements in IAS 1 *Presentation of Financial Statements* and IAS 12, and to include that reference in the Application Guidance; and
e. the transition requirements.

In addition, the Interpretations Committee tentatively decided to:

a. restructure the Application Guidance in the draft Interpretation related to the results of a taxation authority's examination. The Application Guidance would focus more generally on changes in facts and circumstances, and include examples of what might constitute such a change.
b. clarify that an entity treats a change in facts and circumstances as a change in accounting estimate applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and apply IAS 10 *Events After the Reporting Period* to determine whether a change in facts and circumstances that occurs after the reporting period is an adjusting or non-adjusting event.
c. remove the proposed disclosure requirement in paragraph B3 of the draft Interpretation.
d. provide short-term transition relief for first-time adopters whose date of transition to IFRSs is before the date of issuing the Interpretation.

Next steps

The Interpretations Committee will consider whether it has completed the necessary due process steps to issue an Interpretation at a future meeting. As a separate step, the Interpretations Committee will consider interest and penalties at a future meeting.

IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*—analysis of matters raised in comment letters on the proposed amendments (Agenda Papers 3, 3A, 3B, 3C, 3D and 3E)

The Interpretations Committee considered a summary of the comment letters received in response to the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan*, and discussed the proposals included in that Exposure Draft.

The Interpretations Committee recommended that the Board finalise the proposed amendments to IFRIC 14 and IAS 19 subject to some drafting changes.

The Interpretations Committee also recommended to the Board that:

a. an entity should apply the amendments to IFRIC 14 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19);
b. an entity should apply the amendments to IAS 19 prospectively;
c. no transition relief should be provided for first-time adopters; and
d. an entity should apply the proposed amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Next steps

The Board will discuss the Interpretations Committee's recommendations at a future Board meeting.

IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*—long-term interests in associates and joint ventures (Agenda Paper 4)

At its meeting in May 2016, the Interpretations Committee tentatively decided to develop a draft Interpretation. The draft Interpretation will address the accounting for long-term interests in an associate or a joint venture that, in substance, form part of the net investment in that associate or joint venture, but to which the equity method is not applied (long-term interests).

At this meeting, the Interpretations Committee discussed some aspects of the proposals to be included in the draft Interpretation, and tentatively decided the following:

a. an entity should allocate impairment losses recognised on the net investment in an associate or a joint venture between the investment accounted for using the equity method and long-term interests, in the reverse order of seniority;
b. an entity should provide disclosures about long-term interests that meet the overall objective in IFRS 12 *Disclosure of Interests in Other Entities*;
c. to include an example illustrating the application of the proposals to long-term interests;
d. to require retrospective application of the proposals but permit an entity not to restate comparative information, unless the entity chooses to restate comparative information on initial application of IFRS 9;
e. to provide transition requirements equivalent to those described in d. above for entities applying the temporary exemption from IFRS 9;
f. for first-time adopters whose first IFRS reporting period begins before 1 January 2019, to require retrospective application of the proposals but permit them not to restate comparative information, unless they choose to restate comparative information relating to IFRS 9 on initial adoption of IFRS Standards; and
g. to propose an effective date of 1 January 2018.

The Interpretations Committee also confirmed its general agreement that the staff prepare the draft Interpretation for balloting, provided that there are no significant matters arising from discussions of the Board.

Next steps

The Board will discuss the technical analysis and due process that the Interpretations Committee has undertaken to develop the draft Interpretation at a future Board meeting.

If no significant matters arise from the Board's discussions, the staff will prepare the draft Interpretation for balloting.

IAS 16 *Property, Plant and Equipment*—proceeds and costs of testing property, plant and equipment (PPE) (Agenda Paper 5)

At its meeting in March 2016, the Interpretations Committee recommended that the Board propose a narrow-scope amendment to IAS 16 with respect to accounting for proceeds and the cost of testing an item of PPE.

