IFRIC® *Update*

From the IFRS® Interpretations Committee

January 2019

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

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

The Committee met on **16 January 2019**, and discussed:

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Next IFRS Interpretations Committee meeting

The next meeting will be held on:

5-6 March 2019

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 and instructions for submitting requests to it can be found **here**.

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Committee’s agenda decisions

Deposits relating to taxes other than income tax (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 2

The Committee received a request about how to account for deposits relating to taxes that are outside the scope of IAS 12 *Income Taxes* (ie deposits relating to taxes other than income tax). In the fact pattern described in the request, an entity and a tax authority dispute whether the entity is required to pay the tax. The tax is not an income tax, so it is not within the scope of IAS 12. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37. Taking account of all available evidence, the preparer of the entity’s financial statements judges it probable that the entity will not be required to pay the tax—it is more likely than not that the dispute will be resolved in the entity’s favour. Applying IAS 37, the entity discloses a contingent liability and does not recognise a liability. To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will be required to either refund the tax deposit to the entity (if the dispute is resolved in the entity’s favour) or use the deposit to settle the entity’s liability (if the dispute is resolved in the tax authority’s favour).

Whether the tax deposit gives rise to an asset, a contingent asset or neither

The Committee observed that if the tax deposit gives rise to an asset, that asset may not be clearly within the scope of any IFRS Standard. Furthermore, the Committee concluded that no IFRS Standard deals with issues similar or related to the issue that arises in assessing whether the right arising from the tax deposit meets the definition of an asset. Accordingly, applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Committee referred to the two definitions of an asset in IFRS literature—the definition in the *Conceptual Framework for Financial Reporting* issued in March 2018 and the definition in the previous *Conceptual Framework* that was in place when many existing IFRS Standards were developed. The Committee concluded that the right arising from the tax deposit meets either of those definitions. The tax deposit gives the entity a right to obtain future economic benefits, either by receiving a cash refund or by using the payment to settle the tax liability. The nature of the tax deposit—whether voluntary or required—does not affect this right and therefore does not affect the conclusion that there is an asset. The right is not a contingent asset as defined by IAS 37 because it is an asset, and not a possible asset, of the entity.

Consequently, the Committee concluded that in the fact pattern described in the request the entity has an asset when it makes the tax deposit to the tax authority.

Recognising, measuring, presenting and disclosing the tax deposit

In the absence of a Standard that specifically applies to the asset, an entity applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy for the asset. The entity’s management uses its judgement in developing and applying a policy that results in information that is relevant to the economic decision-making needs of users of financial statements and reliable. The Committee noted that the issues that need to be addressed in developing and applying an accounting policy for the tax deposit may be similar or related to those that arise for the recognition, measurement, presentation and disclosure of monetary assets. If this is the case, the entity’s management would refer to requirements in IFRS Standards dealing with those issues for monetary assets.

The Committee concluded that the requirements in IFRS Standards and concepts in the *Conceptual Framework for Financial Reporting* provide an adequate basis for an entity to account for deposits relating to taxes other than income tax. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Assessment of promised goods or services (IFRS 15 *Revenue from Contracts with Customers*)—Agenda Paper 3

The Committee received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.

Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:

a. a good or service (or a bundle of goods or services) that is distinct; or
b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In paragraph BC87 of IFRS 15, the Board noted that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.

Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.

Accordingly, the Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.

Application of IFRS 15 to the fact pattern in the request

The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the facts and circumstances of the contract. Accordingly, the outcome of an entity's assessment depends on those facts and circumstances.

In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, such as:

- *performing due diligence for new applications;*
- *reviewing the customer's listing application (including assessing whether to accept the application);*
- *issuing reference numbers and tickers for the new security;*
- *processing the listing and admission to the market;*
- *publishing the security on the order book; and*
- *issuing the dealing notice on the admission date.*

The Committee observed that the activities performed by the entity at or near contract inception are required to transfer the goods or services for which the customer has contracted—ie the service of being listed on the exchange. However, the entity's performance of those activities does not transfer a service to the customer.

The Committee also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.

Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27 *Separate Financial Statements*)—Agenda Paper 4A

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.
- holds an initial investment in a subsidiary (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*.
- subsequently disposes of part of its investment and loses control of the investee. After the disposal, the entity has neither joint control of, nor significant influence over, the investee.

The request asked whether:

a. the investment retained (retained interest) is eligible for the presentation election in paragraph 4.1.4 of IFRS 9 *Financial Instruments*. That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income (OCI) (Question A).

b. the entity presents in profit or loss or OCI any difference between the cost of the retained interest and its fair value on the date of losing control of the investee (Question B).

