

## Welcome to the IFRIC Update

IFRIC Update is the newsletter of the IFRS Interpretations Committee (the 'Interpretations Committee'). 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 confirmed by the IASB.

The Interpretations Committee met in London on **27 January 2015**, when it discussed:

### ▪ Items on the current agenda

- IAS 12 *Income Taxes*—Impact of uncertainty when an entity recognises and measures a current tax liability or asset (Agenda Papers 2, 2A and 2B)
- IAS 16 *Property, Plant and Equipment*—Accounting for the proceeds and costs of testing PPE: should net proceeds reduce the cost of an asset? (Agenda Paper 3)
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Revenue transaction denominated in a foreign currency: What is the date of the transaction for the purpose of identifying the applicable exchange rate for revenue recognition? (Agenda Paper 5)
- IAS 32 *Financial Instruments: Presentation*—Classification of the liability for prepaid cards issued by a bank in the bank's financial statements (Agenda Paper 6)

### ▪ Item recommended to the IASB to address through a narrow-scope amendment

- IAS 40 *Investment property*—Should an investment property under construction be transferred from inventory to investment property when there is an evident change in use? (Agenda Paper 12)

### ▪ Interpretations Committee agenda decisions

- IFRS 12 *Disclosure of Interests in Other Entities*—disclosures for a subsidiary with a material non-controlling interest (Agenda Paper 11)
- IFRS 12 *Disclosure of Interests in Other Entities*—Disclosure of summarised financial information about material joint ventures or associates (Agenda Paper 11)
- IFRS 13 *Fair Value Measurement*—the fair value hierarchy when third-party consensus prices are used (Agenda Paper 10)
- IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 1 *Presentation of Financial Statements*—Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (Agenda Paper 4)
- IAS 39 *Financial Instruments: Recognition and Measurement*—accounting for embedded foreign currency derivatives in host contracts (Agenda Paper 9)
- IFRIC 21 *Levies*—levies raised on production property, plant and equipment (Agenda Paper 8)

### ▪ Interpretations Committee tentative agenda decision

- IAS 24 *Related Party Disclosures*—definition of close members of the family of a person (Agenda Paper 13)

### ▪ Interpretations Committee work in progress

- IAS 28 *Investments in Associates and Joint Ventures*—assessment of significant influence: fund manager acting as agent and holding own investment in the fund (Agenda Paper 7)
- Interpretations Committee work in progress update (Agenda Paper 14)

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### Future IFRS Interpretations Committee meetings

The next meetings are:  
**24 and 25 March 2015**  
**12 and 13 May 2015**  
**14 and 15 July 2015**  
**8 and 9 September 2015**  
**10 and 11 November 2015**

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IASB [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 IASB website [here](#).

### Archive of IFRS Interpretations Committee Newsletter

For archived copies of past issues of IFRIC Update [click here](#).

- **Other matters**

- Interpretations Committee review of 2014 activity (Agenda Paper 15)

## **Items on the current agenda**

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

### **IAS 12 *Income Taxes*—Impact of uncertainty when an entity recognises and measures a current tax liability or asset (Agenda Papers 2, 2A and 2B)**

The Interpretations Committee continued its discussions on the development of an interpretation for the accounting for current income tax assets and liabilities when there are tax uncertainties.

At this meeting, the Interpretations Committee reviewed the proposed draft Interpretation and tentatively decided that:

- (a) The scope of the draft interpretation should include guidance on the impact of tax uncertainties on the accounting for deferred tax as well as current tax.
- (b) Guidance on disclosures should be included in the draft Interpretation. This guidance should require an entity to disclose the method that is used to reflect tax uncertainties in the measurement of current and deferred tax. It should also refer to the guidance in IAS 1 *Presentation of Financial Statements* on the disclosure of judgements and estimates, and its relevance to the accounting that would be required by the draft Interpretation.
- (c) An entity should apply the Interpretation prospectively, recognising the cumulative effect of initially applying the Interpretation in retained earnings at the start of the reporting period in which an entity first applies the Interpretation. However, retrospective application would be permitted. The entity should disclose which method of transition it has applied.

