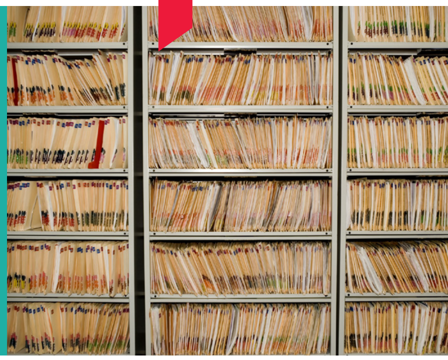
IFRS INTERPRETATIONS COMMITTEE – AGENDA REJECTIONS
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/13



Background

This Bulletin summarises issues that the IFRS Interpretations Committee (the Interpretations Committee) decided not to take onto its agenda at its July 2014 meeting, which were reported in its public newsletter (the IFRIC Update). Although these agenda rejections do not represent authoritative guidance issued by the International Accounting Standards Board (IASB), in practice they are regarded as being highly persuasive. All entities that report in accordance with IFRS need to be aware of these agenda rejections, and may need to modify their accounting approach. More detailed background about agenda rejections is set out below.

The Interpretations Committee is the interpretative body of the IASB. The role of the Interpretations Committee is to provide guidance on financial reporting issues which have been identified and which are not specifically addressed in IFRS, or where unsatisfactory or conflicting interpretations either have developed, or appear likely to develop.

Any party which has an interest in financial reporting is encouraged to submit issues to the Interpretations Committee when it is considered to be important that the issue is addressed by either the Interpretations Committee itself, or by the IASB. When issues are raised, the Interpretations Committee normally consults a range of other parties, including national accounting standard setting bodies, other organisations involved with accounting standard setting, and securities regulators.

At each of its meetings, the Interpretations Committee considers new issues that have been raised, and decides whether they should be added to its agenda. For those issues that are not added to the agenda, a tentative agenda decision is published in the IFRIC Update newsletter which is issued shortly after each of the Interpretations Committee's meetings. These tentative agenda decisions are open to public comment for a period of 60 days, after which point they are taken back to the Interpretations Committee for further consideration in the light of any comment letters which have been received and further analysis carried out by the Staff. The tentative agenda decision is then either confirmed and reported in the next IFRIC Update, or the issue is either added to the Interpretations Committee's agenda or referred to the IASB.

Interpretations Committee agenda decisions do not represent authoritative guidance. However, they do set out the Interpretations Committee's rationale for not taking an issue onto its agenda (or referring it to the IASB). It is noted on the IFRS Foundation's website that they 'should be seen as helpful, informative and persuasive'. In practice, it is expected that entities reporting in accordance with IFRS will take account of and follow the agenda decisions and this is the approach which is followed by securities regulators worldwide.

STATUS
Final

EFFECTIVE DATE
Immediate

ACCOUNTING IMPACT
Clarification of IFRS requirements.
May lead to changes in practice.

Agenda decisions that were finalised at the July 2014 meeting

IAS 1 Presentation of Financial Statements – disclosure requirements relating to assessment of going concern

IAS 12 Income Taxes – recognition of deferred tax for a single asset in a corporate wrapper

IAS 12 Income Taxes – recognition of current income tax on uncertain tax position

IFRS 2 Share-based Payment – price difference between the institutional offer price and the retail offer price for shares in an initial public offering

IAS 34 Interim Financial Reporting – condensed statement of cash flows

IAS 39 Financial Instruments: Recognition and Measurement – classification of a hybrid financial instrument by the holder.

Tentative agenda decisions at the July 2014 meeting

IFRS 12 Disclosure of Interests in Other Entities – disclosure of summarised financial information about material joint ventures and associates

IAS 16 Property, Plant and Equipment – 'Core inventories'

IAS 16 Property, Plant and Equipment – accounting for proceeds and costs of testing on PPE

IAS 21 The Effect of Changes in Foreign Exchange Rates – foreign exchange restrictions and hyperinflation

IAS 39 Financial Instruments: Recognition and Measurement – holder's accounting for exchange of equity instruments.

Each of these is discussed below, split between those which are expected to have wide application and those which are narrower in focus.

Agenda decisions that were finalised at the July 2014 meeting – wide application

IAS 1 Presentation of Financial Statements – disclosure requirements relating to assessment of going concern

In some cases, when preparing an entity's financial statements, management needs to consider events or conditions which cast significant doubt over the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of action that might be taken by the entity to mitigate the position, it may be concluded that there are no material uncertainties about going concern that need to be disclosed in accordance with IAS 1.25.

However, in reaching the conclusion that there are no material uncertainties to disclose, management may have needed to apply significant judgement. In such cases, IAS 1 requires other disclosures to be made. In particular, IAS 1.122 requires disclosure of the judgements made in applying an entity's accounting policies and that have the most significant effect on amounts recognised in the financial statements.

In the circumstances set out above, the Interpretations Committee concluded that IAS 1.122 would require disclosure about management's judgements that were made in its assessment of going concern.

