



# HM TREASURY

## Financial Reporting Advisory Board Paper IFRS Interpretations Committee update

<b>Issue:</b>	This paper has been prepared at the request of the FRAB and identifies: items on the agenda at the November 2017 meeting of the IFRS Interpretations Committee; tentative decisions at the November 2017 meeting of the IFRS Interpretations Committee; the agenda decisions that were finalised at the November 2017 meeting of the IFRS Interpretations Committee; the agenda decisions that were finalised at the January 2018 meeting of the IFRS Interpretations Committee; other matters (Committee work in progress); the next meeting of the IFRS Interpretations Committee in March 2018; and new IFRIC interpretations currently being reviewed by EFRAG.
<b>Impact on guidance</b>	No public-sector adaptations or interpretations are foreseen at this stage. It is expected that all entities need to be aware of these agenda decisions, and may need to modify their accounting approach. HM Treasury will review any new IFRIC interpretations when issued.
<b>IFRS adaptation</b>	Not applicable.
<b>IPSAS compliant</b>	Not applicable.
<b>Impact on budgetary regime and Estimates</b>	No changes proposed.
<b>Alignment with National Accounts</b>	No misalignment identified.
<b>Recommendation:</b>	This paper is for information purposes only. HM Treasury welcome any views from the Board on public sector application.
<b>Timing:</b>	HM Treasury will review and follow due process for any new IFRIC interpretations nearer to the EU adoption and effective dates. Any substantive changes to the FReM will be approved by the Board and communicated appropriately.

## DETAIL

### Background

1. The IFRS Interpretations Committee (the Committee) is the interpretative body of the IASB. The Committee works with the IASB in supporting the application of IFRS and to provide guidance on financial reporting issues which have been identified and which are not specifically addressed in IFRS.
2. The Committee responds to questions about the application of the Standards and does other work at the request of the IASB. All Committee projects begin as a question regarding a Standard. The process is designed to:
  - allow any stakeholder to submit a question; and
  - be transparent - all submissions are considered at a public meeting.
3. At each meeting, the 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 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 Committee for further consideration in the light of any comment letters received and further analysis carried out by staff. The tentative agenda decision is then either confirmed and reported in the next IFRIC Update, subjected to further consideration by the Committee or referred to the IASB.
4. Committee agenda decisions do not represent authoritative guidance. It is noted on the IFRS Foundation's website that they 'should be seen as helpful, informative and persuasive'. Although in practice, it is expected that all entities that report in accordance with IFRS need to be aware of these agenda decisions, and may need to modify their accounting approach.
5. Decisions on an IFRIC interpretation become final only after the Committee has taken a formal vote on the interpretation. IFRIC interpretations require ratification by the IASB.
6. This paper has been prepared at the request of the FRAB and identifies:
  - items on the agenda at the November 2017 meeting of the Committee;
  - tentative decisions at the November 2017 meeting of the Committee;
  - the agenda decisions that were finalised at the November 2017 meeting of the Committee;

- the agenda decisions that were finalised at the January 2018 meeting of the Committee;
- other matters (Committee work in progress);
- the next meeting of the Committee in March 2018; and
- new IFRIC interpretations being reviewed by EFRAG.

## Items on the Committee's agenda at the November 2017 meeting<sup>1</sup>

### **IFRS 1: First-time Adoption of International Financial Reporting Standards - Subsidiary as a First-time Adopter (Agenda Paper 6)**

At its meeting in September 2017, the Committee published an agenda decision concluding that paragraph D16 of IFRS 1 does not permit a subsidiary to recognise cumulative translation differences at the amount that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

In November 2017, the Committee recommended to the IASB that it propose an amendment to IFRS 1 to provide a subsidiary that applies paragraph D16(a) with additional practical relief for cumulative translation differences.

The IASB will discuss the Committee's recommendation at a future Board meeting.

### **IAS 37: Provisions, Contingent Liabilities and Contingent Assets - Costs Considered in Assessing Whether a Contract is Onerous (Agenda Paper 5)**

The Committee discussed a request asking which costs an entity considers when assessing whether to recognise an onerous contract provision applying paragraph 68 of IAS 37.

The Committee decided to add a project to its Standard-setting agenda to clarify the meaning of the term 'unavoidable costs' in the IAS 37 definition of an onerous contract.

The IASB will discuss the Committee's decision at a future Board meeting.

<sup>1</sup> Link to the IFRIC Update November 2017: <http://www.ifrs.org/news-and-events/updates/ifric-updates/november-2017/>

## The Committee's tentative agenda decisions at the November 2017 meeting<sup>2</sup>:

7. The Committee discussed the following matters and tentatively decided not to add them to its Standard-setting agenda.

### IFRS 9 and IAS 1: Financial Instruments and Presentation of Financial Statements – Presentation of Interest Revenue for Particular Financial Instruments (Agenda Paper 3)

The Committee received a request concerning the consequential amendment that IFRS 9 made to paragraph 82(a) of IAS 1 that requires an entity to present separately, in profit or loss, interest revenue calculated using the effective interest method.

