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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	31. IFRS-FA / 07.10.2014 / 10:00 – 11:30 Uhr
TOP:	08 – Interpretationsthemen
Thema:	Bericht über IFRS IC-Sitzung September 2014
Unterlage:	31_08_IFRS-FA_Interpret_CN

1 Sitzungsunterlagen für diesen TOP

- 1 Für diesen Tagesordnungspunkt (TOP) der Sitzung liegen folgende Unterlagen vor:

Nummer	Titel	Gegenstand
31_08	31_08_IFRS-FA_Interpret_CN	Cover Note
31_08a	31_08a_IFRS-FA_Interpret_IFRSIC	IFRIC-Update September 2014

Stand der Informationen: 25.09.2014.

2 Ziel der Sitzung

- 2 Der IFRS-FA soll Kenntnis erhalten über die Themen und Entscheidungen der IFRS IC-Sitzung vom 16./17. September 2014. Das IFRS IC hat **vorläufige Agenda-Entscheidungen (TAD)** getroffen (siehe IFRIC Update 9/2014, zugleich Unterlage **31_08a**). Ergänzende Hintergrundinformationen dazu finden sich in Abschnitt 3 dieser Covernote. **Endgültige Agenda-Entscheidungen** wurden diesmal nicht getroffen.



3 Informationen im Detail

3.1 Vorläufige Agenda-Entscheidungen (New Items)

- 3 In der Sitzung im September 2014 wurden folgende vorläufigen Agenda-Entscheidungen getroffen (TAD):

IAS/IFRS	Thema	TAD
IFRS 12	<i>Disclosure for a subsidiary with a material NCI</i>	NIFRIC (sufficient guidance)
IFRS 13	<i>FV hierarchy when third-party consensus prices are used</i>	NIFRIC (sufficient guidance)
IAS 28	<i>Fund manager's significant influence over a fund</i>	NIFRIC (issue better considered by the IASB in its research project on the equity method)
IAS 39	<i>Embedded FX derivatives</i>	NIFRIC (issue is very specific, existing guidance)
IFRIC 21	<i>Levies raised on production PPE</i>	NIFRIC (unlikely to reach consensus, however, broader issue of cost occurring irregularly to be submitted to the IASB for further consideration)

3.1.1 Zu IFRS 12 – *Disclosure for a subsidiary with a material NCI*

- 4 Die Anfrage ging im Sommer 2014 beim IFRS IC ein und betrifft Angaben über eine Tochtergesellschaft mit wesentlichen NCI gemäß IFRS 12.12(e)-(g), insb. ob diese Angaben auf Basis des Einzelabschlusses oder des Gruppenabschlusses dieser Tochter zu machen sind. Im August 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Issue

The submitter asks the IFRS IC to clarify whether the required information in IFRS 12.10(a)(ii) and 12(e)–(g) with respect to subsidiaries that have non-controlling interests that are material should be disclosed for:

- (a) the single subsidiary that is material (ie legal entity); or
- (b) the subsidiary that is material together with the same information for its investees (ie a subgroup in which the subsidiary is a group of undertakings whereby the material subsidiary has joint ventures or associates of its own).

2. Views

View 1: disclose information for the single subsidiary that is material (ie as a legal entity). Proponents of this view think that the information required in IFRS 12.12(e)–(g) should be:

- (a) provided at a the subsidiary level (ie legal entity); and
- (b) based on the stand-alone financial statements of the individual subsidiary.

They think that this view is consistent with the guidance in IFRS 12. More specifically, that it is consistent with the guidance in:

- (a) paragraph B10 (ie “for *each* subsidiary that has non-controlling interests that are material to the reporting entity...”);



(b) paragraph B11 (ie “the summarised financial information required by paragraph B10(b) shall be the amounts before inter-company eliminations”); and

(c) paragraph BC29, which notes that the IASB does not think that providing “information about subsidiaries with material non-controlling interests will be particularly onerous to prepare”.

