

IFRIC[®] Update

From the IFRS[®] Interpretations Committee



March 2017

Welcome to the March IFRIC Update

The IFRIC Update is a summary of the decisions reached by the IFRS Interpretations Committee (the Committee) in its public meetings.

Decisions on an IFRIC Interpretation become final only after the Committee has taken a formal vote on the Interpretation. IFRIC Interpretations require ratification by the International Accounting Standards Board (the Board).

The Committee met in London on **14 and 15 March 2017**, and discussed:

- **Items on the current agenda**
- [IFRS 3 Business Combinations and IFRS 11 Joint Arrangements—Previously held interests \(Agenda Paper 9\)](#)
- [IAS 19 Employee Benefits—Plan amendments, curtailments or settlements \(Agenda Paper 2\)](#)
- **Committee’s tentative agenda decisions**
- [IFRS 1 First-time Adoption of International Financial Reporting Standards—Subsidiary as a first-time adopter \(Agenda Paper 5\)](#)
- [IFRS 9 Financial Instruments—Modifications or exchanges of financial liabilities that do not result in derecognition \(Agenda Paper 11\)](#)
- [IAS 12 Income Taxes—Interest and penalties related to income taxes \(Agenda Paper 6\)](#)
- [IAS 19 Employee Benefits—Discount rate in a country that has adopted another country’s currency \(Agenda Paper 3\)](#)
- [IAS 32 Financial Instruments: Presentation—Centrally cleared client derivatives \(Agenda Paper 10\)](#)
- [IAS 33 Earnings per Share—Tax arising from payments on participating equity instruments \(Agenda Paper 4\)](#)
- [IAS 41 Agriculture—Biological assets growing on bearer plants \(Agenda Paper 7\)](#)
- **Committee’s agenda decisions**
- [IFRS 10 Consolidated Financial Statements—Investment entities and subsidiaries \(Agenda Paper 8A\)](#)
- [IAS 12 Income Taxes—Deferred taxes when acquiring a single-asset entity that is not a business \(Agenda Paper 8C\)](#)
- [IAS 28 Investments in Associates and Joint Ventures—Fund manager’s assessment of significant influence \(Agenda Paper 8B\)](#)
- [Commodity loans \(Agenda Paper 8D\)](#)
- **Other matters**
- [Committee work in progress update \(Agenda Paper 12\)](#)
- [Matters reported to the Board \(Agenda Paper 13\)](#)

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Future IFRS Interpretations Committee meetings

The next meetings are:

3 May 2017 (tentative)
13 and 14 June 2017
12 and 13 September 2017
20 and 21 November 2017

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 IFRIC Interpretations are given on the IFRS website [here](#).

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Items on the current agenda

The Committee discussed the following items on its current agenda:

IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*—Previously Held Interests (Agenda Paper 9)

The Committee discussed feedback on the proposed amendments to IFRS 3 and IFRS 11 that clarify how an entity accounts for previously held interests in situations in which it obtains control or joint control of a business that is a joint operation. These proposed amendments were included in the Exposure Draft *Definition of a Business and Accounting for Previously Held Interests*.

At this meeting, the Committee did not conclude on how an entity applies the remeasurement requirements in IFRS 3 to previously held interests in a joint operation—for example, whether an entity remeasures only assets and liabilities previously recognised or its entire previously held interest. The Committee recommended that the Board discuss this topic at a future meeting. Other than this topic, the Committee recommended that the Board finalise the proposed amendments to IFRS 3 and IFRS 11 with no significant changes.

Next steps

At a future Board meeting, the Board will discuss:

- a. how an entity applies the remeasurement requirements in IFRS 3 to previously held interests in a joint operation; and
- b. subject to the outcome of that discussion, the Committee's recommendation to finalise the proposed amendments with no significant changes.

IAS 19 *Employee Benefits*—Plan amendments, curtailments or settlements (Agenda Paper 2)

The Committee discussed the implications of not excluding minor plan events (ie plan amendments, curtailments or settlements for which the past service cost, or gain or loss on settlement, would not be material) from the scope of the amendments to IAS 19. The proposed amendments to IAS 19 were included in the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan*.

