

# IFRIC<sup>®</sup> Update

From the IFRS<sup>®</sup> Interpretations Committee



July 2016

## Welcome to the IFRIC Update

*IFRICUpdate is a summary of the tentative decisions reached by the IFRS Interpretations Committee (Interpretations Committee) at 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 confirmed by the International Accounting Standards Board (the Board).*

The Interpretations Committee met on **12 July 2016**, and discussed:

- [Items on the current agenda](#)
- [IAS 21 \*The Effects of Changes in Foreign Exchange Rates\*—Foreign currency transactions and advance consideration \(Agenda Papers 3, 3A and 3B\)](#)
- [IAS 19 \*Employee Benefits\* and IFRIC 14 \*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction\*—Comment letter summary \(Agenda Papers 6, 6A and 6B\)](#)
- [IAS 12 \*Income Taxes\*—Uncertainty over Income Tax Treatments: Comment letter summary \(Agenda Paper 7\)](#)
- [Interpretations Committee’s tentative agenda decisions](#)
- [IAS 12 \*Income Taxes\*—Expected manner of recovery of indefinite life intangible assets when measuring deferred tax \(Agenda Paper 2\)](#)
- [Interpretations Committee’s agenda decisions](#)
- [IFRS 11 \*Joint Arrangements\* and IFRS 10 \*Consolidated Financial Statements\*—Accounting for loss of control transactions \(Agenda Paper 4\)](#)
- [IFRIC 12 \*Service Concession Arrangements\*—Payments made by an operator to a grantor in a service concession arrangement \(Agenda Paper 5\)](#)
- [Other matters](#)
- [Interpretations Committee work in progress update \(Agenda Paper 8\)](#)

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### Future IFRS Interpretations Committee meetings

The next meetings are:

**6 and 7 September 2016**  
**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 IFRS Interpretations Committee Update

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## Items on the current agenda

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

### **IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Foreign currency transactions and advance consideration (Agenda Papers 3, 3A and 3B)**

The Interpretations Committee completed its discussion of the more significant matters raised in comment letters to the draft Interpretation *Foreign Currency Transactions and Advance Consideration*, and reviewed the due process steps taken in the development of the Interpretation.

The Interpretations Committee tentatively decided:

- a. the effective date of the Interpretation should be 1 January 2018, with earlier application permitted; and
- b. first-time adopters should be permitted to apply the Interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS Standards.

The Interpretations Committee also tentatively decided that it has completed the necessary due process for the project and gave the staff permission to start the balloting process.

**Next steps**

The staff will begin the balloting process for the Interpretation. The Board is expected to ratify the Interpretation in the fourth quarter of 2016.

**IAS 19 Employee Benefits and IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction—Comment letter summary of proposed amendments (Agenda Papers 6, 6A and 6B)**

The Interpretations Committee discussed a summary of the feedback on the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan* (Proposed amendments to IAS 19 and IFRIC 14).

No decisions were made.

**Next steps**

The Interpretations Committee will deliberate the proposed amendments at a future Interpretations Committee meeting, taking into account the feedback received. .

**IAS 12 Income Taxes—Uncertainty over Income Tax Treatments—Comment letter summary (Agenda Paper 7)**

The Interpretations Committee discussed a summary of the feedback on the Exposure Draft *Uncertainty over Income Tax Treatments*.

No decisions were made.

**Next steps**

The Interpretations Committee will deliberate the proposed amendments at a future Interpretations Committee meeting, taking into account the feedback received.

## **Interpretations Committee's tentative agenda decisions**

*The Interpretations Committee reviewed the following matters and tentatively decided not to add them to its agenda. These tentative decisions, including 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 proposed decisions, or believe the explanations may contribute to divergent practices, are encouraged to email those concerns by 21 September 2016 to [ifric@ifrs.org](mailto:ifric@ifrs.org). Correspondence will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

**IAS 12 Income Taxes—Expected manner of recovery of indefinite life intangible assets when measuring deferred tax (Agenda Paper 2)**

The Interpretations Committee received a request to clarify how to determine the expected manner of recovery of an indefinite life intangible asset for the purposes of measuring deferred tax.

The Interpretations Committee noted that paragraph 51 of IAS 12 *Income Taxes* states that the measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that follow from the manner in which an entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Interpretations Committee also noted the requirements in paragraph 88 of IAS 38 *Intangible Assets*

regarding indefinite life intangible assets.

The Interpretations Committee observed that an indefinite life intangible asset is not a non-depreciable asset as envisaged by paragraph 51B of IAS 12. This is because a non-depreciable asset has an unlimited (or infinite) life, and IAS 38 explains that indefinite does not mean infinite. Consequently, the requirements in paragraph 51B of IAS 12 do not apply to indefinite life intangible assets.

The Interpretations Committee noted the Board's observation about indefinite life intangible assets when the Board amended IAS 38 in 2004. The Board observed that an indefinite life intangible asset is not amortised because there is no foreseeable limit on the period during which an entity expects to consume the future economic benefits embodied in the asset and, hence, amortisation over an arbitrarily determined maximum period would not be representationally faithful. Therefore, the reason for not amortising an indefinite life intangible asset is not because there is no consumption of the future economic benefits embodied in the asset.

The Interpretations Committee observed that an entity recovers the carrying amount of an asset in the form of economic benefits that flow to the entity in future periods, which could be through use or sale of the asset. Accordingly, the recovery of the carrying amount of an indefinite life intangible asset does not depend on whether the asset is amortised. Consequently, the fact that an entity does not amortise an indefinite life intangible asset does not necessarily mean that the entity will recover the carrying amount of that asset only through sale and not through use.

