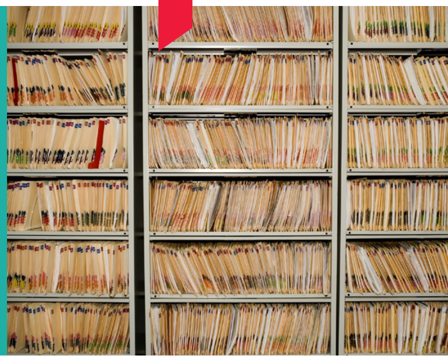
IFRS INTERPRETATIONS COMMITTEE – AGENDA REJECTIONS (JANUARY 2015)

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2015/04



Background

This Bulletin summarises issues that the IFRS Interpretations Committee (the Interpretations Committee) decided not to take onto its agenda at its January 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.

STATUS
Final

EFFECTIVE DATE
Immediate

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

Agenda decisions that were finalised at the January 2015 meeting

IFRS 12 *Disclosure of Interest in Other Entities – Disclosures for a subsidiary with a material non-controlling interest*

IFRS 12 *Disclosure of Interest in Other Entities – Disclosure of summarised financial information about material joint ventures or associates*

IFRS 13 *Fair Value Measurement – The fair value hierarchy when third-party consensus prices are used*

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*

IAS 39 *Financial Instruments: Recognition and Measurement – Accounting for embedded foreign currency derivatives in host contracts*

IFRIC 21 *Levies – Levies raised on production property, plant and equipment.*

Tentative agenda decisions at the January 2015 meeting

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

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 at the January 2015 meeting – wide application

IFRS 12 *Disclosure of Interests in Other Entities – Disclosures for a subsidiary with a material non-controlling interest*

The disclosure requirements of IFRS 12.12(e)-(g) require an entity to provide information about a subsidiary that has non-controlling interests that are material to the reporting entity. It was unclear whether the information should be provided on:

(a) Subsidiary level based on the separate financial statements; or at

(b) Subgroup level with the subsidiary together with its investees, to be based either on:

- The amounts of the subgroup included in the consolidated financial statements of the reporting entity; or
- The amounts included in the consolidated financial statements noting that transactions and balances between the subgroup and other entities outside the subgroup would not be eliminated.

The Interpretations Committee referred to the disclosure objective in IFRS 12.10, being:

> *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.*

It further noted, that materiality should be assessed on the basis of the consolidated financial statements of the reporting entity by considering quantitative and qualitative criteria. The judgement is made separately for each subsidiary or subgroup that has a material non-controlling interest.

Disclosures required by IFRS 12.12(e) and (f)

The requirements would be met by the disclosure of disaggregated information from the amounts included in consolidated financial statements of the reporting entity in respect of subsidiaries that have non-controlling interest that are material to the reporting entity. Judgement is required, when there is a subgroup, about whether information is disclosed about the subgroup as a whole or about individual subsidiaries.

Disclosures required by IFRS 12.12(g)

Summarised information about subsidiaries that have non-controlling interest that are material to the reporting entity are required. It is noted that summarised financial information is presented on the basis of amounts before inter-company eliminations (IFRS 12.B11). In order to arrive at this stage, the information would need to be prepared from the perspective of the reporting entity.

Judgement is required, when there is a subgroup, about whether:

- The entity presents this information about the subgroup of the subsidiary that has a material non-controlling interest; or
- It would be necessary to disaggregate the information further to present information about individual subsidiaries with material non-controlling interests in the subgroup.

Based on the existing IFRS requirements, the Interpretations Committee determined that sufficient guidance exists and, consequently, 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

Entities are required to disclose summarised financial information about material joint ventures and associates in accordance with IFRS 12.21(b). At the same time IFRS 12.4 provides a principle, that disclosures can be aggregated/disaggregated so that financial information is not obscured by either the aggregation of information with different characteristics or the inclusion of excessively detailed information.

The Interpretations Committee was asked whether the aggregation principle in IFRS 12.4 means that the disclosures required by IFRS 12.21(b)(ii) can be disclosed in aggregate for all material joint ventures and associates or whether such information should be disclosed individually for each material joint venture and associate. A question was also raised about whether any regulatory requirements would mean that an entity would not need to disclose such information about a listed joint venture or associate until those entities' financial statements had been released.

It was noted that the disclosures should be provided on an individual basis for each material joint venture and associate as this reflects the IASB's intentions described in IFRS 12.BC50. Furthermore, no provision in IFRS 12 permits the non-disclosure of such information.

Another question was related to the basis on which an entity should prepare the summarised financial information, being either for each material joint venture on an individual basis or for the subgroup together with its investees.

The Interpretations Committee noted that the disclosures should be presented in line with IFRS 12.B14(a) as follows:

- Reporting entity with subsidiaries: based on the consolidated financial statements for the joint venture or associate
- Reporting entity without subsidiaries: based on the financial statements of the joint venture or associate in which its own joint ventures or associates are equity-accounted.