The Committee recommended that the Board should:

- a. not explicitly exclude minor plan events from the scope of the amendments to IAS 19;
- b. explain in the Basis for Conclusions how the amendments would affect an entity's assessment of materiality when applying the requirements in paragraph 99 of IAS 19; and
- c. remove the reference in paragraphs BC17 and BC19 of the Exposure Draft to the frequency and timing of remeasuring the net defined benefit liability.

Next steps

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

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add them to its standard-setting agenda. Instead, each tentative agenda decision includes, to the extent possible, educative material referring to the relevant principles and requirements in IFRS Standards. These tentative decisions, including the reasons for not adding the items to the Committee's standard-setting agenda, will be reconsidered at a future meeting. Interested parties who disagree with the tentative decision and/or with the reasons stated, or believe that such reasons may contribute to divergent practices, are encouraged to email their comments by 22 May 2017 to ifric@ifrs.org. Similarly, interested parties who agree with the tentative decision may also send us their comments by that date, indicating whether they agree with the Committee's reasons. 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 confidentiality.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a first-time adopter (Agenda Paper 5)

The Committee received a request to clarify the accounting applied by a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent. The subsidiary has foreign operations, on which it accumulates translation differences in a separate component of equity. The request asks whether, applying paragraph D16 of IFRS 1, the subsidiary is permitted to recognise cumulative translation differences at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

Paragraph D16 of IFRS 1 provides a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent with an exemption relating to the measurement of its assets and liabilities. Translation differences that the subsidiary accumulates in a separate component of equity are neither an asset nor a liability. Accordingly, the Committee concluded that paragraph D16 of IFRS 1 does not permit the subsidiary to recognise cumulative translation differences at the amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

The Committee also concluded that the subsidiary cannot apply the exemption in paragraph D16 of IFRS 1 to cumulative translation differences by analogy—paragraph 18 of IFRS 1 explicitly prohibits an entity from applying the exemptions in IFRS 1 by analogy to other items.

Accordingly, when the subsidiary becomes a first-time adopter of IFRS Standards, the subsidiary accounts for cumulative translation differences applying paragraphs D12–D13 of IFRS 1. These paragraphs require the subsidiary to recognise cumulative translation differences either at zero or on a retrospective basis at its date of transition to IFRSs.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for a first-time adopter to determine how to account for cumulative translation differences. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

IFRS 9 *Financial Instruments*—Modifications or exchanges of financial liabilities that do not result in derecognition (Agenda Paper 11)

The Committee received a request regarding the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. More specifically, the request asked whether, applying IFRS 9, an entity recognises any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.

The Committee noted that the requirements in paragraph B5.4.6 of IFRS 9 apply to all revisions of estimated payments or receipts, including changes in cash flows arising from a modification or exchange of a financial liability that does not result in the derecognition of the financial liability. This is consistent with the requirements in IFRS 9 for modifications of financial assets that do not result in derecognition, and with the definition of amortised cost in Appendix A of IFRS 9 that applies to both financial assets and financial liabilities.

The Committee concluded, therefore, that an entity applies paragraph B5.4.6 of IFRS 9 to a modification or exchange of a financial liability that does not result in the derecognition of the financial liability. In doing so, the entity recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The entity recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification or exchange.

The Committee noted that IFRS 9 had introduced additional wording in paragraph 5.4.3 of IFRS 9 on the accounting for modifications of financial assets. The Committee observed that, if an entity changes its accounting policy for modifications or exchanges of financial liabilities that do not result in derecognition as a result of the initial application of IFRS 9, then the entity applies the transition requirements in IFRS 9, which require retrospective application subject to particular relief as specified in Section 7.2 of IFRS 9.

The Committee concluded that the principles and requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

IAS 12 *Income Taxes*—Interest and penalties related to income taxes (Agenda Paper 6)

IFRS Standards do not specifically address the accounting for interest and penalties related to income taxes (interest and penalties). Respondents to the draft IFRIC Interpretation *Uncertainty over Income Tax Treatments* said that entities apply either IAS 12 or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to interest and penalties.