At this meeting, the Interpretations Committee recommended that the Board require prospective application of the proposed amendments to items of PPE made available for use from the beginning of the earliest comparative period when first applying the proposed amendments. The Interpretations Committee also decided that:

a. transition relief is not required for a first-time adopter with respect to the proposed amendments to IAS 16; and
b. disclosure requirements should not be added as part of those proposed amendments.

Next steps

The Board will discuss the Interpretations Committee's recommendations at a future Board meeting.

IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—fees and costs included in the '10 per cent' test for the purpose of derecognition (Agenda Paper 9)

The Interpretations Committee received a request to clarify which fees and costs to include in the '10 per cent' test for the purpose of derecognition of a financial liability.

At its meeting in May 2016, the Interpretations Committee issued a tentative agenda decision. In that tentative agenda decision, the Interpretations Committee noted that when applying paragraphs B3.3.6 of IFRS 9 and AG62 of IAS 39 in carrying out the '10 per cent' test, an entity includes only fees paid or received between the entity and the lender, and fees paid or received by either the entity or the lender on the other's behalf.

At this meeting, the Interpretations Committee reconfirmed the technical conclusions reached in May 2016 and summarised in the tentative agenda decision. The Interpretations Committee voted to recommend to the

Board that it propose an amendment to IFRS 9 and IAS 39 as part of the next Annual Improvements Cycle. However, the Interpretations Committee then agreed that further discussion was necessary before concluding whether to recommend an Annual Improvement or issue an agenda decision.

Next steps

The Interpretations Committee will consider this issue further at a future meeting.

Interpretations Committee's tentative agenda decision

The Interpretations Committee reviewed the following matter and tentatively decided that it should not be added to its agenda. This tentative decision, including recommended reasons for not adding the item to the Interpretations Committee's agenda, will be reconsidered at a future Interpretations Committee meeting. Interested parties who disagree with the recommended reasons, or believe that such reasons may contribute to divergent practices, are encouraged to email their comments by 15 November 2016 to **ifric@ifrs.org**. All such correspondence received will be placed on the public record unless the writer specifically requests that it remain confidential. In that case, the request must be supported by good reason, eg commercial confidence.

IAS 12 *Income Taxes*—recognition of deferred taxes when acquiring a single-asset entity that is not a business (Agenda Paper 6)

The Interpretations Committee received a submission questioning how, in its consolidated financial statements, an entity accounts for a transaction in which it acquires all of the shares of another entity that has an investment property as its only asset. In the fact pattern submitted, the acquiree had recognised in its statement of financial position a deferred tax liability arising from measuring the investment property at fair value. The amount paid for the shares is less than the fair value of the investment property because of the associated deferred tax liability. The transaction described in the submission does not meet the definition of a business combination in IFRS 3 *Business Combinations* because the acquired entity is not a business. The acquiring entity applies the fair value model in IAS 40 *Investment Property.* The submitter asked the Interpretations Committee to consider whether the requirements in paragraph 15(b) of IAS 12 should be amended in this respect.

The Interpretations Committee noted that:

a. because the transaction is not a business combination, paragraph 2(b) of IFRS 3 requires the acquiring entity, in its consolidated financial statements, to allocate the purchase price to the assets acquired and liabilities assumed; and
b. paragraph 15(b) of IAS 12 states that an entity does not recognise a deferred tax liability for taxable temporary differences that arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit or loss nor taxable profit (tax loss).

Accordingly, on acquisition, the acquiring entity recognises only the investment property and not a deferred tax liability in its consolidated financial statements. The acquiring entity therefore allocates the entire purchase price to the investment property.

The Interpretations Committee concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for the transaction. The Interpretations Committee also concluded that any reconsideration of the initial recognition exception in paragraph 15(b) of IAS 12 is something that would require a Board-level project. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

The Interpretations Committee noted that the Board had recently considered whether to add a project on IAS 12 to the Board's agenda, but had decided not to do so. Consequently, the Interpretations Committee did not recommend that the Board consider adding a project to its agenda on this topic.