The request asked whether the requirement prohibits an entity from presenting particular cash flows on such derivatives held for trading purposes as interest revenue in profit or loss (for example, the accrued and realised cash flows on an interest rate swap) separately from other movements in fair value.

The Committee noted that amortised cost accounting, including interest revenue calculated using the effective interest method and credit losses calculated using the expected credit loss impairment model, is only applied to financial assets that are subsequently measured at either amortised cost or fair value through other comprehensive income. Amortised cost accounting is not applied to financial assets that are subsequently measured at fair value through profit or loss.

The Committee determined that the requirement in paragraph 82(a) of IAS 1 does not apply to derivatives that are subsequently measured at fair value through profit or loss (subject to any effect of a qualifying hedging relationship applying the hedge accounting requirements in IFRS 9 or IAS 39).

The Committee decided not to add the issue to its agenda so a tentative agenda decision was published. At the March 2018 meeting<sup>3</sup> the Committee will be presented with an analysis of the 7 comment letters that were received.

The IASB staff are recommending that the Committee finalise this agenda decision, because the principles and requirements in IFRS provide an adequate basis for an entity to apply paragraph 82(a) of IAS 1 and present separately, in profit or loss, interest revenue calculated using the effective interest method.

No public-sector adaptations or interpretations are foreseen.

<sup>2</sup> Link to the IFRIC Update November 2017: <http://www.ifrs.org/news-and-events/updates/ifric-updates/november-2017/>

<sup>3</sup> <https://www.iasplus.com/en-gb/meeting-notes/ifrs-ic/2018/march/ifrs-9-and-ias-1>

8. In the last 6 months, the Committee has published 3 tentative agenda decisions in relation to IFRS 15.

**IFRS 15: Revenue from Contracts with Customers – Revenue Recognition in a Real Estate Contract that Includes the Transfer of Land (Agenda Paper 2A)**

The Committee received a request to clarify how an entity accounts for the sale of land and a building to be constructed on the land. Specifically, the request asked whether (a) the sale of land and construction represents one or two performance obligations and (b) for each performance obligation whether revenue is recognised at a point in time or over time.

**Issue 1: What are the performance obligations in the contract?**

Regarding the construction services, the Committee concluded that the criterion in paragraph 35(b) is met because the customer can:

- direct the use of the building as it is being constructed through its control of the previously transferred land, by being able to change the structural design and specification of the building as it is constructed. The customer is also able to prevent others from directing the use of the building; and
- obtain substantially all the remaining economic benefits from the building because of signing the contract because it cannot redirect the building for another use or to another entity.

This IFRIC update details: the fact pattern described in the request; identifying performance obligations by applying paragraphs 22-30 of IFRS 15; whether a good or service promised to a customer is distinct as specified by paragraph 27; what the Committee considered; and the basis for their conclusions.

**Issue 2: Should revenue be recognised at a point in time or over time?**

The Committee concluded that the criteria in paragraph 3(c) for recognising revenue over time were not met.

This IFRIC update details: the fact pattern described in the request; the three circumstances when revenue should be recognised over time under paragraph 35; what the Committee considered; and the basis for their conclusions.

**IFRS 15: Revenue from Contracts with Customers – Right to payment for performance to date (Agenda Paper 2B)**

The Committee received a request relating to the sale of a residential unit in a multi-unit complex. The Committee was asked to clarify whether, in a specified fact pattern, the vendor has an enforceable right to payment for performance completed to date resulting in revenue being recognised over time in accordance with paragraph 35(c) of IFRS 15.

The Committee concluded that the criteria in paragraph 3(c) for recognising revenue over time were not met.

This IFRIC update details: the relevant facts to the analysis and what the Committee observed.

9. The above 3 tentative agenda decisions are being discussed at the March 2018 meeting<sup>4</sup>.

10. The IASB staff are recommending that the Committee finalise these agenda decisions although they have also recommended several amendments to the tentative agenda decisions to clarify some aspects.

11. No public-sector adaptations or interpretations are foreseen.

**The Committee's agenda decisions finalised at the November 2017 meeting<sup>5</sup>:**

**IFRS 3: Business Combinations – Acquisition of a group of assets that does not constitute a business (Agenda Paper 4)**

The Committee received a request asking how an entity accounts for the acquisition of a group of assets that does not constitute a business (the group). The Committee were asked how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when:

- the sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price; and
- the group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost.