In the light of this feedback, the Committee considered whether to add a project on interest and penalties to its standard-setting agenda.

On the basis of its analysis, the Committee concluded that a project on interest and penalties is not a higher priority than other projects already on the Board's or Committee's agenda. Consequently, the Committee [decided] not to add a project on interest and penalties to its standard-setting agenda.

Nonetheless, the Committee observed the following:

- a. if an entity determines that amounts payable or receivable for interest and penalties are income taxes, then the entity applies IAS 12 to those amounts. If an entity does not apply IAS 12 to interest and penalties, then it applies IAS 37 to those amounts;
- b. paragraph 79 of IAS 12 requires an entity to disclose the major components of tax expense (income); for each class of provision, paragraphs 84-85 of IAS 37 require a reconciliation of the carrying amount at the start and end of the reporting period as well as various other pieces of information. Accordingly, regardless of whether an entity applies IAS 12 or IAS 37 when accounting for interest and penalties related to income taxes, the entity would disclose information about those interest and penalties if it is material; and
- c. paragraph 122 of IAS 1 *Presentation of Financial Statements* requires disclosure of the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

IAS 19 *Employee Benefits*—Discount rate in a country that has adopted another country's currency (Agenda Paper 3)

The Committee received a request to clarify how an entity determines the rate used to discount post-employment benefit obligations (discount rate) in a country (Ecuador) that has adopted another currency as its official or legal currency (the US dollar). The entity's post-employment benefit obligation is denominated in US dollars. The submitter says there is no deep market for high quality corporate bonds denominated in US dollars in the country in which the entity operates (Ecuador).

The submitter asked whether, in that situation, the entity considers the depth of the market in high quality corporate bonds denominated in US dollars in other markets or countries in which those bonds are issued (for example, the United States). If there is no deep market in high quality corporate bonds denominated in US dollars, IAS 19 requires the entity to use the market yield on government bonds denominated in US dollars when determining the discount rate. The submitter asked whether the entity can use market yields on bonds denominated in US dollars issued by the Ecuadorian government, or whether instead the entity is required to use market yields on bonds denominated in US dollars issued by a government in another market or country.

The Committee observed that, applying paragraph 83 of IAS 19:

- a. an entity with post-employment benefit obligations denominated in a particular currency assesses the depth of the market in high quality corporate bonds denominated in that currency. The entity does not limit this assessment to the market or country in which it operates, but also considers other markets or countries in which high quality corporate bonds denominated in that currency are issued;
- b. if there is a deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate by reference to market yields on high quality corporate bonds at the end of the reporting period. It does so even if there is no deep market in such bonds in the market or country in which the entity operates. In this situation, the entity does not use market yields on government bonds to determine the discount rate;
- c. if there is no deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate using market yields on government bonds denominated in that currency; and
- d. the entity applies judgement to determine the appropriate population of high quality corporate bonds or government bonds to reference when determining the discount rate. The currency and term of the bonds must be consistent with the currency and estimated term of the post-employment benefit obligations.

The Committee noted that the discount rate does not reflect the expected return on plan assets. Paragraph BC130 of IAS 19 says that the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

In addition, the Committee considered the interaction between the requirements in paragraphs 75 and 83 of IAS 19. Paragraph 75 of IAS 19 requires actuarial assumptions to be mutually compatible. The Committee concluded that it is not possible to assess whether, and to what extent, a discount rate derived by applying the requirements in paragraph 83 of IAS 19 is compatible with other actuarial assumptions. Accordingly, the entity applies the requirements in paragraph 83 of IAS 19 when it determines the discount rate.

The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the discount rate when the entity operates in a country that has adopted another currency as its official or legal currency. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

IAS 32 *Financial Instruments: Presentation*—Centrally cleared client derivatives (Agenda Paper 10)

Some jurisdictions mandate the clearing of particular derivative products through a central clearing counterparty (CCP). To clear through a CCP, an entity must be a clearing member.¹ The types of products required to be cleared, and the surrounding legal framework, vary across jurisdictions.