One of the tentative decisions taken by the Interpretations Committee at a previous meeting was that an entity should assume that the tax authorities would examine the amounts reported to them and have full knowledge of all relevant information. At this meeting, the Interpretations Committee asked the staff to consider the implication of that assumption on the derecognition of current and deferred tax assets and liabilities. On the basis of that consideration, the staff will determine whether a further analysis needs to be presented to the Interpretations Committee.

The Interpretations Committee members reaffirmed that none has objections to development of the draft Interpretation in line with the tentative decisions made to date.

### **IAS 16 *Property, Plant and Equipment*—Accounting for the proceeds and costs of testing PPE: should net proceeds reduce the cost of an asset? (Agenda Paper 3)**

The Interpretations Committee received a request to clarify the accounting for the net proceeds from selling any items produced while testing an item of property, plant and equipment (PPE) under construction, ie as part of the activities necessary to bring the item of PPE to the location and condition necessary for it to be capable of operating in the manner intended by management. The submitter has asked whether the amount by which the net proceeds received exceed the costs of testing should be recognised in profit or loss or as a deduction from the cost of the PPE.

In November 2014, the Interpretations Committee decided to add this item to its agenda to analyse this issue further in the following areas:

- (a) when the asset is available for use;
- (b) what costs qualify as costs of testing, while bringing the asset to that location and condition;
- (c) how to treat the proceeds in excess of the costs of testing;
- (d) how to account for other proceeds received on other activities (that are not testing) that are necessary to bring the asset to that location and condition;
- (e) disclosure of proceeds deducted from assets; and
- (f) applicability of IFRS 15 *Revenue from Contracts with Customers* to the proceeds received.

At this meeting, the Interpretations Committee noted the results of the outreach on the above issues. It

discussed the issues identified through the further outreach and potential alternatives that could be further explored. The Interpretations Committee members observed that the analysis should focus on the meaning of 'testing' the PPE, as this term is used in paragraph 17 (e) of IAS 16 *Property, Plant and Equipment*. The Interpretations Committee members observed that the reference to proceeds in IAS 16 is made only in relation to testing. On this basis, the appropriate question is whether the activity that led to those proceeds was testing. The Interpretations Committee members also observed that disclosure about this issue, including the judgements made, is important and should be considered.

The staff will present the further analyses at a future meeting.

**IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Revenue transaction denominated in a foreign currency: What is the date of the transaction for the purpose of identifying the applicable exchange rate for revenue recognition? (Agenda Paper 5)**

The Interpretations Committee continued its consideration of a submission that asked how to determine which exchange rate to use when reporting revenue transactions denominated in a foreign currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. In particular, the submission described a circumstance in which the customer paid for the goods or services by making a non-refundable payment in advance.

The Interpretations Committee noted that paragraphs 21–22 of IAS 21 require that a foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying the spot exchange rate at the date on which the transaction first qualifies for recognition in accordance with IFRS.

At its meeting in November 2014, the Interpretations Committee tentatively decided to develop guidance on identifying the date of the transaction for revenue transactions denominated in a foreign currency, as an interpretation of paragraph 22 of IAS 21. The Interpretations Committee tentatively decided that in the circumstances described in the submission, the principle to apply should be that revenue should be recognised using the exchange rate at the date the advance payment is made or the advance payment is due (whichever is earlier).

At its January 2015 meeting, the Interpretations Committee considered the scope of the proposed interpretation, how the principle would apply to more complex scenarios and the effective date and transition requirements of the proposed interpretation.

*Scope of the proposed interpretation*

The Interpretations Committee tentatively agreed that, as an interpretation of IAS 21, the proposed guidance should not be restricted to revenue transactions, but should also apply to other foreign currency transactions that are similarly affected by the issue. That is, the proposed interpretation should apply to foreign currency transactions in circumstances in which foreign currency consideration is paid or received in advance of the recognition of the corresponding asset, expense or income; ie there is some element of prepayment or deferred income.

However, the Interpretations Committee noted that the proposed interpretation would not be applicable when the asset, expense or income is measured at fair value on initial recognition, such as, for example, business combinations, financial instruments and share-based payments. In addition, the proposed interpretation need not apply to insurance contracts and income taxes.