BDO comment

This clarifies that when management has needed to give careful consideration to whether an entity is a going concern, related disclosures are required in the financial statements. This will be the case, in particular, when an entity has a going concern 'near miss' meaning that although a significant amount of work has been required, it is concluded that the entity remains a going concern.

IAS 12 Income Taxes – recognition of deferred tax for a single asset in a corporate wrapper

In some circumstances, a parent company may own a subsidiary (or subsidiaries), each of which has only one asset (for example, a property) and the parent expects to recover the carrying amount of the asset by selling the subsidiary. This approach is frequently followed due to tax considerations, because a smaller charge applies on the transfer of shares in a company in comparison with the transfer of a direct ownership of an asset.

The question raised with the Interpretations Committee was about how deferred tax should be calculated for the parent's consolidated financial statements.

It was noted that the approach to be followed would depend on the applicable tax legislation. However, on the basis that:

- The tax law attributes separate tax bases to the asset and to the parent company's investment in shares of its subsidiary;
- Deductible temporary differences (which might give rise to a deferred tax asset) can be utilised as set out in IAS 12.24-31; and
- No specific exemptions in IAS 12 from the requirement to provide deferred tax apply.

This would involve the calculation of two components which would be combined into a total deferred tax provision:

- IAS 12.11 requires a temporary difference to be calculated by comparing the carrying amount of the single asset in the consolidated financial statements with the amount that will be deductible in the future in respect of that asset in the subsidiary company's tax returns.
- IAS 12.38 requires deferred tax to be calculated for the difference between the parent's share of net assets in the subsidiary and the amount that will be deductible in future by the parent company in respect of its investment in the subsidiary's shares.

Comment letters submitted in response to the tentative agenda decision raised a number of concerns about this conclusion. However, the Interpretations Committee noted that the requirements of IAS 12 are clear, and that a wider project would need to be undertaken by the IASB to address the concerns raised.

BDO comment

Although the Interpretations Committee concluded that the requirements of IAS 12 are clear, the approach set out above may not have been followed by all entities in the past. Consequently, those entities with subsidiaries which own a single asset will need to review their deferred tax provisions and make any appropriate changes in future financial statements.

IAS 12 Income Taxes – recognition of current income tax on uncertain tax position

In some jurisdictions, when a tax examination (or inspection) of an entity results in an additional potential charge, the entity is required to make an immediate payment of that potential tax charge even if the entity intends to appeal again some or all of the additional amount demanded by the tax authorities.

The Interpretations Committee was asked whether, for the purposes of whether an asset should be recognised as a result of the payment, it is necessary to follow the guidance in IAS 12 or in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

It was noted that IAS 12 (in particular paragraph 12) provides guidance for the recognition of current tax assets and liabilities. This includes that, if the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. In the circumstances described, the entity would therefore recognise an asset to the extent that the amount paid exceeds the amount of tax expected to be paid.

The Interpretations Committee noted that IAS 12.88 makes reference to IAS 37 in respect of tax-related contingent assets and contingent liabilities. However, this paragraph relates to disclosures for those items, and not to measurement.

BDO comment

The threshold for recognition of an asset is lower in IAS 12 than in IAS 37. Consequently, for entities which have previously been applying the guidance for contingent assets in IAS 37 in determining whether an asset should be recognised in the circumstances described above, there may be a change in approach and the recognition of previously unrecognised amounts as assets.

IFRS 2 Share-based Payment – price difference between the institutional offer price and the retail offer price for shares in an initial public offering

The regulations of a stock exchange can require an entity to have a minimum number of shareholders to qualify for a listing, meaning that both institutional and private (or retail) investors need to subscribe for shares. In order to attract a sufficient number of retail investors, an entity might offer shares to retail investors at a lower price than the amount payable by institutional investors.

The Interpretations Committee was asked whether the transaction resulted in a share-based payment within the scope of IFRS 2.

It was noted that the entity was raising funds by issuing shares at different prices to two different groups of investors (retail and institutional). The difference in prices appeared to be due to the existence of two different markets (one which is only accessible by retail investors, and another that is only accessible by institutional investors). This was because the only relationship between the entity and the potential shareholders is as investee and investors.

Consequently, the Interpretations Committee concluded that the arrangement did not give rise to a share-based transaction as defined in IFRS 2.

BDO comment

For entities in jurisdictions where this issue is relevant, the Interpretations Committee's conclusion eliminates a significant uncertainty about whether this type of 'dual pricing' of shares issued as part of an IPO would give rise to a share-based payment expense.

IAS 34 Interim Financial Reporting – condensed statement of cash flows

For the purposes of the statement of cash flows to be included in an interim financial report, IAS 34 refers to, at a minimum, a 'condensed' statement. The submission to the Interpretations Committee asked whether this condition could be satisfied by including only three lines for the totals of operating, investing and financing cash flows.

The Interpretations Committee noted that to meet the requirements of IAS 34 (and in particular paragraphs 10, 15 and 25 of that standard), a condensed statement of cash flows would need to include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs for using those cash flows. In that context, a three line presentation would not be expected to be sufficient.