Based on the existing requirements and the outreach received, the Interpretations Committee 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

Some entities derive fair values for the purposes of IFRS 13 from third party consensus prices. Due to divergent views about the classification of those prices within the fair value hierarchy, the Interpretations Committee was asked whether third party consensus prices could qualify as level 1 inputs.

The Interpretations Committee noted that the classification as level 1, 2 or 3 within the fair value hierarchy prioritises the inputs to valuation techniques and not the valuation techniques used to measure the fair value. It is therefore necessary to evaluate the inputs that were used by the third party to derive the price. A classification based on level 1 requires unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access on the measurement date. Based on its analysis and the guidance in IFRS 13, the Interpretations Committee decided that neither an interpretation nor an amendment to an IFRS was needed, and did not take this item onto its agenda.

BDO comment

Some entities in particular industries frequently use third-party consensus prices for the purposes of IFRS 13 Fair Value Measurement. Questions about the classification within the fair value hierarchy often arise due to the extent of disclosure requirements for fair values that are classified as level 3 as these require significant additional disclosures.

This agenda decision clarifies that, in addition to valuation techniques not being the determining factor, industry practice does not justify a particular classification within the fair value hierarchy. Instead, the classification as level 1, 2 or 3 is based solely on the inputs used, either by the entity itself or by a third party, to derive the fair value.

Agenda decisions at the January 2015 meeting – narrow application

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

The question that was brought to the Interpretations Committee relates to the presentation of negative effective interest rates in the statement of comprehensive income. It was noted by the Interpretations Committee that a negative effective interest rate on a financial asset does not meet the definition of interest revenue within IAS 18 *Revenue*, as it leads to a gross outflow and not to a gross inflow of economic benefits.

Consequently, expenses in relation to negative interest rates should be presented in an appropriate expense classification together with additional information about the amount that is relevant for an understanding of the entity's financial performance or the item. Due to the existing IFRS requirements the Interpretations Committee decided not to take this item to its agenda.

IAS 39 Financial Instruments: Recognition and Measurement – Accounting for embedded foreign currency derivatives in host contracts

The requirements of IAS 39.11 require the separation of, and separate accounting for, an embedded derivative in a host contract when it is not closely related to the host contract. The issue raised was in relation to an embedded foreign currency derivative in a licence agreement, and whether that embedded derivative could be regarded as being closely related 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 worldwide.

As the question relates to the 'routinely-denominated' criterion within IAS 39.AG33(d)(ii) the Interpretations Committee expanded on the assessment of this criterion. It explained that the assessment of this criterion is a matter of fact, and that for this criterion to be met, transactions need to be denominated in that currency all around the world and not merely in one local area.

On the basis of the existing requirements, the Interpretations Committee decided not to add this issue to its agenda.

IFRIC 21 Levies – Levies raised on production property, plant and equipment

IFRIC 21.3 notes that the Interpretation does not provide guidance on accounting for the costs arising from recognising a levy, and instead requires other Standards to be applied in deciding whether a levy gives rise to an asset or an expense. A question was raised as to whether the costs of a levy on a productive asset should be classified as:

– An administrative cost to be recognised as an expense as it is incurred; or
– A fixed production overhead to be recognised as part of the cost of the entity's inventory in accordance with IAS 2 *Inventories*.

It was noted by the Interpretations Committee that the accounting for costs that arise from a levy was discussed when developing the Interpretation. It had considered whether those costs would be accounted for in accordance with IAS 2, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*, but decided not to provide guidance. It further noted that IFRIC 21 is an Interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which does not deal with the recognition of either an asset or expense in association with a liability (IAS 37.8).

The Interpretations Committee concluded, that it would not be efficient to provide case-by-case guidance and decided not to add this issue to its agenda.

Tentative agenda decision at the January 2015 meeting – wide application

IAS 24 Related Party Disclosures – Definition of close members of the family of a person in paragraph 9 of IAS 24 Related Party Disclosures

The Interpretations Committee was asked to clarify the definition of 'close members of the family of a person' within IAS 24 as the current definition does not specify that the parents of a person could be included in the definition. Current practice is that in some jurisdictions the parents of a person are considered to fall within the definition and in others they are not.

The Interpretations Committee noted that the definition of close members of the family of a person in IAS 24.9 is expressed in a principle-based manner and judgement is required to assess whether the person is expected to influence or be influenced by a person and therefore qualifies as a related party. The list of examples within the standard is not exhaustive and does not preclude other members of the family from being considered to qualify as related parties. Accordingly, other family members such as parents or grandparents could qualify as related parties based on the assessment of specific facts and circumstances.

BDO comment

The assessment of related parties often requires judgements and depends on the facts and circumstances in each case. The tentative agenda decision clarifies, that the assessment of a related party depends on the influence a person might have and is not limited to certain members of a family.

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