The Interpretations Committee noted that an entity applies the principle and requirements in paragraphs 51 and 51A of IAS 12 when measuring deferred tax on an indefinite life intangible asset. In applying paragraphs 51 and 51A of IAS 12, an entity determines its expected manner of recovery of the carrying amount of the indefinite life intangible asset, and reflects the tax consequences that follow from that expected manner of recovery.

The Interpretations Committee concluded that the principle and requirements in paragraphs 51 and 51A of IAS 12 provide sufficient requirements with respect to measuring deferred tax on indefinite life intangible assets.

In the light of 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

## Interpretations Committee's agenda decisions

### **IFRS 11 *Joint Arrangements* and IFRS 10 *Consolidated Financial Statements*—Accounting for loss of control transactions (Agenda Paper 4)**

The Interpretations Committee discussed whether an entity should remeasure its retained interest in the assets and liabilities of a joint operation when the entity loses control of a business, or an asset or group of assets that is not a business. In the transaction discussed, the entity either retains joint control of a joint operation or is a party to a joint operation (with rights to assets and obligations for liabilities) after the transaction.

The Interpretations Committee noted that paragraphs B34–B35 of IFRS 11 *Joint Arrangements* specify that an entity recognises gains or losses on the sale or contribution of assets to a joint operation only to the extent of the other parties' interests in the joint operation. The requirements in these paragraphs could be viewed as conflicting with the requirements in IFRS 10 *Consolidated Financial Statements*, which specify that an entity remeasures any retained interest when it loses control of a subsidiary.

The Interpretations Committee observed that the Board issued amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures* in September 2014 to address the accounting for the sale or contribution of assets to an associate or a joint venture. Those amendments address a similar conflict that exists between the requirements in IFRS 10 and IAS 28. The Board decided to defer the effective date of the amendments to IFRS 10 and IAS 28 and further consider a number of related issues at a later date. The Interpretations Committee observed that the Post-implementation Review of IFRS 10 and IFRS 11 would provide the Board with an opportunity to consider loss of control transactions and a sale or contribution of assets to an associate or a joint venture.

Because of the similarity between the transaction discussed by the Interpretations Committee and a sale or contribution of assets to an associate or a joint venture, the Interpretations Committee concluded that the

accounting for the two transactions should be considered concurrently by the Board. Consequently, the Interpretations Committee decided not to add this issue to its agenda but, instead, to recommend that the Board consider the issue at the same time the Board further considers the accounting for the sale or contribution of assets to an associate or a joint venture.

**IFRIC 12 *Service Concession Arrangements*—Payments made by an operator to a grantor in a service concession arrangement (Agenda Paper 5)**

The Interpretations Committee received a request to clarify how an operator accounts for payments it makes to a grantor in a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*.

The Interpretations Committee observed the following in circumstances other than those in which the operator is collecting amounts (for example, sales taxes) on behalf of, and remitting them to, the grantor:

- a. if payments are for a right to a good or service that is separate from the service concession arrangement, then the operator accounts for those payments applying the applicable IFRS Standard(s);
- b. if payments are for the right to use an asset that is separate from the infrastructure within the scope of IFRIC 12, then the operator assesses whether the arrangement contains a lease. If the arrangement contains a lease, the operator accounts for those payments applying IFRS 16 *Leases* (IAS 17 *Leases*);
- c. if payments are not for the right to a separate good or service or a separate right-of-use that is a lease, then the operator accounts for those payments as follows:
  - i. if the service concession arrangement results in the operator having only a contractual right to receive cash from the grantor (ie the financial asset model applies as described in paragraph 16 of IFRIC 12), the operator accounts for those payments as a reduction of the transaction price, applying the requirements on consideration payable to a customer in paragraphs 70-72 of IFRS 15 *Revenue from Contracts with Customers*;
  - ii. if the service concession arrangement results in the operator having only a right to charge users of the public service (ie the intangible asset model applies as described in paragraph 17 of IFRIC 12), the operator has received an intangible asset (ie the right to charge the users of the public service) in exchange for construction/upgrade services and the payments to be made to the grantor. Consequently, an entity accounts for those payments applying IAS 38 *Intangible Assets*; and
  - iii. if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor (ie both the intangible asset model and the financial asset model apply as described in paragraph 18 of IFRIC 12), the operator considers whether those payments represent payments made for the intangible asset, or consideration payable to a customer, or both.

The Interpretations Committee observed that, when the intangible asset model in IFRIC 12 applies, the accounting for variable payments to be made by the operator in a service concession arrangement is linked to the broader issue of accounting for variable payments for asset purchases. However, the Interpretations Committee noted that it had determined in [March 2016](#) that the issue of accounting for variable payments for asset purchases is too broad for the Interpretations Committee to address within the confines of existing IFRS Standards and, consequently, decided not to add the issue to its agenda. Therefore, the Interpretations Committee concluded that addressing how an operator accounts for variable payments that it makes to a grantor when the intangible asset model in IFRIC 12 applies is too broad for the Interpretations Committee to address within the confines of existing IFRS Standards.

The Interpretations Committee also concluded that the requirements in existing IFRS Standards are sufficient to address the other aspects of how an operator accounts for payments that it makes to a grantor as described above. Consequently, the Interpretations Committee decided not to add this issue to its agenda.

## Other matters

**Interpretations Committee work in progress update (Agenda Paper 8)**

The Interpretations Committee received a report on two ongoing issues and five new issues for consideration at future meetings. The report also included one issue that is on hold and that will be considered again at a future meeting.

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