The Committee received a request to clarify the accounting for centrally cleared client derivative contracts from the perspective of the clearing member.

The Committee concluded that the clearing member first applies the requirements for financial instruments. More specifically, the Committee observed that:

- a. if the transaction(s) results in contracts that are within the scope of IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*), then the clearing member applies the requirements in IFRS 9 (IAS 39) to those contracts. IFRS 9 (and IAS 39) requires an entity to recognise a financial instrument in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument. The clearing member presents recognised financial assets and financial liabilities separately, unless net presentation in the statement of financial position is required pursuant to the offsetting requirements in paragraph 42 of IAS 32.
- b. if the transaction(s) is not within the scope of IFRS 9 (IAS 39) and another IFRS Standard does not specifically apply, only then would the clearing member apply the hierarchy in paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine an appropriate accounting policy for the transaction(s).

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for a clearing member to account for centrally cleared client derivative contracts. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

¹ Clearing Members are sometimes referred to as Clearing Brokers.

IAS 33 *Earnings per Share*—Tax arising from payments on participating equity instruments (Agenda Paper 4)

The Committee received a request to clarify how an entity determines profit attributable to ordinary shareholders when calculating basic earnings per share (EPS). In the fact pattern described in the submission:

- a. the entity has two classes of equity instruments—ordinary shares and participating equity instruments. Participating equity holders participate in dividends together with ordinary shareholders according to a predetermined formula;
- b. applying IAS 32 *Financial Instruments: Presentation*, the entity classifies the participating equity instruments as equity. Dividends are paid to participating equity holders only when they are paid to ordinary shareholders; and
- c. the dividends on participating equity instruments are deductible for tax purposes. Accordingly, such payments reduce taxable income and thus reduce income taxes payable to the taxation authorities ('tax benefit').

The submitter asked whether, in determining profit attributable to the ordinary shareholders (ie the numerator) in the basic EPS calculation, the entity reflects the tax benefit that would arise from the hypothetical distribution of profit to participating equity holders.

Paragraph A14 of IAS 33 requires an entity to allocate profit or loss to the different classes of shares and participating equity instruments in accordance with their dividend rights and other rights to participate in undistributed earnings. Paragraph A14 of IAS 33 also requires an entity to allocate profit or loss (after adjusting for cumulative dividends and dividends declared in the period) to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed (ie the hypothetical distribution).

The Committee concluded that, when calculating basic EPS, the entity adjusts profit or loss attributable to ordinary shareholders for the portion of any tax benefit attributable to those ordinary shareholders. This is because the tax benefit is a direct consequence of the hypothetical distribution of profit to the participating equity holders required by paragraph A14 of IAS 33. The entity applies this accounting treatment regardless of whether it recognises the tax benefit in equity or in profit or loss.

The Committee observed that this treatment is also consistent with the objective of basic EPS outlined in paragraph 11 of IAS 33—namely, to provide a measure of the interests of each ordinary share in the performance of the entity over the reporting period.

The Committee concluded that the principles and requirements in IAS 33 provide an adequate basis for an entity to calculate basic EPS in the fact pattern described in the submission. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Agenda Paper 4: Illustrative example

The Committee will consider an example applying the Committee's conclusions at a future meeting. The example will illustrate the accounting over a number of reporting periods.

IAS 41 Agriculture—Biological assets growing on bearer plants (Agenda Paper 7)

The Committee received a request about the fair value measurement of produce growing on bearer plants. More specifically, the request asked whether the Committee considers fruit growing on oil palms to be an example of a biological asset for which an entity might rebut the fair value presumption applying paragraph 30 of IAS 41.

The Committee observed that:

- a. paragraph 5C of IAS 41 says that produce growing on bearer plants is a biological asset. Accordingly, an entity accounts for fruit growing on oil palms applying IAS 41;
- b. the recognition requirements in paragraph 10 of IAS 41 specify when an entity recognises the fruit growing on oil palms separately from the oil palms themselves, which the entity accounts for applying IAS 16 *Property, Plant and Equipment*. An entity recognises a biological asset when the entity controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably;
- c. an entity measures a biological asset on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when fair value cannot be measured reliably on initial recognition (paragraph 12 of IAS 41); and
- d. paragraph 30 of IAS 41 contains a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. Paragraph 30 of IAS 41 says that once the fair value of such a biological asset becomes reliably measurable, an entity measures it at its fair value less costs to sell.