*Applying the principle to more complex scenarios*

The Interpretations Committee considered some more complex payment arrangements, including circumstances in which there are multiple payments for multiple goods or services over time. The Interpretations Committee tentatively agreed that:

- (a) the proposed interpretation should clarify that the date of the transaction for the purpose of paragraphs 21-22 of IAS 21 is determined as the date on which the transaction is initially recognised. If the transaction is initially recognised in stages, the date of the transaction also occurs in stages.
- (b) this date of the transaction is used to determine the exchange rate used to translate the prepayment asset or deferred income liability, together with the corresponding (portion of) the asset (on initial recognition), expense or income. The prepayment asset or deferred income liability that is recognised in relation to the advance consideration is subsequently derecognised on recognition of the corresponding asset, expense or income. The pattern of derecognition and recognition is determined by applicable IFRS, and is not affected by the denomination of the transaction in a foreign currency.

The Interpretations Committee also tentatively agreed that the proposed interpretation should only deal with circumstances in which the advance consideration is denominated or priced in a foreign currency and gives rise to a non-monetary prepayment asset or deferred income liability.

#### *Effective date and transition*

The Interpretations Committee tentatively agreed that:

- (a) the effective date of any guidance should not be earlier than the effective date of IFRS 15 *Revenue from Contracts with Customers* (ie for accounting periods beginning on or after 1 January 2017), but earlier application should be permitted.
- (b) on initial application entities may apply the proposed interpretation either:
  - (i) retrospectively in accordance with IAS 8; or
  - (ii) retrospectively with the cumulative effect of initially applying the interpretation recognised in opening retained earnings at the start of the reporting period in which an entity first applies the proposed Interpretation, or at the start of a prior reporting period presented, but only to transactions that are not completed transactions at that date.
- (c) no specific provisions or exemptions should be given for first-time adopters.

#### *Next steps*

The Interpretations Committee tentatively agreed to publish a draft interpretation for public consultation based on the tentative decisions discussed above. Accordingly, the Interpretations Committee directed the staff to draft a proposed interpretation to be discussed at a future meeting.

### **IAS 32 *Financial Instruments: Presentation*—Classification of the liability for prepaid cards issued by a bank in the bank’s financial statements (Agenda Paper 6)**

The Interpretations Committee received a request to clarify the classification of the liability for prepaid cards issued by a bank in the bank’s financial statements and accounting for the unspent balance of the prepaid cards with the following contractual features:

- (a) no expiry date;
- (b) cannot be refunded, redeemed or exchanged for cash;
- (c) redeemable for goods or services only;
- (d) redeemable only at selected merchants, which, depending upon the card programme, range from a single merchant to all merchants that accept a specific card network; and
- (e) no back-end fees, which means that the balance on the prepaid card does not reduce unless spent by the holder.

The Interpretations Committee was asked to consider whether the liability for those prepaid cards is a non-financial liability because the issuing bank does not have an obligation to deliver cash to the cardholder.

At its November 2014 meeting, the Interpretations Committee discussed the submission and observed that the liability for prepaid cards with features as explained above would meet the definition of a financial liability, because the issuing bank has a contractual obligation to deliver cash to the merchant that is conditional upon the cardholder using the prepaid card to purchase goods or services. In such a circumstance, an issuing bank would apply the guidance in IFRS 9 *Financial Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*) to determine when to derecognise the liability for prepaid cards. However, the Interpretations Committee was concerned about other similar arrangements, such as customer loyalty programmes or prepaid cards issued by a non-banking entity that can be redeemed for goods or services of the issuing entity or of other entities, and requested the staff to analyse those other similar arrangements. The Interpretations Committee requested the staff to specifically consider the basis for distinguishing between the prepaid cards with features as explained above and other similar arrangements.

At this meeting the staff presented an analysis of those other similar arrangements. The Interpretations Committee discussed these and asked the staff to consider and analyse other more complex arrangements.

The staff will bring back a paper to the next meeting of the Interpretations Committee.

## **Item recommended to the IASB to address through a narrow-scope amendment**

### **IAS 40 *Investment property*—Should an investment property under construction be transferred from inventory to investment property when there is an evident change in use? (Agenda Paper 12)**

The Interpretations Committee received a request to clarify the application of paragraph 57 of IAS 40 *Investment Property*, which provides guidance on transfers to, or from, investment properties.

