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HKFRS / IFRS UPDATE 2016/08

IFRS INTERPRETATIONS COMMITTEE - AGENDA REJECTIONS (JULY 2016)

STATUS
Final

EFFECTIVE DATE
Immediate

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

Background

This Update summarises issues that the IFRS Interpretations Committee (the Interpretations Committee) decided not to take onto its agenda at its July 2016 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.

Given that HKFRS is fully converged with IFRS, these agenda decisions are also informative and persuasive to HKFRS financial statements preparers. HKFRS has identical financial reporting standards and paragraph references as IFRS. For example, if a reference is made to "paragraph B34-B35 of IFRS 11" the equivalent HKFRS paragraph is "paragraph B34-B35 of HKFRS 11".

Agenda decisions that were finalised at the July 2016 meeting

IFRS 11/IFRS10Accounting for loss of control transactions

IFRIC 12	*Payments made by an operator to a grantor in a service concession arrangement*

Tentative agenda decisions at the July 2016 meeting

IAS 12	*Expected manner of recovery of indefinite life intangible assets when measuring deferred tax*

Agenda decisions at the July 2016 meeting – wide application

IFRS 11/IFRS10 Accounting for loss of control transactions

The Interpretations Committee discussed whether an entity should remeasure its retained interest in the assets and liabilities of a joint operation when the entity loses control of a business, or an asset or group of assets that is not a business. In the issue discussed, the entity either retains joint control of a joint operation or is a party to a joint operation (with rights to assets and obligations for liabilities) after the transaction.

It was noted that paragraphs B34-B35 of IFRS 11 *Joint Arrangements* specify that an entity recognises gains or losses on the sale or contribution of assets to a joint operation only to the extent of the other parties' interests in the joint operation. The requirements in these paragraphs could be viewed as conflicting with the requirements in IFRS 10 *Consolidated Financial Statements*. In accordance with IFRS 10 an entity remeasures any retained interest when it loses control of a subsidiary.

The Board issued amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures* in September 2014 to address the accounting for the sale or contribution of assets to an associate or a joint venture. Those amendments address a similar conflict that exists between the requirements in IFRS 10 and IAS 28. Nevertheless, the Board decided to defer the effective date of the amendments.

Because of the similarity between the transaction discussed by the Interpretations Committee and a sale or contribution of assets to an associate or a joint venture, the Interpretations Committee concluded that the accounting for the two transactions should be considered concurrently by the Board and therefore decided not to add it to its agenda.

Agenda decisions at the July 2016 meeting – narrow application

IFRIC 12	*Payments made by an operator to a grantor in a service concession arrangement*

The Interpretations Committee received a request to clarify how an operator accounts for payments it makes to a grantor in a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangement*.

The Interpretations Committee observed the following in circumstances other than those in which the operator is collecting amounts on behalf of, and remitting them to, the grantor:

(a) If payments are for rights or services that are separate from the service concession arrangement, then the operator accounts for those payments applying the applicable IFRS Standard(s).

(b) If payments are for the right to use an asset that is separate from the infrastructure within the scope of IFRIC 12, it must be assessed whether the arrangement contains a lease and, if so, apply IFRS 16 *Leases* (IAS 17 *Leases*).

(c) If payments are not for the right to a separate good or service or a separate right-of-use that is a lease, then the operator accounts for those payments as follows:
   i. If the operator has only a contractual right to receive cash from the grantor, the operator accounts for those payments as a reduction of the transaction price in accordance with paragraphs 70-72 of IFRS 15 *Revenue from Contracts with Customers* (consideration payable to a customer).
   ii. If the operator has only a right to charge users of the public service, the operator has received an intangible asset in exchange for construction/upgrade services and the payments to be made to the grantor. Consequently, an entity accounts for those payments applying IAS 38 *Intangible Assets*.
   iii. If the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor, the operator considers whether those payments represent payments

made for the intangible asset, or consideration payable to a customer, or both.

The Interpretations Committee observed that, when the intangible asset model in IFRIC 12 applies, the accounting for variable payments to be made by the operator in a service concession arrangement is linked to the broader issue of accounting for variable payments for asset purchases. The Interpretations Committee determined in March 2016 that this issue was too broad to address within the confines of existing IFRS Standards. Therefore, it was concluded that addressing how an operator accounts for variable payments that it makes to a grantor when the intangible asset model in IFRIC 12 applies is also too broad an issue. Consequently, the Interpretations Committee decided not to add it to its agenda.

Tentative agenda decisions at the May 2016 meeting – wide application

IAS 12 *Expected manner of recovery of indefinite life intangible assets when measuring deferred tax*

The Interpretations Committee was requested to clarify how to determine the expected manner of recovery of an indefinite life intangible asset for the purposes of measuring deferred tax.

It was observed that an indefinite life intangible asset is not a non-depreciable asset as envisaged by paragraph 51B of IAS *Income Taxes*. This is because a non-depreciable asset has an unlimited (or infinite) life, and IAS 38 *Intangible Assets* explains that indefinite does not mean infinite.

The Board observed in 2004 that an indefinite life intangible asset is not amortised because there is no foreseeable limit on the period during which an entity expects to consume the future economic benefits embodied in the asset and, hence, amortisation over an arbitrarily determined maximum period would not be representationally faithful. Therefore, the reason for not amortising an indefinite life intangible is not because there is no consumption of the future economic benefits embodied in the asset.

The Interpretations Committee observed that the recovery of the carrying amount of an indefinite life intangible asset does not depend on whether the asset is amortised. Consequently, the fact that an entity does not amortise an indefinite life intangible asset does not necessarily mean that the entity will recover the carrying amount of that asset only through sale and not through use.

It was noted that an entity applies the principle and requirements in paragraphs 51 and 51A of IAS 12 when measuring deferred tax on an indefinite life intangible asset and that an entity determines its expected manner of recovery of the carrying amount of the indefinite life intangible asset, and reflects the tax consequences that follow from that expected manner of recovery.

The Interpretations Committee concluded that the principle and requirements in paragraphs 51 and 51A of IAS 12 provide sufficient requirements with respect to measuring deferred tax on indefinite life intangible assets. Consequently, it was [decided] not to add this issue to its agenda.

BDO's support and assistance on HKFRS/IFRS

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