The Committee concluded that the reference to 'clearly unreliable' in paragraph 30 of IAS 41 indicates that, to rebut the presumption, an entity must demonstrate that any fair value measurement is clearly unreliable. Paragraph BC4C of IAS 41 suggests that, when developing the amendments to IAS 41 on bearer plants, the Board's expectation was that fair value measurements of produce growing on bearer plants might be clearly unreliable only when an entity encounters significant practical difficulties. However, the Committee observed that the converse is not necessarily true—ie if an entity encounters significant practical difficulties, this does not necessarily mean that any fair value measurement of produce is clearly unreliable. In paragraph BC4C, the Board observed that, in this situation, an entity should consider whether it is clearly unreliable.

The Committee also observed that the submission appears to ask whether possible differences in supportable assumptions (which might result in significantly different valuations) constitutes 'significant practical difficulties' as referred to in paragraph BC4C of IAS 41. The Committee concluded that this is not evidence of significant practical difficulties, and that it would not, in and of itself, result in fair value measurements that are clearly unreliable.

The Committee noted that paragraph 125 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose information about assumptions and estimates for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In addition, paragraph 91 of IFRS 13 *Fair Value Measurement* requires an entity to disclose information that helps users of its financial statements understand the valuation techniques and inputs used to develop fair value measurements, and the effect of measurements that use Level 3 inputs.

The Committee observed that the submission asks the Committee to conclude whether fair value measurements for a particular type of produce growing on bearer plants are clearly unreliable. The Committee determined that its role is not to conclude upon very specific application questions, particularly when they relate to the application of the judgements required in applying IFRS Standards. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Committee's agenda decisions

IFRS 10 *Consolidated Financial Statements*—Investment entities and subsidiaries (Agenda Paper 8A)

The Committee received a request regarding the investment entity requirements in IFRS 10, including how an entity applies the requirements in paragraphs 27 and 28 of IFRS 10, and how an investment entity assesses whether it consolidates a subsidiary applying paragraph 32 of IFRS 10 in specified circumstances. The Committee discussed the following questions:

- a. does an entity qualify as an investment entity if it possesses all three elements described in paragraph 27 of IFRS 10, but does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10? (Question a)
- b. does an entity provide investment management services to investors (as specified in paragraph 27(a) of IFRS 10) if it outsources the performance of these services to a third party? (Question b).
- c. to what extent can an investment entity provide investment-related services, itself or through a subsidiary, to third parties? (Question c)
- d. does a subsidiary provide services that relate to its parent investment entity's investment activities (as specified in paragraph 32 of IFRS 10) by holding an investment portfolio as beneficial owner? (Question d)

Question a

Paragraph 27 of IFRS 10 lists the three elements an entity must possess to qualify as an investment entity. Paragraph B85A of IFRS 10 emphasises the importance of considering all facts and circumstances when assessing whether an entity is an investment entity, and notes that an entity that possesses the three elements of the definition of an investment entity in paragraph 27 is an investment entity. Paragraphs B85B-B85M then describe the elements of the definition in more detail.

Paragraph 28 of IFRS 10 lists typical characteristics that an entity considers in assessing whether it possesses all three elements in paragraph 27, and says that the absence of any of these characteristics does not necessarily disqualify an entity from being an investment entity. Paragraph B85N of IFRS 10 clarifies that the absence of one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10 indicates that additional judgement is required in determining whether the entity is an investment entity.

Accordingly, the Committee concluded that an entity that possesses all three elements of the definition of an investment entity in paragraph 27 of IFRS 10 is an investment entity. This is the case even if that entity does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10.

Question b

Paragraph 27(a) of IFRS 10 requires an investment entity to provide investors with investment management services. IFRS 10 does not specify how the investment entity must provide these services, and does not preclude it from outsourcing the performance of these services to a third party.