Interpretations Committee's agenda decision

IFRIC 12 *Service Concession Arrangements*—service concession arrangements with leased infrastructure (Agenda Paper 7)

The Interpretations Committee received a request to clarify how an operator accounts for a service concession arrangement in which the infrastructure is leased. In this arrangement, the operator is not required to provide any construction or upgrade services with respect to the infrastructure.

The submitter described an arrangement that involves three parties: a grantor, an operator and a lessor. The operator enters into an arrangement with the grantor to operate a public service. Some or all of the infrastructure in the arrangement is leased from the lessor. The lessor and the grantor may be controlled by the same governmental body. The operator is contractually required to pay the lessor for the lease of the infrastructure. The operator has an unconditional contractual right to receive cash from the grantor to reimburse those payments. In arrangements in which the lessor and the grantor are not controlled by the same governmental body, the grantor provides the lessor with a guarantee of the lease payments to be made during the lease term, and of any residual value at the end of the lease term. The grantor also has an option to renew the lease at the end of the initial non-cancellable period of the contract.

The submitter asked the Interpretations Committee to clarify whether the arrangement (including the leased infrastructure) is within the scope of IFRIC 12 (scope issue). If the arrangement (including the leased infrastructure) is determined to be within the scope of IFRIC 12, the submitter notes that the lease of the infrastructure is not within the scope of IFRS 16 *Leases* (IAS 17 *Leases*) for the operator. Consequently, the submitter also asked the Interpretations Committee to clarify how the operator accounts for any assets and liabilities arising from the arrangement with the lessor (recognition and presentation issues).

With respect to the scope issue, the Interpretations Committee observed that:

a. assessing whether the arrangement (including the leased infrastructure) is within the scope of IFRIC 12 requires consideration of the specific facts and circumstances. In particular, the operator assesses whether the control conditions in paragraph 5 of IFRIC 12 and the condition relating to the infrastructure in paragraph 7 of IFRIC 12 apply.
b. the operator is not required to provide construction or upgrade services with respect to the infrastructure for the arrangement to be within the scope of IFRIC 12.

With respect to the recognition and presentation issues, if the arrangement (including the leased infrastructure) described in the submission is determined to be within the scope of IFRIC 12, the Interpretations Committee observed that the grantor, rather than the operator, controls the right to use the infrastructure. Accordingly, the Interpretations Committee observed that:

a. the operator assesses whether it is obliged to make payments to the lessor for the lease or whether the grantor has this obligation. This assessment requires consideration of the specific facts and circumstances. If the grantor is obliged to make payments to the lessor, then in that case the operator is collecting cash from the grantor that it remits to the lessor on the grantor's behalf.
b. if the operator is obliged to make payments to the lessor as part of the service concession arrangement, then the operator recognises a liability for this obligation when it is committed to the service concession arrangement and the infrastructure is made available by the lessor. At the time the operator recognises the liability, it also recognises a financial asset because the operator has a contractual right to receive cash from the grantor to reimburse those payments.
c. the operator's liability to the lessor described in b. above is a financial liability. Accordingly, the operator offsets the liability to make payments to the lessor against the corresponding receivable from the grantor only when the criteria for offsetting a financial asset and a financial liability in IAS 32 *Financial Instruments: Presentation* are met.

The Interpretations Committee concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for the arrangement.

In the light of the existing requirements in IFRS Standards, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.

Other matters

Issue on the September 2016 meeting agenda postponed to a future Interpretations Committee meeting

Discussion of the following issue has been postponed to a future Interpretations Committee meeting:

IFRS 9 *Financial Instruments*—modification or exchange of financial liabilities that do not result in derecognition (Agenda Paper 8)

Update on the Board's *2015 Agenda Consultation* (Agenda Paper 10)

The Interpretations Committee received an update on the *2015 Agenda Consultation* process undertaken by the Board. Further details about the Board's *2015 Agenda Consultation* are available on its website.

Interpretations Committee work in progress update (Agenda Paper 11)

The Interpretations Committee received a report on three new issues for consideration at future meetings. The report also included one issue that is currently on hold—that issue will be considered again at a future meeting.

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