Question A

Paragraph 9 of IAS 27 requires an entity to apply all applicable IFRS Standards in preparing its separate financial statements, except when accounting for investments in subsidiaries, associates and joint ventures to which paragraph 10 of IAS 27 applies. After the partial disposal transaction, the investee is not a subsidiary, associate or joint venture of the entity. Accordingly, the entity applies IFRS 9 for the first time in accounting for its retained interest in the investee. The Committee observed that the presentation election in paragraph 4.1.4 of IFRS 9 applies at initial recognition of an investment in an equity instrument. An investment in an equity instrument within the scope of IFRS 9 is eligible for the election if it is neither held for trading (as defined in Appendix A of IFRS 9) nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In the fact pattern described in the request, assuming the retained interest is not held for trading, the Committee concluded that (a) the retained interest is eligible for the presentation election in paragraph 4.1.4 of IFRS 9, and (b) the entity would make this presentation election when it first applies IFRS 9 to the retained interest (ie at the date of losing control of the investee).

Question B

Any difference between the cost of the retained interest and its fair value on the date the entity loses control of the investee meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting.* Accordingly, the Committee concluded that, applying paragraph 88 of IAS 1 *Presentation of Financial Statements*, the entity recognises this difference in profit or loss. This is the case regardless of whether the entity presents subsequent changes in fair value of the retained interest in profit or loss or OCI.

The Committee also noted that its conclusion is consistent with the requirements in paragraph 22(b) of IAS 28 *Investments in Associates and Joint Ventures* and paragraph 11B of IAS 27, which deal with similar and related issues.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for a partial disposal transaction in its separate financial statements. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*)—Agenda Paper 4B

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.
- holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 *Financial Instruments* in accounting for its initial investment (initial interest).
- subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee––ie the investee becomes a subsidiary of the entity.

The request asked:

a. whether the entity determines the cost of its investment in the subsidiary as the sum of:

    i. the fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or

    ii. the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A).

b. how the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B).

Question A

IAS 27 does not define ‘cost’, nor does it specify how an entity determines the cost of an investment acquired in stages. The Committee noted that cost is defined in other IFRS Standards (for example, paragraph 6 of IAS 16 *Property Plant and Equipment*, paragraph 8 of IAS 38 *Intangible Assets* and paragraph 5 of IAS 40 *Investment Property*). The Committee observed that the two approaches outlined in the request arise from different views of whether the step acquisition transaction involves:

a. the entity exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee, or
b. purchasing the additional interest while retaining the initial interest.

Based on its analysis, the Committee concluded that a reasonable reading of the requirements in IFRS Standards could result in the application of either one of the two approaches outlined in this agenda decision (ie fair value as deemed cost approach or accumulated cost approach).

The Committee observed that an entity would apply its reading of the requirements consistently to step acquisition transactions. An entity would also disclose the selected approach applying paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* if that disclosure would assist users of financial statements in understanding how step acquisition transactions are reflected in reporting financial performance and financial position.

Question B

In applying the accumulated cost approach, any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Accordingly, the Committee concluded that, applying paragraph 88 of IAS 1, the entity recognises this difference in profit or loss, regardless of whether, before obtaining control, the entity had presented subsequent changes in fair value of the initial interest in profit or loss or other comprehensive income.

For Question A, the Committee considered whether to develop a narrow-scope amendment to address how an entity determines the cost of an investment acquired in stages. The Committee observed that:

a. it did not have evidence to assess whether the application of the two acceptable approaches to determining cost, outlined in this agenda decision, would have a material effect on those affected.

b. the matter could not be resolved without also considering the requirements in paragraph 10 of IAS 28 to initially measure an investment in an associate or joint venture at cost. The Committee did not obtain information to suggest that the Board should reconsider this aspect of IAS 28 at this stage, rather than as part of its wider consideration of IAS 28 within its research project on the Equity Method.

On balance, the Committee decided not to undertake standard-setting to address Question A.

For Question B, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting.

Consequently, the Committee decided not to add these matters to its standard-setting agenda.

Agenda paper 4B: Report to the Board

In considering Question A, Committee members concluded that a reasonable reading of the requirements in IFRS Standards could result in application of either the fair value as deemed cost approach or the accumulated cost approach. However, in their view, the fair value as deemed cost approach would provide more useful information to users of financial statements than the accumulated cost approach.

Other matters

Committee work in progress—Agenda Paper 5

The Committee received a report on three ongoing matters and two new matters for consideration at a future meeting.

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