<sup>4</sup> <https://www.iasplus.com/en-gb/meeting-notes/ifrs-ic/2018/march/ifrs-15-finalisation-of-agenda-decisions>

<sup>5</sup> Link to the IFRIC Update November 2017: <http://www.ifrs.org/news-and-events/updates/ifric-updates/november-2017/>

The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision.

The Committee decided not to add this matter to its Standard-setting agenda.

This IFRIC update details: what paragraph 2(b) of IFRS 3 requires an entity to do on acquisition of a group of assets; what the Committee considered; and the basis for their conclusions.

No public-sector adaptations or interpretations are foreseen at this time.

**Next steps: Monitor the matter**

The Committee observed that the forthcoming amendment to the definition of a business in IFRS 3 is likely to increase the population of transactions that constitute the acquisition of a group of assets. Accordingly, the issue will be monitored after the forthcoming amendments to IFRS 3 become effective.

## The Committee's agenda decisions finalised at the January 2018 meeting<sup>6</sup>:

### IAS 28: Investments in Associates and Joint Ventures - Contributing property, plant and equipment to an associate (Agenda Paper 2)

The Committee received a request about how an entity accounts for a transaction in which it contributes property, plant and equipment (PPE) to a newly formed associate in exchange for shares in the associate.

The request asked:

- about the application of IFRS Standards to transactions involving entities under common control (common control transactions)—i.e. whether IFRS Standards provide a general exception or exemption from applying the requirements in a particular Standard to common control transactions (**Question A**).
- whether an investor recognises any gain or loss on contributing PPE to the associate to the extent of other investors' interests in the associate (**Question B**).
- how an investor determines the gain or loss on contributing PPE to the associate and the cost of its investment in the associate. The request asked whether the cost of each

<sup>6</sup> Link to the IFRIC Update January 2018: <http://www.ifrs.org/news-and-events/updates/ifric-updates/january-2018/>

investor's investment in the associate is based on the fair value of the PPE contributed or the fair value of the acquired interest in the associate (**Question C**).

For all 3 questions, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for the contribution of PPE to an associate in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its Standard-setting agenda.

This IFRIC update details: the fact pattern described in the request; what the Committee assumed when analysing the request; what the Committee considered and observed; and the basis for their conclusions.

No public-sector adaptations or interpretations are foreseen.

#### **Other matters – Committee work in progress (Agenda Paper 3)**

The Committee received a report on 5 requests for consideration at a future meeting. The Committee was informed of 1 tentative agenda decision for which the comment letter period has ended. An analysis of the comments received will be presented at a future meeting.

## **Next Committee meeting**

12. The next Committee meeting is **13 March 2018**. The Committee will discuss 10 issues, including the:

- finalisation of 4 tentative agenda decisions (discussed above);
- continuation of the discussion of whether or how to clarify the meaning of the term 'unavoidable costs' used in the definition of an onerous contract in IAS 37 (discussed above); and
- 5 new interpretation requests<sup>7</sup>.

13. There are no new or ongoing matters that have yet to be presented to the Committee.

14. Agenda papers<sup>8</sup> for this meeting are available.

<sup>7</sup> The 5 new issues pertain to IAS 12, IAS 7, IAS 37, and IFRS 9. The IASB staff are recommending that the Committee not add any of these items to its agenda.

<sup>8</sup> <http://www.ifrs.org/news-and-events/calendar/2018/march/ifrs-interpretations-committee/>



## New IFRIC interpretations currently being reviewed by EFRAG<sup>9</sup>

15. Decisions on an IFRIC interpretation become final only after the Committee has taken a formal vote on the interpretation. IFRIC interpretations require ratification by the IASB.

16. **IFRIC 22 Foreign Currency Transactions and Advance consideration**<sup>10</sup> was issued in December 2016 and has an IASB effective date of January 2018. EU endorsement is expected in the first quarter of 2018.

17. **IFRIC 23 Uncertainty over Income Tax Treatments**<sup>11</sup> was issued in June 2017 and has an IASB effective date of January 2019. EU endorsement is expected in the third quarter of 2018.

18. HM Treasury will review and will follow due process for any new IFRIC interpretations nearer to the EU adoption and effective dates. Any substantive changes to the FReM will be approved by the Board and communicated appropriately.

## Recommendation

19. This paper is for information purposes only. HM Treasury welcome any views from the Board with regards to public sector application.

HM Treasury  
15<sup>th</sup> March 2018

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<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520Endorsement%2520Status%2520Report%252027%2520February%25202018.pdf>

<sup>10</sup> <https://www.iasplus.com/en/standards/ifric/ifric-22>

<sup>11</sup> <https://www.iasplus.com/en/standards/ifric/ifric-23>