



HM Treasury

## Financial Reporting Advisory Board Paper

### IFRS Interpretations Committee meetings – update

<b>Issue:</b>	A summary of the IFRS Interpretations Committee meetings, noting any particular relevance to the public sector.
<b>Impact on guidance:</b>	Potential adaptation or interpretation in the FReM dependent on outcomes of any Standard Setting adjustments.
<b>IAS/IFRS adaptation?</b>	No adaptations or interpretations proposed.
<b>Impact on WGA?</b>	None.
<b>IPSAS compliant?</b>	This would depend on whether IPSASB make adjustments for any new IFRS amendments and interpretations.
<b>Interpretation for the public-sector context?</b>	No adaptations or interpretations proposed.
<b>Impact on budgetary regime and Estimates?</b>	None.
<b>Alignment with National Accounts</b>	No impact on the National Accounts.
<b>Recommendation:</b>	For the Board to note, HM Treasury proposes to make no adaptations or interpretations in relation to any outcome from the IFRS IC meetings summarised below.
<b>Timing:</b>	For the one item under February 2021, the IFRS IC could recommend an amendment to the loss of control requirements in IFRS 10 to add a cross-reference to the sale and leaseback requirements in IFRS 16 for a future narrow scope amendment.

## DETAIL

### Introduction

1. This paper provides the Board with a summary of announcements from the IFRS Interpretations Committee for 2020-21. The paper is provided for the Board's information and presented by meeting date in chronological order. The paper covers the main decisions of the Interpretations Committee and does not represent an exhaustive commentary on all agenda items. Relevance to the public sector and any impacts on the FReM have been considered and noted.

### *IFRS Interpretation Committee Update 29 April 2020*

2. Committee's agenda decisions:
  - 2.1 Multiple Tax Consequences of Recovering an Asset (IAS 12 Income Taxes)  
A request querying deferred tax when the recovery of the carrying amount of an asset gives rise to multiple tax consequences. The Committee concluded a standard-setting adjustment was not required.

### *IFRS Interpretation Committee Update 16 June 2020*

3. Committee's agenda decisions:
  - 3.1 Sale and Leaseback with variable payments (IFRS 16 Leases)  
A request querying the treatments of a sale and leaseback with variable payments. The committee concluded the requirements applicable to this were included in paragraph 100 of IFRS 16. Paragraph 100 states that 'if the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset: (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. ...'.  
As such there is unlikely to be any conflict with FReM interpretation & adaptation.  
***Please see February 21 below for current IASB position***
  - 3.2 Deferred tax related to an investment in a subsidiary (IAS 12 *Income taxes*). The Committee concluded a standard-setting adjustment was not required.
  - 3.3 Player transfer payments (IAS 38 *Intangible Assets*)  
No standard-setting adjustment was required.

### *IFRS Interpretation Committee Update 15 September 2020*

4. Committee's tentative decisions:
  - 4.1 Sales and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 Consolidated Financial Statements and IFRS 16 Leases)  
A request querying the treatment regarding the leasing of an asset from a subsidiary where control has been transferred. The committee concluded it satisfies the requirements of IFRS 10 and IFRS 15 and consequently the gain the entity recognises on the transaction reflects the requirements in paragraph 100(a) of IFRS 16.  
As such there is unlikely to be any conflict with FReM interpretation & adaptation  
***Please see February 21 below for current IASB position***

### *IFRS Interpretation Committee Update 1-2 December 2020*

#### 5. Committee's agenda decisions:

##### 5.1 Supply Chain Financing Arrangements – Reverse Factoring

In a reverse factoring arrangement, a financial institution agrees to pay amounts an entity owes to the entity's suppliers and the entity agrees to pay the financial institution at the same date as, or a later than, the suppliers are paid. The Committee concluded on standard-setting adjustment was not required.

#### Committee's tentative agenda decisions:

##### 5.2 Classification of Debt with Covenants as Current or Non-current (IAS 1 Presentation of Financial Statements). The Committee concluded a standard-setting adjustment was not required.

##### 5.3 Attributing Benefit to Periods of Service (IAS 19 Employee Benefits)

A request querying the periods of service to which an entity attributes benefit for a particular defined benefit plan. The committee conclude the amount of retirement benefit depended on the length of employee service before retirement age as determined by IAS 19 and no standard-setting adjustment was required.

##### 5.4 Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)

A request querying the accounting of costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. The committee concluded IFRS standards provide adequate basis for determining the accounting and no standard-setting adjustment was required.

##### 5.5 Hedging Variability in Cash Flows due to Real Interest Rates (IFRS 9 Financial Instruments)

The Committee concluded a standard-setting adjustment was not required.

### *IFRS Interpretation Committee Update 2 February 2021*

#### 6. Committee's agenda decisions:

##### 6.1 Sale and Leaseback of an Asset in A single asset entity (IFRS 10 Consolidated Financial Statements and IFRS 16 Leases)

Following feedback from the 1 September 2020 interpretation given regarding the applicability of the sale and leaseback requirements in IFRS 16 on a transaction in which an entity sells its equity interest in a subsidiary that holds only a real estate asset and leases that real estate asset back; **the Committee recommended that the Board undertake narrow-scope standard-setting to address this and similar transactions.**

The proposed amendment would specify the method a seller-lessee uses in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction and how the seller-lessee subsequently measures that liability. The proposed amendment applies to sale and leaseback transactions in which, applying paragraph 99 of IFRS 16, the transfer of the asset satisfies the requirements to be accounted for as a sale of the asset.

The proposed amendments have been published for comment (comments to be received by 29 March 2021 – linked below).

The exposure draft does not contain a proposed effective date as the IASB intends to decide on this after exposure. Early application would be permitted.

**Any outcomes will be captured in HM Treasury's Narrow Scope Amendment paper when they become known.**

[Agenda paper link](#)

[IFRS Standards Exposure Draft](#)

Committee's tentative agenda decisions:

- 6.2 Costs Necessary to Sell Inventories (IAS 2 Inventories)  
A request querying the costs an entity should include as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. The Committee concluded a standard-setting adjustment was not required.
- 6.3 Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 Events after the Reporting Period)  
The Committee received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 Presentation of Financial Statements). In the event a Public Sector entity is no longer a going concern (ie an ALB) the Standard would be applied with no adaptation or interpretation. The Committee concluded a standard-setting adjustment was not required.

## 7. Summary

- 7.1 The IFRS Interpretations Committee meetings for 2020-21 have resulted in the recommendation to the IASB to undertake narrow-scope standard-setting to address the IFRS 16 issues on sale and leaseback.  
The exposure draft does not contain a proposed effective date and will be captured in HM Treasury's Narrow Scope Amendment paper as appropriate.  
**This paper has been prepared for the Board's information only.**

HM Treasury

25<sup>th</sup> March 2021