The submitter observes that the 2008 Annual Improvement Project extended the application of IAS 40 to investment properties under construction. However it notes that no corresponding changes were made to the guidance on transfers into, or out of, investment properties in paragraph 57 of IAS 40.

The submitter asks whether the lack of an amendment to paragraph 57 was an oversight or whether the intention was to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use.

The Interpretations Committee observed that the principle in IAS 40 for classification as investment property is based on how an asset is used. The Interpretations Committee determined that a change in use would involve:

- (a) an assessment of whether a property qualifies as an investment property; supported by
- (b) evidence that a change in use has occurred.

Consequently, the Interpretations Committee determined that an entity should reclassify investment property under construction or development into, or out of, investment property if, and only if, there is evidence that a change in the use of such property has occurred.

The Interpretations Committee also noted that the words 'when and only when' in paragraph 57 are important to ensure that a reclassification is limited appropriately to reflect changes in use that have taken place.

The Interpretations Committee observed that the list of circumstances set out in paragraphs 57(a)–(d) should be re-presented as examples of evidence that a change in use has occurred, and not as an exhaustive list.

Consequently, the Interpretations Committee decided to recommend to the IASB that it should amend paragraph 57 of IAS 40 to reinforce the principle for reclassification into, or out of investment property, by adding guidance in line with the approach described above.

## **Interpretations Committee agenda decisions**

*The following explanations are published for information only and do not change existing IFRS requirements. Interpretations Committee agenda decisions are not IFRIC Interpretations. IFRIC Interpretations are determined only after extensive deliberations and due process, including a formal vote, and become final only when approved by the IASB.*

### **IFRS 12 *Disclosure of Interests in Other Entities*—disclosures for a subsidiary with a material non-controlling interest (Agenda Paper 11)**

The Interpretations Committee received a request for clarification in respect of the requirements in paragraphs 12(e)–(g) of IFRS 12 *Disclosure of Interests in Other Entities* to disclose information about a subsidiary that has non-controlling interests that are material to the reporting entity.

The submitter asked whether the information required by paragraphs 12(e)–(g) should be provided:

- (a) at the subsidiary level (ie the 'legal' entity) and be based on the separate financial statements of the individual subsidiary; or
- (b) at a subgroup level for the subgroup of the subsidiary together with its investees and be based either on (i) the amounts of the subgroup included in the consolidated financial statements of the reporting entity; or (ii) the amounts included in consolidated financial statements of the subgroup; noting that transactions and balances between the subgroup and other entities outside the subgroup would not be eliminated.

The Interpretations Committee noted that, within the context of the disclosure objective in paragraph 10 of IFRS 12, materiality should be assessed by the reporting entity on the basis of the consolidated financial statements of the reporting entity. In this assessment, a reporting entity would consider both quantitative considerations (ie the size of the subsidiary) and qualitative considerations (ie the nature of the subsidiary).

The Interpretations Committee noted that the decision on which approach is used to present the disclosures required by paragraphs 12(e)–(g) should reflect the one that best meets the disclosure objective of paragraph 10 of IFRS 12 in the circumstances. According to this objective, ‘An entity shall disclose information that enables users of its consolidated financial statements to understand (i) the composition of the group; and (ii) the interest that non-controlling interests have in the group’s activities and cash flows’.

The Interpretations Committee observed that this judgement would be made separately for each subsidiary or subgroup that has a material non-controlling interest.

#### *Disclosures required by paragraphs 12(e) and (f) of IFRS 12*

The Interpretations Committee observed that a reporting entity would meet the requirements in paragraphs 12(e) and (f) by disclosing disaggregated information from the amounts included in the consolidated financial statements of the reporting entity in respect of subsidiaries that have non-controlling interests that are material to the reporting entity. The Interpretations Committee further observed that a reporting entity should apply judgement in determining the level of disaggregation of this information; that is, whether:

- (a) the entity presents this information about the subgroup of the subsidiary that has a material non-controlling interest (present the required information on the basis of the subsidiary together with its investees); or
- (b) it is necessary in achieving the disclosure objective in paragraph 10 of IFRS 12 to disaggregate the information further to present information about individual subsidiaries that have material non-controlling interests within that subgroup.