View 2: disclose information for the subsidiary that is material together with those of its investees. Proponents of this view think that the information required in paragraphs 12(e)–(g) of IFRS 12 should be:

(a) provided at a subgroup level for the ‘material subgroup’ composed of the material subsidiary and its investees; and

(b) be based on the amounts included in the consolidated financial statements of the subsidiary and its investees as a subgroup.

They further note that it is unclear whether the information disclosed as part of the subgroup would include:

- information already contained within the consolidated financial statements of the reporting entity; or
- additional consolidated information that an entity would need to prepare.

3. Additional issue

We have been made aware of similar concerns relating to the disclosures required in IFRS 12 for joint ventures and associates. Some think that IFRS 12 does not specify the basis on which an entity has to prepare the required summarised financial information for joint ventures and associates in accordance with para. 21(b) and paras. B12 and B13. The question raised is whether this information should be presented for each material joint venture and associate on an individual basis or whether this information should be disclosed for each subgroup that is composed of a joint venture and/or associate together with its investees.

4. Questions

We would appreciate your input to help us learn about the extent to which there is diversity in practice in respect of these requirements in IFRS 12 to disclose summarised financial information about (a) subsidiaries, and (b) joint ventures and associates.

5 Die DRSC-Antwort vom 29. August 2014 hierzu lautete wie folgt:

We are aware of different views in practice, though the majority would lean towards View 2, which appears to be the appropriate answer, conceptually speaking. In particular, we think that when BC29 was drafted, it was not based on the fact that different consolidation techniques may lead to (gradual) difficulties in availability of such information. Hence, BC29 is not a valid argument for interpreting IFRS 12 as requiring disclosures for subsidiaries with material NCIs at a "single subsidiary" level.

That being said, we believe that for some entities, practical challenges could arise in situations where such information were difficult to obtain or even not available (e.g., when all entities in a group are consolidated directly by the ultimate parent, regardless of where in the group they are located). IFRSs are silent currently as to how to apply the requirement in such circumstances. It might therefore be helpful, if the IFRS IC would address these practical challenges.



- 6 Das Thema wurde im September 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 9/2014 (Unterlage **31_08a**) ersichtlich.

3.1.2 Zu IFRS 13 – *FV hierarchy when third-party consensus prices are used*

- 7 Die Anfrage wurde bekanntlich durch das DRSC eingereicht. Details hierzu sind dem IFRS-FA bekannt. Im August 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Da alle relevanten Details in der Eingabe enthalten waren, erschien es nicht erforderlich, weitere Informationen nachzureichen.
- 8 Das Thema wurde im September 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 9/2014 (Unterlage **31_08a**) ersichtlich.

3.1.3 Zu IAS 28 – *Fund manager's significant influence over a fund*

- 9 Die Anfrage ging im Sommer 2014 beim IFRS IC ein und betrifft die Beurteilung des Einflusses eines Fondsmanagers, wenn dieser selbst Fondsanteile an dem von ihm gemanagten Fonds hält. Im August 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Issue

The submitter described a particular situation of a fund manager that has a direct investment in a fund that it manages. The submitter goes on to describe that the assessment of control under IFRS 10 resulted in the conclusion that the fund manager does not control the fund because it is acting as an agent in accordance with paragraphs B58-B72 of IFRS 10. The submitter raised two questions in respect of this particular situation:

- (a) whether the fund manager should assess whether it has a significant influence over that fund; and
- (b) if so, how should it make an assessment.

2. Views

The submitter indicated 2 possible accounting treatments of the investment in the fund:

- (a) an associate (significant influence); and
- (b) an 'available-for-sale' financial asset under IAS 39 or an investment in equity instruments under IFRS 9 (no significant influence).

3. Questions

Q1: What is the prevalent approach to accounting by a fund manager for an investment in the fund in the specific situation in which the fund manager manages and has a direct holding in the fund, but does not control it (a financial asset or an investment in an associate)?

Q2: In addition, if possible, could you please briefly describe the rationale for that accounting treatment.