Accordingly, the Committee concluded that an investment entity responsible for providing investment management services to its investors can engage another party to perform some or all of these services on its behalf (ie it can outsource the performance of some or all of these services).

Question c

Paragraph 27(b) of IFRS 10 requires that the business purpose of an investment entity is to invest solely for capital appreciation, investment income, or both. Paragraph B85C of IFRS 10 says that an investment entity may provide investment-related services, either directly or through a subsidiary, to third parties as well as to its investors (even if those activities are substantial to the entity), subject to the entity continuing to meet the definition of an investment entity.

Accordingly, the Committee concluded that an investment entity may provide investment-related services to third parties, either directly or through a subsidiary, as long as those services are ancillary to its core investing activities and thus do not change the business purpose of the investment entity.

The Committee observed that an investment entity assesses whether the investment management services provided by a subsidiary, including those provided to third parties, relate to the investment entity's investment activities. If so, the investment entity includes these services when assessing whether the investment entity itself possesses the element of the investment entity definition in paragraph 27(b) of IFRS 10.

The Committee also noted that, applying paragraph 32 of IFRS 10, an investment entity consolidates any non-investment entity subsidiaries whose main purpose and activities are providing services that relate to the investment entity's investment activities.

Question d

The Committee observed that it had previously discussed a question similar to Question d. At its meeting in March 2014, the Committee issued an agenda decision noting its conclusion that a subsidiary does not provide investment-related services or activities if the subsidiary holds investments for tax optimisation purposes and there is no activity within the subsidiary.

Similarly, the Committee concluded that an investment entity does not consider the holding of investments by a subsidiary as beneficial owner (and recognised in the subsidiary's financial statements) to be a service that relates to the parent investment entity's investment activities (as specified in paragraph 32 of IFRS 10).

For all four questions (ie Questions a—d), the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting in each of the specified circumstances. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Agenda Paper 8A: Report to the Board

Feedback on the tentative agenda decision on the consolidation of investment entity subsidiaries will be reported to the Board for consideration as part of its Post Implementation Review of IFRS 10.

IAS 12 *Income Taxes*—Recognition of deferred taxes when acquiring a single-asset entity that is not a business (Agenda Paper 8C)

The Committee received a submission questioning how, in its consolidated financial statements, an entity accounts for a transaction in which it acquires all 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 whether the requirements in paragraph 15(b) of IAS 12 permit the acquiring entity to recognise a deferred tax liability on initial recognition of the transaction. If this is not the case, the submitter asked the Committee to consider whether the requirements in paragraph 15(b) of IAS 12 should be amended so that, in these circumstances, the acquiring entity would not recognise a gain on measuring the investment property at fair value immediately after initial recognition of the transaction.

The 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 says that an entity does not recognise a deferred tax liability for taxable temporary differences that arise from the initial recognition of an asset or 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 Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to determine how to account for the transaction. The 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 Committee decided not to add this matter to its standard-setting agenda.

The 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 Committee did not recommend that the Board consider adding a project to its agenda on this topic.

IAS 28 *Investments in Associates and Joint Ventures*—Fund manager's assessment of significant influence (Agenda Paper 8B)

The Committee received a request to clarify whether a fund manager assesses significant influence over a fund that it manages and in which it has an investment, and, if so, how it makes this assessment. In the scenario described in the submission, the fund manager applies IFRS 10 *Consolidated Financial Statements* and determines that it is an agent and thus does not control the fund. The fund manager has also concluded that it does not have joint control of the fund.

The Committee observed that a fund manager assesses whether it has control, joint control or significant influence over a fund that it manages applying the relevant IFRS Standard, which in the case of significant influence is IAS 28.

The Committee noted that, unlike IFRS 10 in the assessment of control, IAS 28 does not address decision-making authority held in the capacity of an agent in the assessment of significant influence. When it issued IFRS 10, the Board did not change the definition of significant influence, nor any requirements on how to assess significant influence in IAS 28. The Committee concluded that requirements relating to decision-making authority held in the capacity of an agent could not be developed separately from a comprehensive review of the definition of significant influence in IAS 28.