#### *Disclosures required by paragraph 12(g) of IFRS 12*

The Interpretations Committee observed that:

- (a) paragraph 12(g) requires summarised information about the subsidiaries that have non-controlling interests that are material to the reporting entity;
- (b) paragraph B10(b) states that an entity shall disclose ‘summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group’s activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income’; and
- (c) paragraph B11 states that the ‘summarised financial information required by paragraph B10(b) shall be the amounts before inter-company eliminations’.

The Interpretations Committee observed that in order to meet the disclosure objective in paragraph B10(b), that information would need to be prepared on a basis that was consistent with the information included in the consolidated financial statements of the reporting entity. The Interpretations Committee understood this to mean that the information would be prepared from the perspective of the reporting entity. For example, if the subsidiary was acquired in a business combination, the amounts disclosed should reflect the effects of the acquisition accounting.

The Interpretations Committee further observed that in providing the information required by paragraph 12(g) the entity would apply judgement in determining whether:

- (a) the entity presents this information about the subgroup of the subsidiary that has a material non-controlling interest (ie, it presents the required information on the basis of the subsidiary together with its investees); or
- (b) it is necessary in achieving the disclosure objective in paragraph 10 of IFRS 12 to disaggregate the information further to present information about individual subsidiaries that have material non-controlling interests within that subgroup.

However, the Interpretations Committee noted that the information provided in respect of paragraph 12(g) would include transactions between the subgroup/subsidiary and other members of the reporting entity’s group without elimination in order to meet the requirements in paragraph B11 of IFRS 12. The transactions within the subgroup would be eliminated.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS

requirements, sufficient guidance exists and 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.

### **IFRS 12 *Disclosure of Interests in Other Entities*—Disclosure of summarised financial information about material joint ventures or associates (Agenda Paper 11)**

The Interpretations Committee received a request to clarify the requirement to disclose summary financial information on material joint ventures or associates in paragraph 21(b)(ii) of IFRS 12 *Disclosure of Interests in Other Entities* and its interaction with the aggregation principle in paragraphs 4 and B2–B6 of IFRS 12.

The submitter asserts that there are two ways in which to interpret the application of those paragraphs. Either the information required in paragraph 21(b)(ii) of IFRS 12 can be disclosed in aggregate for all material joint ventures or associates, or such information should be disclosed individually for each material joint venture or associate.

The submitter also asked the Interpretations Committee to clarify the requirements in paragraph 21(b)(ii) of IFRS 12 when the information relates to a listed joint venture or associate, and local regulatory requirements would prevent the investor from disclosing such information until the joint venture or associate has released its own financial statements. Would the investor be excused from disclosing the information?

The Interpretations Committee noted that it expected the requirement in paragraph 21(b)(ii) of IFRS 12 to lead to the disclosure of summarised information on an individual basis for each joint venture or associate that is material to the reporting entity (ie this information should not be presented in aggregate for all material joint ventures or associates). The Interpretations Committee observed that this reflects the IASB's intentions as described in paragraph BC50 of IFRS 12.

The Interpretations Committee also noted that there is no provision in IFRS 12 that permits the non-disclosure of the information required in paragraph 21(b)(ii) of IFRS 12.

The Interpretations Committee was made aware of another concern relating to the disclosures required by IFRS 12 for joint ventures or associates in paragraphs 21(b)(ii), and paragraphs B12 and B13. Some think that these paragraphs do not specify the basis on which an entity should prepare the required summarised financial information for joint ventures and associates. The question raised is whether this information should be presented for each material joint venture or associate on an individual basis, or whether this information should be disclosed for the subgroup of the joint venture or associate together with its investees.

The Interpretations Committee observed that a reporting entity should present the summarised financial information required by paragraph 21(b)(ii) about a joint venture or an associate that is material to the reporting entity based on the consolidated financial statements for the joint venture or associate, if it has subsidiaries. If it does not have subsidiaries, the presentation should be based on the financial statements of the joint venture or associate in which its own joint ventures or associates are equity-accounted. The Interpretations Committee noted that these views are consistent with paragraph B14(a), which states that 'the amounts included in the IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies'.

The Interpretations Committee analysed the results of the outreach request performed by the staff. This outreach indicated that no significant diversity has been observed in the application of IFRS 12 related to these issues.