Q3: To what extent do you observe diversity in the accounting treatment by the fund manager in such circumstances?

- 10 Die DRSC-Antwort vom 29. August 2014 hierzu lautete wie folgt:

Zu Q1+Q2: We have not encountered a situation similar to the issue described in the submission. However, we are aware of the discussion about the issue described. We deem a fund manager not controlling the fund as not having significant influence, if he is acting as an agent akin to an "autopilot", i.e. if he does not have (or only little) decision-making authority. However, it is relevant to consider why, and under which conditions, a fund manager is acting as an agent. I.e., the answer will depend on the specific facts and circumstances, including whether the fund is a structured entity with only minor decisions left to be made by the manager and the reason for concluding that the manager acts as an agent. Thus, if IFRS 10 does not apply (i.e. control does not exist), IAS 28 is generally relevant in assessing the relationship (i.e. consideration of whether or not significant influence does exist). However, in many circumstances we do not expect significant influence to exist; hence, IAS 28 would not apply.

Zu Q3: We are not (yet) aware of any diversity in practice.

- 11 Das Thema wurde im September 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 9/2014 (Unterlage **31_08a**) ersichtlich.

3.1.4 Zu IAS 39 – *Embedded FX derivatives*

- 12 Die Anfrage ging im Sommer 2014 beim IFRS IC ein und betrifft die Frage der Abspaltung eines Fremdwährungsderivats. Im August 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Issue

The issue deals with a licence agreement that is denominated in a currency other than the functional currency of the submitter (or the functional currency of the counterparty).

The IFRS IC has been asked to consider whether the licence agreement contains an embedded foreign currency derivative that is closely related to the economic characteristics and risks (ie the 'closely related' criterion) of the host contract, on the basis that the payments required under the licence agreement are denominated in a currency that is the currency in which such commercial transactions are routinely denominated.

IAS 39.AG33(d)(ii) provides guidance on the issue above and states that if "the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions)" it is closely related to the host contract and consequently does not require separation.

2. Views

View A: The embedded foreign currency derivative is considered to be 'closely related' to the licence agreement, on the basis that the 'routinely denominated' criterion has been met in accordance with IAS



39.AG33(d)(ii). This is because it is argued that the determination of 'routinely denominated' can be based on market practice.

View B: The 'routinely-denominated' criterion as described in IAS 39.AG33(d)(ii) has not been met. According to this view, the determination of 'routinely denominated' has to be based on data, for example exchange-traded products such as crude oil. Consequently, the embedded foreign currency derivative is not considered to be 'closely related' to the licence agreement.

3. Questions

We would appreciate your input to help us learn about how common this issue is in practice in your jurisdiction. Furthermore, we would value your feedback regarding:

- how the 'routinely denominated' criterion is interpreted in practice and what evidence has typically been provided to support that criterion; and
- the extent to which there is diversity in practice with respect to the issue submitted. We would find it particularly helpful if you could please send us examples that provide evidence about the diversity you observe and what types of goods or services have been commonly considered as fulfilling the 'routinely denominated' criterion.

13 Die DRSC-Antwort vom 29. August 2014 hierzu lautete wie folgt:

We note that the descriptions of Views A and B in your Outreach Request are swapped from the description of these two views in the submission. In the following, we refer to the views as described in the submission:

- View A is that the "routinely denominated" criterion is rarely met, leading to the embedded derivative not being closely related and requiring bifurcation.
- View B is that the "routinely denominated" criterion is met; hence, the embedded derivative would be deemed closely related, thus preventing bifurcation.

Based on the fact pattern described it appears that the criterion is not met, hence, we unanimously support View A and are not aware of any diversity in practice in our jurisdiction, though we have not seen the issue arising in the industry concerned. Our starting point would be to determine the appropriate unit of account: Are "major producers" and "independent (minor) producers" considered different markets or different products? If that was the case and the currency used in a minor project was considered, it seems justifiable to only consider other minor projects when assessing whether or not a separable embedded derivative exists. Our tentative reasoning would make us lean towards there being no difference between major and minor projects.