In addition, the Committee observed that paragraph 7(b) of IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose information about significant judgements and assumptions it has made in determining that it has significant influence over another entity. The examples in paragraph 9 of IFRS 12 clarify that the requirement in paragraph 7(b) of IFRS 12 applies both when an entity has determined that it has significant influence over another entity and when it has determined that it does not.

The Committee concluded that it would be unable to resolve the question asked efficiently within the confines of existing IFRS Standards. Consequently, it decided not to add this matter to its standard-setting agenda.

Agenda Paper 8B: Report to the Board

The matter will be reported to the Board for consideration as part of its equity method research project.

Commodity loans (Agenda Paper 8D)

The Committee received a request on how to account for a commodity loan transaction. Specifically, the transaction is one in which a bank borrows gold from a third party (Contract 1) and then lends that gold to a different third party for the same term and for a higher fee (Contract 2). The bank enters into the two contracts in contemplation of each other, but the contracts are not linked—ie the bank negotiates the contracts independently of each other. In each contract, the borrower obtains legal title to the gold at inception and has an obligation to return, at the end of the contract, gold of the same quality and quantity as that received. In exchange for the loan of gold, each borrower pays a fee to the respective lender over the term of the contract but there are no cash flows at inception of the contract.

The Committee was asked whether, for the term of the two contracts, the bank that borrows and then lends the gold recognises:

- a. an asset representing the gold (or the right to receive gold); and
- b. a liability representing the obligation to deliver gold.

The Committee observed that the particular transaction in the submission might not be clearly captured within the scope of any IFRS Standard.¹ In the absence of a Standard that specifically applies to a transaction, an entity applies paragraphs 10 and 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy to the transaction. In doing so, paragraph 11 of IAS 8 requires an entity to consider:

- a. whether there are requirements in IFRS Standards dealing with similar and related issues; and, if not;
- b. how to account for the transaction applying the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework*.

The Committee noted that, applying paragraph 10 of IAS 8, the accounting policy developed must result in information that is (i) relevant to the economic decision-making needs of users of financial statements; and (ii) reliable—ie represents faithfully the financial position, financial performance and cash flows of the entity; reflects the economic substance; and is neutral, prudent and complete in all material respects. The Committee observed that, in considering the requirements that deal with similar and related issues, an entity considers all the requirements dealing with those similar and related issues, including relevant disclosure requirements.

The Committee also observed that the requirements in paragraph 112(c) of IAS 1 *Presentation of Financial Statements* are relevant if an entity develops an accounting policy applying paragraphs 10 and 11 of IAS 8 for a commodity loan transaction such as that described in the submission. In applying these requirements, an entity considers whether additional disclosures are needed to provide information relevant to an understanding of the accounting for, and risks associated with, such commodity loan transactions.

The Committee concluded that it would be unable to resolve the question asked efficiently within the confines of existing IFRS Standards. The wide range of transactions involving commodities means that any narrow-scope standard-setting activity would be of limited benefit to entities and would have a high risk of unintended consequences. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

¹ The Committee observed, however, that particular IFRS Standards would apply to other transactions involving commodities (for example, the purchase of commodities for use in an entity's production process, or the sale of commodities to customers).

Agenda Paper 8D: Report to the Board

The Board will discuss the matter described in Agenda paper 8D at a future Board meeting. Feedback on the tentative agenda decision suggested that the Board should consider undertaking a project on the accounting for commodity transactions. The Board will assess the relative priority of any such project against other Board projects.

Other matters

Committee update on work in progress (Agenda Paper 12)

The Committee received a report on two new requests for consideration at a future meeting—Transaction price allocation (IFRS 3) and Classification of financial assets (IFRS 9).

Matters reported to the Board (Agenda Paper 13)

The Committee received a report on matters that had previously been reported to the Board. The Committee decided to reconsider one topic related to IAS 28 *Investments in Associates and Joint Ventures* at a future meeting. The topic relates to the acquisition of an interest in an associate or joint venture under common control, which was last discussed by the Committee in [May 2013](#).

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ISSN 1477-206X