In the light of the existing IFRS requirements, and on the basis of the outreach results received, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary and therefore decided not to add this issue to its agenda.

### **IFRS 13 *Fair Value Measurement*—the fair value hierarchy when third-party consensus prices are used (Agenda Paper 10)**

The Interpretations Committee received a request to clarify under what circumstances prices that are provided by third parties would qualify as Level 1 in the fair value hierarchy in accordance with IFRS 13 *Fair Value Measurement*. The submitter noted that there are divergent views on the level within the hierarchy in which fair value measurements based on prices received from third parties should be classified.

The Interpretations Committee noted that when assets or liabilities are measured on the basis of prices provided by third parties, the classification of those measurements within the fair value hierarchy will depend on the evaluation of the inputs used by the third party to derive those prices, instead of on the pricing methodology used. In other words, the fair value hierarchy prioritises the inputs to valuation techniques, not

the valuation techniques used to measure fair value. In accordance with IFRS 13, only unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date qualify as Level 1 inputs. Consequently, the Interpretations Committee noted that a fair value measurement that is based on prices provided by third parties may only be categorised within Level 1 of the fair value hierarchy if the measurement relies solely on unadjusted quoted prices in an active market for an identical instrument that the entity can access at the measurement date.

The Interpretations Committee also observed that the guidance in IFRS 13 relating to the classification of measurements within the fair value hierarchy is sufficient to draw an appropriate conclusion on the issue submitted.

On the basis of the analysis performed, 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.

**IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 1 *Presentation of Financial Statements*—Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (Agenda Paper 4)**

The Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income.

The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 *Revenue*, because it reflects a gross outflow, instead of a gross inflow, of economic benefits. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue, but in an appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 85 and 112(c) of IAS 1 *Presentation of Financial Statements*, the entity is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item.

The Interpretations Committee considered that in the light of the existing IFRS requirements an interpretation was not necessary and consequently decided not to add the issue to its agenda.

**IAS 39 *Financial Instruments: Recognition and Measurement*—accounting for embedded foreign currency derivatives in host contracts (Agenda Paper 9)**

The Interpretations Committee received a request related to the 'closely related' criterion in paragraph 11 of IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether an embedded derivative should be separated from a host contract and accounted for as a derivative in accordance with IAS 39.

More specifically, the Interpretations Committee was asked to consider whether an embedded foreign currency derivative in a licence agreement is closely related to the economic characteristics of the host contract, on the basis that the currency in which the licence agreement is denominated is the currency in which commercial transactions in that type of licence agreement are routinely denominated around the world (ie the 'routinely-denominated' criterion in paragraph AG33(d)(ii) of IAS 39).

The Interpretations Committee noted that the issue related to a contract for a specific type of item and observed that an assessment of the routinely-denominated criterion is based on evidence of whether or not such commercial transactions are denominated in that currency all around the world and not merely in one local area. The Interpretations Committee further observed that the assessment of the routinely-denominated criterion is a question of fact and is based on an assessment of available evidence.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and 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.

**IFRIC 21 *Levies*—levies raised on production property, plant and equipment (Agenda Paper 8)**

The Interpretations Committee received two submissions relating to levies raised on production property, plant and equipment (PPE).

Paragraph 3 of IFRIC 21 *Levies* states that the Interpretation does not provide guidance on accounting for the costs arising from recognising a levy. The Interpretation notes that entities should apply other Standards to decide whether the recognition of an obligation for a levy gives rise to an asset or to an expense. The



submitters, both service providers, asked whether the cost of a levy on productive assets is:

- (a) an administrative cost to be recognised as an expense as it is incurred; or
- (b) a fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

The Interpretations Committee noted that when IFRIC 21 was being developed it had discussed the accounting for costs that arise from recognising the liability for a levy. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*. The Interpretations Committee decided not to provide guidance on this matter; entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or to an expense. The Interpretations Committee also noted that IFRIC 21 is an Interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and that paragraph 8 of IAS 37 states that IAS 37 does not deal with the recognition of either the asset or expense associated with a liability. It also noted that it would not be efficient to give case-by-case guidance based on the fact patterns of individual levies.

Consequently, the Interpretations Committee decided not to add this issue to its agenda.