Agenda decisions that were finalised at the July 2014 meeting – narrow application

IAS 39 Financial Instruments: Recognition and Measurement – classification of a hybrid financial instrument by the holder

A question was raised about the debt or equity classification of a hybrid financial instrument with a revolving maturity option, an early settlement option and a suspension of interest option (all exercisable at the option of the issuer).

The Interpretations Committee noted that its outreach had indicated that the issue was not widespread, and that the submission contained a specific fact pattern on which it would not be appropriate to issue guidance.

Tentative agenda decisions at the July 2014 meeting – wide application

IFRS 12 Disclosure of Interests in Other Entities – disclosure of summarised financial information about material joint ventures and associates

IFRS 12.21(b) requires disclosure of summary financial information for each material joint venture and associate. The question raised was how this requirement interacts with the aggregation principle in IFRS 12, which is set out in IFRS 12.4 and B2-B6.

The submission also noted that in some cases, the financial information is about a listed joint venture or associate. Local regulatory requirements might prevent this information being disclosed until that joint venture or associate has itself reported. If an investor wished to issue its own financial statements before that point, would the investor be excused from making the IFRS 12 disclosures?

The Interpretations Committee noted that the requirements of IFRS 12 would lead to disclosure of summarised financial information on an individual basis for each material joint venture or associate. This was also consistent with the IASB's Basis for Conclusions (IFRS 12.BC50).

It was also noted that IFRS 12 contains no provisions that would permit the non-disclosure of this information.

BDO comment

The explicit note that there is no exemption from these disclosure requirements in IFRS 12 raises the question of how an entity with investments in material listed joint ventures or associates, that wished to issue its financial statements before its investees which were subject to the regulatory restrictions outlined above, would deal with the issue. In practice, this is not a new issue and investors have typically either aligned their reporting dates with those of their listed investees, or have included estimated amounts in their financial statements.

IAS 16 Property, Plant and Equipment – 'Core inventories'

Some items of property, plant and equipment (for example, an oil refinery) need to be filled with a minimum amount of material (in this case oil) in order to be able to operate. The material cannot be physically separated from the property, plant and equipment and is only capable of being removed either when the facility (in this case the oil refinery) is decommissioned, or at a substantial cost.

The Interpretations Committee had previously concluded that it should develop an interpretation. However, feedback received indicated that the fact patterns for arrangements involving core inventories vary significantly. Although diversity in approach was noted among different industries, diversity was not noted within specific industry sectors. Consequently, the Interpretations Committee decided that it should not proceed, and the issue was removed from its agenda.

IAS 16 Property, Plant and Equipment – accounting for proceeds and costs of testing on PPE

As part of the process of bringing an item of property, plant and equipment to the point at which it is capable of operating in the manner intended by management, it may need to be tested to confirm whether it is operating properly. The test process can result in production output, which is then sold to third parties.

The question which was raised with the Interpretations Committee is how the proceeds of sale of the test output should be accounted for, in particular when the sales proceeds exceed the costs of testing.

IAS 16.17 notes that directly attributable costs of an asset include the costs of the testing phase, after deducting the net proceeds from the sale of items produced. Consequently, if the proceeds of sale of test output exceed the costs of testing, the excess will be recognised in profit or loss. If the amount recorded in profit or loss is material, then additional disclosures are required by IAS 1.17(c) if these are necessary for an understanding of the effect on the financial statements.

Tentative agenda decisions at the July 2014 meeting – narrow application

IAS 21 The Effect of Changes in Foreign Exchange Rates – foreign exchange restrictions and hyperinflation

The translation and consolidation of the results and financial position of foreign operations located in Venzuela cause a number of accounting issues. This is because of strict foreign exchange controls that exist in that jurisdiction, including the existence of several exchange rates and significant restrictions over the amount of local currency that can be exchanged. The official rate(s) are significantly different (and stronger) than unofficial rates, leading to suggestions that the use of official rates might overstate amounts related to Venezuelan foreign operations.

The Interpretations Committee was asked about the rate(s) which should be used to translate an entity's net investment in a foreign operation in Venezuela. In particular, which rate should be used if there are multiple rates and what approach should be followed if there is a long term lack of exchangeability?

For the first question, it appeared that although there is widespread applicability of the issue there is little diversity in practice. Predominant practice was to use the exchange rate that could be used to translate the transactions or balances in the future. On the question of a lack of exchangeability, although the point is not addressed in IAS 21 and there is some diversity in practice, the Interpretations Committee considered that a project to address the point would be broader in scope, and have wider ranging effects, than it could address within its remit.

IAS 39 Financial Instruments: Recognition and Measurement – holder's accounting for exchange of equity instruments

A request was received about how the holder of equity instruments should account for an exchange of the original instruments for new equity instruments with different terms. The transaction arose from a change in legislation and involved equity instruments that had been issued by the central bank. In particular, should the exchange be accounted for as the derecognition of the old equity instruments, and the recognition of new instruments?

The Interpretations Committee noted that the issue was not widespread, with the question relating to a unique fact pattern. In addition, no significant diversity in practice had been noted.

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