IFRIC® *Update*

From the IFRS® Interpretations Committee

January 2018

Welcome to the January IFRIC *Update*

The 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 on the Interpretation. IFRIC Interpretations require ratification by the International Accounting Standards Board (Board).

The Committee met on **16 January 2018**, and discussed:

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Next IFRS Interpretations Committee meeting

The next meeting is:

13 -14 March 2018

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 the IFRS Interpretations Committee can be found **here**.

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Committee’s agenda decisions

Contributing property, plant and equipment to an associate (IAS 28 *Investments in Associates and Joint Ventures*)—Agenda Paper 2

The Committee received a request about how an entity accounts for a transaction in which it contributes property, plant and equipment (PPE) to a newly formed associate in exchange for shares in the associate.

In the fact pattern described in the request:

a. three entities, collectively referred to as investors, set up a new entity. The investors are all controlled by the same government—ie they are under common control.
b. the investors each contribute items of PPE to the new entity in exchange for shares in that entity. The PPE contributed by the investors is not a business (as defined in IFRS 3 *Business Combinations*).
c. each investor has significant influence over the new entity. Accordingly, the new entity is an associate of each of the investors. The investors do not have control or joint control of the entity.
d. the transaction is carried out on terms equivalent to those that would prevail in an orderly transaction between market participants.

The request asked:

a. about the application of IFRS Standards to transactions involving entities under common control (common control transactions)—ie whether IFRS Standards provide a general exception or exemption from applying the requirements in a particular Standard to common control transactions (Question A).
b. whether an investor recognises any gain or loss on contributing PPE to the associate to the extent of other investors’ interests in the associate (Question B).
c. how an investor determines the gain or loss on contributing PPE to the associate and the cost of its investment in the associate. In particular, the request asked whether the cost of each investor’s investment in the associate is based on the fair value of the PPE contributed or the fair value of the acquired interest in the associate (Question C).

In analysing the request, the Committee assumed the contribution of PPE to the associate has commercial substance as described in paragraph 25 of IAS 16 *Property, Plant and Equipment*.

Question A

Paragraph 7 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to apply an IFRS Standard to a transaction when that Standard applies specifically to the transaction. The Committee observed, therefore, that unless a Standard specifically excludes common control transactions from its scope, an entity applies the applicable requirements in the Standard to common control transactions.

Question B

Paragraph 28 of IAS 28 requires an entity to recognise gains and losses resulting from upstream and downstream transactions with an associate only to the extent of unrelated investors’ interests in the associate. Paragraph 28 includes as an example of a downstream transaction the contribution of assets from an entity to its associate.

The Committee observed that the term ‘unrelated investors’ in paragraph 28 of IAS 28 refers to investors other than the entity (including its consolidated subsidiaries)—ie the word ‘unrelated’ does not mean the opposite of ‘related’ as it is used in the definition of a related party in IAS 24 *Related Party Disclosures*. This is consistent with the premise that financial statements are prepared from the perspective of the reporting entity, which in the fact pattern described in the request is each of the investors.

Accordingly, the Committee concluded that an entity recognises any gain or loss on contributing PPE to an associate to the extent of other investors’ interests in the associate.

Question C

This question has an effect only if the fair value of the PPE contributed differs from the fair value of the equity interest in the associate received in exchange for that PPE. The Committee observed that in the fact pattern described in the request, it would generally expect the fair value of PPE contributed to be the same as the fair value of the equity interest in the associate that an entity receives in exchange. If there is initially any indication that the fair value of the PPE contributed might differ from the fair value of the acquired equity interest, the investor first assesses the reasons for this difference and reviews the procedures and assumptions it has used to determine fair value.

The Committee observed that applying the requirements in IFRS Standards, an entity recognises a gain or loss on contributing PPE and a carrying amount for the investment in the associate that reflects the determination of those amounts based on the fair value of the PPE contributed—unless the transaction provides objective evidence that the entity's interest in the associate might be impaired. If this is the case, the investor also considers the impairment requirements in IAS 36 *Impairment of Assets*.

If, having reviewed the procedures and assumptions used to determine fair value, the fair value of the PPE is more than the fair value of the acquired interest in the associate, this would provide objective evidence that the entity's interest in the associate might be impaired.

For all three questions, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for the contribution of PPE to an associate in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Agenda Paper 2: Board project on Business Combinations under Common Control

In considering this matter, the Committee noted the Board's research project on Business Combinations under Common Control (BCUCC). Transactions in which an entity contributes property, plant and equipment (PPE) to a newly formed associate in exchange for shares in the associate are outside the scope of the BCUCC research project. As part of that project however, the Board will consider the interaction between the accounting for transactions within the scope of the project and the accounting for other transactions under common control.

Other matters

Committee work in progress—Agenda Paper 3

The Committee received a report on five requests for consideration at a future meeting. In addition, the Committee was informed of one tentative agenda decision for which the comment letter period has ended. An analysis of the comments received will be presented at a future meeting.

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