Another factor that would have to be considered relates to what "routinely" means in the context of the industry concerned: Even if the term was generally understood as "in the vast majority of cases", the question arises whether "vast majority" would be assessed in mere quantitative terms (i.e., the number of projects) or whether it would be somehow weighted (i.e., the budgets spent on projects, the number of production days, etc.).

A final comment relates to a concern that was flagged to us by representatives of the large accounting networks. It appears that the quotes taken from the literature to support the respective views in the submission were somewhat taken out of context. It was confirmed to us that the views of those firms be-



ing mentioned in the submission as proponents of View B have been misinterpreted, as all firms rather lean towards View A.

- 14 Das Thema wurde im September 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 9/2014 (Unterlage **31_08a**) ersichtlich.

3.1.5 Zu IFRIC 21 – *Levies raised on production PPE*

- 15 Zwei Anfragen gingen im Frühsommer 2014 beim IFRS IC ein und betreffen Abgaben in Zusammenhang mit PPE. Im Juli 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Issue

We received two submissions on how the debit related to a levy imposed on production assets should be recognised. An entity pays an annual levy that is linked to the existence of PPE at a given date. The business is a service provider that is capital intensive; a third of its costs of sales are depreciation of PPE. Because the service is supplied continuously to the customer it has no inventories. Revenue is recognised as the service is delivered. Production cost and overheads are apportioned to each period of service. Both submitters operate in France. The submitters think that when IFRIC 21 is applied, the levy on production assets should form part of the production overheads apportioned to costs over the period of service. They think, however, that there will be diversity in practice because some consider the levy to be an administrative overhead that should be recognised as an expense when incurred.

2. Views

Four possible views have been proposed as an alternative to immediate recognition as an expense:

- (a) The levy could be recognised as inventory as an attributable production overhead in accordance with IAS 2 *Inventories* paragraphs 12 and 19.
- (b) The levy could be recognised as a prepaid expense and that expense should be matched with the associated service revenue when the service is provided throughout the period in accordance with the matching of costs and revenues required by paragraph 10 of IAS 18 *Revenue*
- (c) The levy could be recognised as part of the purchase price of PPE in accordance with paragraph 16 (a) of IAS 16 *Property, Plant and Equipment*. This treatment would analogise the levy with irrecoverable import duty or purchase taxes.
- (d) The levy could be recognised as PPE in accordance with paragraph 16 (b) of IAS 16 as a cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

3. Questions

I realise that IFRIC 21 was only effective from 1 January 2014 and reporting in accordance with the Interpretations is still at an early stage. Even so, I'd be grateful if you could indicate:

- (a) Whether you have come across a levy on production assets and, if so, whether that was restricted to France or whether it is applied in other jurisdictions?



- (b) What the predominant practice is in your jurisdiction(s)?
- (c) Which treatment (immediate recognition as an expense or one of the four views noted above) you think best depicts accounting for the debit side of the transactions?

16 Die DRSC-Antwort vom 29. August 2014 hierzu lautete wie folgt:

We are not aware of any such or similar levies on production assets in our jurisdiction. We generally deem most levies to be jurisdiction-specific.

We are not able to express a view on the correct treatment as the fact pattern is too generic. Based on the information provided, though, we would be inclined to not recognise the levy as an asset.

If the IFRS IC were to solve the issue being submitted, we would propose to generally answer the question of whether, and how, production overheads should be allocated over the period(s) of service.

17 Das Thema wurde im September 2014 erstmals in öffentlicher Sitzung des IFRS IC diskutiert. Die vorläufige Entscheidung und der Wortlaut der Begründung hierzu sind aus dem IFRIC Update 9/2014 (Unterlage **31_08a**) ersichtlich.

3.2 Endgültige Agenda-Entscheidungen

18 In der Sitzung September 2014 wurden keine endgültigen Agenda-Entscheidungen getroffen.