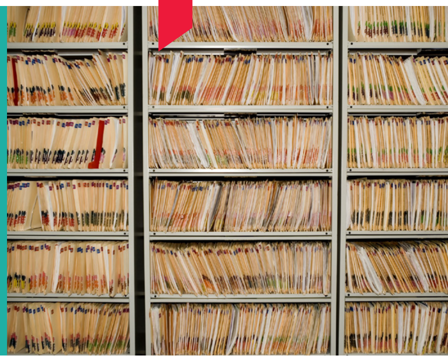
IFRS INTERPRETATIONS COMMITTEE – AGENDA REJECTIONS (MAY 2015)
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2015/10



STATUS
Final

EFFECTIVE DATE
Immediate

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

Background

This Bulletin summarises issues that the IFRS Interpretations Committee (the Interpretations Committee) decided not to take onto its agenda at its May 2015 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 subjected to further consideration by 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.

Agenda decisions that were finalised at the May 2015 meeting

IFRS 10 Consolidated Financial Statements – Single-asset, single lessee lease vehicles

IAS 24 Related Party Disclosures – Definition of close members of the family of a person

These issues are discussed below and considered to be narrow in focus.

Tentative agenda decisions at the May 2015 meeting

No tentative agenda decisions were published.

Agenda decisions at the May 2015 meeting – narrow application

IFRS 10 Consolidated Financial Statements – Single-asset, single lessee lease vehicles

The Interpretations Committee was asked to clarify the interaction between IFRS 10 *Consolidated Financial Statements* and IAS 17 *Leases* in situations where a structured entity (SE) is created to lease a single asset to a single lessee. The question was raised in relation to the two following scenarios:

- Operating lease: should the lessee consolidate the SE?
- Finance lease: should the lessor consolidate the SE?

In particular, the question was raised whether the lessee's use of the leased asset is a relevant activity when assessing whether the entity controls the SE.

The Interpretations Committee noted that an entity has power over an investee when it has rights that give the current ability to direct the activities that significantly affect the investee's returns (i.e. relevant activities). Based on the lease arrangement being either an operating or a finance lease, the SE (lessor) would have two rights, being:

- Right to receive lease payments
- Right to the residual value of the leased asset at the end of the lease.

Consequently, the relevant activities, i.e. the activities that would affect the returns of the SE, are related to managing the returns derived from these rights, being:

- Managing the credit risk associated with the lease payments
- Managing the leased asset at the end of the lease term (sale or re-leasing).

The Interpretations Committee clarified that the right to use the leased asset for a period of time would not, in isolation, give an entity decision making rights over the relevant activities (i.e. to manage the returns derived from the asset).

However, it was further noted that an entity would consider all of its rights that it has in relation to the investee to determine whether it has power over the investee which includes rights in contractual arrangements other than the lease (e.g. loans made to the lessor) and also rights in the lease contract that go beyond providing the lessee with the right to use the asset.

The Interpretations Committee concluded that the existing IFRS requirements in IFRS 10 are sufficient to enable entities to determine control in this scenario. Furthermore it was noted that it is not the Interpretations Committee's practice to give case by case advice on individual fact patterns. The Interpretations Committee therefore decided not to take this item to its agenda.

BDO comment

Although the scope of the agenda decision is narrow in focus, the response to the submission illustrates that the assessment of what constitutes a relevant activity is a critical step in determining control under IFRS 10 Consolidated Financial Statements.

IAS 24 Related Party Disclosures – Definition of close members of the family of a person

A question was raised in relation to the definition of close family members within IAS 24.9, which currently does not specify that the parents of a person are included in this definition. In some jurisdictions, local regulations include the parents of a person within the definition of '*close members of the family of a person*'.

The Interpretations Committee noted that the definition of close members of the family of a person is:

- Principle based meaning that the assessment requires judgement; and
- Includes a list of family members that are always considered as close family members.

As the list of close family members in IAS 24.9(a)-(c) is non-exhaustive, other family members, including parents and grandparents could qualify as close members of the family depending on the assessment of specific facts and circumstances.

Because existing IFRS requirements are sufficient to enable an entity to carry out this analysis, the Interpretations Committee decided not to add this item to its agenda.

BDO comment

The agenda decision of the Interpretations Committee clarifies that the identification of close members of the family of a person is based on the principle of whether the member of the family is able to influence, or expected to influence the person.

Accordingly, the list of close members of the family of a person, which currently refers to children, the spouse/partner and dependants, is only illustrative. Consequently, depending on the facts and circumstances, parents and other family members could meet the definition of close members of the family of a person in IAS 24.9.

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