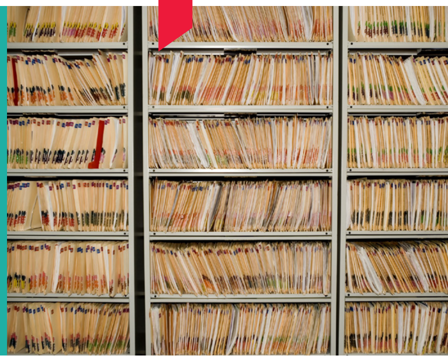
IFRS INTERPRETATIONS COMMITTEE – AGENDA REJECTIONS (SEPTEMBER 2014)
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/20



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 September 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.

Agenda decisions that were finalised at the September 2014 meeting

No tentative decisions were finalised.

Tentative agenda decisions at the September 2014 meeting

IFRS 12 Disclosure of Interests in Other Entities – disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate

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

IAS 28 Investments in Associates and Joint Ventures – fund manager's significant influence over a fund

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

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

Tentative agenda decisions at the September 2014 meeting – wide application

IFRS 12 Disclosure of Interests in Other Entities – disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate

IFRS 12 requires the disclosure of summarised financial information for subsidiaries and interests in joint ventures and associates. However, IFRS 12 does not specify the basis on which an entity should prepare the required summarised financial information for subsidiaries (IFRS 12.12(e)-(g)) and for joint ventures and associates (IFRS 12.21(b)(ii)).

The Interpretations Committee was asked whether the disclosures required for subsidiaries should be based on the separate financial statements of the subsidiary or on the (consolidated) statements of the subgroup. If they were to be based on a subgroup level, should these be the amounts included in the consolidated financial statements with or without elimination of balances between the subgroup and other entities outside the subgroup? In terms of joint ventures and associates the question was whether the disclosures should be presented on an individual basis or on the basis of the entire subgroup.

The Interpretations Committee noted that the requirements of IFRS 12.12(e)-(f), being profit or loss allocated to NCI during the period and the accumulated NCI interest at the end of the period, are met by the disclosure of disaggregated information from the amounts included in the consolidated financial statements. However, judgment is required about the level of disaggregation of the financial information, being either information about the whole subgroup or about the individual subsidiaries of that subgroup. The judgment would be based on the overall disclosure objective in IFRS 12.10 which requires the assessment of quantitative (the size of the subsidiary) and qualitative (the nature of the subsidiary) considerations. In terms of the disclosure requirements of IFRS 12.12(g), being summarised financial information about the subsidiary, that information is based on the amounts before inter-company eliminations i.e. from the perspective of the reporting entity.

Accordingly, the disclosure requirements of IFRS 12.21(b)(ii), for summarised financial information about joint ventures and associates, are based on the consolidated financial statements of the joint venture or associate.

BDO comment

This clarifies that although disclosures on an aggregated level could be appropriate in some cases, disaggregation might often be required in order to comply with the general disclosure objective in IFRS 12.10. Depending on the materiality of intercompany eliminations, an entity may be required to further disaggregate its disclosures.

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

The classification of the fair value determined in accordance with the hierarchy provided in IFRS 13 requires judgement. The Interpretations Committee was asked whether prices provided by third parties qualify as Level 1 prices in accordance with the fair value hierarchy in IFRS 13.

The Interpretations Committee noted that the classification of measures within the fair value hierarchy depends on an evaluation of the inputs that are used by the third party and not on the pricing methodology used to calculate the fair value. Accordingly, prices provided by third parties qualify as being level 1 inputs if they are based solely on unadjusted quoted prices in an active market for an identical instrument that the entity can access at the measurement date. Other prices provided by third parties would not qualify for level 1 classification.

BDO comment

The Interpretations Committee agenda decision confirms that, regardless of the source of pricing information, it is necessary to understand the way in which the price supplied by third parties have been determined before concluding on the appropriate valuation level in accordance with IFRS 13.

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

Entities that record a levy in accordance with IFRIC 21 need to apply other Standards to determine whether or not the obligation gives rise to an expense (administrative cost) or is recognised as part of the cost of inventory (as a fixed production overhead). The Interpretations Committee was asked about whether the debit entry arising from two particular fact patterns should be capitalised or expensed.

The issue had previously been discussed when IFRIC 21 was developed. However, no guidance was issued because it was not possible to identify a general principle to be applied when accounting for the costs side of a levy-based transaction. Accordingly, the Interpretations Committee concluded that it was unlikely that it would reach a consensus on the accounting in the cases that had been raised.

However, it was considered that the submissions raised a broader issue about accounting for annual costs that are incurred unevenly during a year, in the context of the definition of an asset and the notion of matching costs with revenues. It therefore asked the staff to submit this pattern to the IASB's *Conceptual Framework* team for its consideration.

Tentative agenda decisions at the September 2014 meeting – narrow application

IAS 28 Investments in Associates and Joint Ventures – fund manager's significant influence over a fund

Fund managers sometimes have a direct holding in funds they manage. In this case an assessment under IFRS 10 *Consolidated Financial Statements* needs to be made to determine whether the fund manager has control over the fund. The Interpretations Committee was asked about cases where it is determined that the fund manager does not control the fund (e.g. because the fund manager qualifies as an agent). In particular, in such cases, is it necessary to carry out an assessment to determine whether the fund manager has significant influence over the fund and, if so, how such an assessment should be carried out.

The Interpretations Committee noted that if it is concluded that a fund manager does not control a fund, it is necessary to assess whether the fund manager has significant influence over that fund in accordance with the guidance in IAS 28. In doing so, an entity should consider its holding in the fund and whether its rights to participate in the financial and operating decisions in combination with its holding in the fund gives rise to significant influence. However, it was noted that IAS 28 is not clear about whether this includes the fund manager's participation in the financial and operating decisions of the fund that are undertaken on behalf and for the benefit of other parties. The Interpretations Committee decided that this point would be better considered as part of the IASB's comprehensive project on the equity method of accounting.

BDO comment

The tentative agenda decision clarifies that an assessment needs to be carried out to determine of whether a fund manager, that does not control a fund, has significant influence over that fund. However, it remains unclear precisely how this assessment should be carried out and in particular the extent to which decisions taken by the fund manager as agent for third parties should be taken into account.

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

IAS 39.11 requires derivatives that are embedded in a host contract to be separated and accounted for separately if they are not closely related to the host contract. The Interpretations Committee was asked whether a foreign currency derivative embedded in a particular licensing agreement was closely related to the host contract, on the basis that the licence agreement was denominated in the currency in which commercial transactions in that type of licence agreement are routinely denominated around the world (IAS 39.AG33(d)(ii)).

It was noted that whether certain arrangements are routinely denominated in a particular currency is a matter of fact and is based on the available evidence. The answer is based on whether or not the transactions are routinely denominated in a particular currency around the world.

BDO comment

The 'routinely denominated' criterion is restricted to a small number of items which are genuinely traded in a particular currency on a global basis. An example is crude oil, which is denominated in US dollars. Some other goods, such as wide bodied aircraft, can also qualify.

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