## **Interpretations Committee tentative agenda decision**

*The Interpretations Committee reviewed the following matters and tentatively decided that they should not be added to its agenda. These tentative decisions, including recommended reasons for not adding the items to the Interpretations Committee's agenda, will be reconsidered at the Interpretations Committee meeting in March 2015. Interested parties who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to email those concerns by 10 April 2015 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 24 *Related Party Disclosures*—definition of close members of the family of a person (Agenda Paper 13)**

The Interpretations Committee received a submission regarding the definition of close members of the family of a person in paragraph 9 of IAS 24 *Related Party Disclosures*.

The submitter points out that the definition of close members of the family of a person in paragraph 9 of IAS 24 does not specify that the parents of a person could be included in this definition. The submitter thinks that this definition should include a person's parents, because in its view they are among the closest members of the family of a person who may be expected to influence, or be influenced by, that person in their dealings with the entity. The submitter further observes that some jurisdictions include the parents of a person within the definition of 'close members of the family of a person'.

The submitter suggests that the Interpretations Committee could:

- (a) specify that this definition includes 'those persons who are considered to be close members of the family according to the law or the prevailing customary norms in the jurisdiction where the entity operates'; and
- (b) remove the examples of 'close members of the family of a person' from the definition.

The Interpretations Committee observed that the definition of close members of the family of a person in paragraph 9 of IAS 24 is expressed in a principle-based manner and involves assessing whether a family member is expected to influence or be influenced by a person. This assessment involves the use of judgement to determine whether members of the family of a person (including that person's parents) are related parties or not.

The Interpretations Committee also noted that the list in paragraphs 9(a)–(c) of IAS 24 specifies members that would be considered close members of the family of a person. Moreover it noted that this list is non-exhaustive and does not preclude other family members from being considered close members of the family. Consequently the Interpretations Committee thought that other family members, including parents or grandparents, could qualify as close members of the family depending on the assessment of specific facts and circumstances.

In the light of the existing IFRS requirements the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary and therefore [decided] not to add this issue to its agenda.

## **Interpretations Committee work in progress**

### **IAS 28 Investments in Associates and Joint Ventures—assessment of significant influence: fund manager acting as agent and holding own investment in the fund (Agenda Paper 7)**

The Interpretations Committee received a request to clarify what factors may indicate that a fund manager has significant influence over a fund that it manages and in which it has a direct holding. The submitter described a particular situation in which an assessment of control under IFRS 10 *Consolidated Financial Statements* resulted in the conclusion that the fund manager does not control the fund that it manages and in which it has a direct holding, because it is acting as an agent in accordance with paragraphs B58–B72 of IFRS 10. The submitter raised two questions in respect of this particular situation:

- (a) whether the fund manager should assess whether it has a significant influence over the fund; and
- (b) if yes, how should it make such an assessment.

The Interpretations Committee noted that a fund manager that concludes it is an agent in accordance with IFRS 10 should assess whether it has significant influence. The Interpretations Committee further noted that a fund manager would need to make that assessment in accordance with the guidance in IAS 28. In particular it should consider:

- (a) its holding in the fund; and
- (b) whether its power to participate in financial and operating policy decisions, combined with its holding in the fund, constitute significant influence.

At this meeting, Interpretations Committee members noted that IFRS 10 did not make any consequential amendments to IAS 28 in relation to the assessment of significant influence. However Interpretations Committee members did not reach agreement on whether and how a power to participate in financial and operating policy decisions that is held in the capacity of an agent should affect the assessment of significant influence.

The Interpretations Committee noted that the IASB currently has a research project on the subject of equity accounting, but that it is not clear at this stage whether the assessment of significant influence will form part of that project. Consequently, the Interpretations Committee decided to monitor how that research project progresses, and to revisit this issue if the research project does not address it.

### **Interpretations Committee work in progress update (Agenda Paper 14)**

The Interpretations Committee received a report about ongoing issues that were not discussed at this meeting. No new issues were reported.

## **Other matters**

### **Interpretations Committee review of 2014 activity (Agenda Paper 15)**

The Interpretations Committee received a report on the number and types of activities undertaken over recent years and how those activities have been evolving. This report included a summary of its activities during 2014 and a comparison with respect to previous years.

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