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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	**35. IFRS-FA / 05.02.2015 / 11:00 – 12:00 Uhr**
TOP:	**02 – Interpretationsthemen**
Themen:	**IFRS IC-Sitzung Januar 2015**
Unterlage:	**35_02_IFRS-FA_Interpret_CN**

1 Sitzungsunterlagen für diesen TOP

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

Nummer	Titel	Gegenstand
35_02	35_02_IFRS-FA_Interpret_CN	Cover Note
35_02a	35_02a_IFRS-FA_Interpret_Update	IFRIC Update Januar 2015, **wird nachgereicht, sobald vorliegend**

Stand der Informationen: 23.01.2015

2 Ziel der Sitzung

2 Der IFRS-FA soll Kenntnis über die Themen und Entscheidungen der IFRS IC-Sitzung am 27./28. Januar 2015 erhalten. Das zugehörige IFRIC Update wird nachgereicht, sofern dies bis zur Sitzung des IFRS-FA vorliegt. Diese Sitzungsunterlage (**35_02**) enthält Hintergrundinformationen zu den Themen der IFRS IC-Sitzung.

3 Die Sitzungsunterlage ist wie folgt gegliedert:

- Abschnitt 3: Detailinformationen zu laufenden Themen und vorläufigen Entscheidungen
- Abschnitt 4: Detailinformationen zu finalen Agenda-Entscheidungen
- Abschnitt 5: Informationen zu neuen Themen

4 In allen Abschnitten wird je Thema dargestellt, inwieweit sich das DRSC bzw. der IFRS-FA bereits mit dem Thema befasst hat (*Outreach Request*, IFRS-FA-Sitzungen, ggf. Stellungnahmen). Somit lässt sich die jeweilige Entscheidung des IFRS IC vor dem Hintergrund der bisherigen DRSC-Sicht beurteilen.

3 Laufende Themen und vorläufige Entscheidungen

3.1 Übersicht

5 Folgende Themen werden behandelt:

TOP	Thema	Gegenstand
2 - IAS 12	Income Taxes *How should current tax assets and liabilities be measured when tax positions are uncertain*	Draft Interpretation
3 - IAS 16	Property, Plant and Equipment *Accounting for proceeds and cost of testing PPE: should net proceeds reduce cost of asset*	Welche Inhalte sollen im weiteren Verlauf der Beratungen adressiert werden?
4 - IAS 39	Financial Instruments: Recognition and Measurement *Income and expenses on FI with a negative interest rate. How should this be presented in the statement of comprehensive income*	Beschluss über die Agendaentscheidung (NIFRIC)
5 - IAS 21	The Effects of Changes in Foreign Exchange Rates *Revenue transaction denominated in foreign currency*	Inhalte der geplanten Interpretation
6 – IAS 32	Financial Instruments: Presentation *Classification of liability for prepaid cards issued by a Bank in the Bank's financial statements*	Diskussion einer vorläufigen Agendaentscheidung

3.2 Zu IAS 12 – Income Taxes

6 Mehrere Anfragen betreffend IFRS 11 gingen Mitte 2013 beim IFRS IC ein. Im Sommer 2013 hatte das IFRS IC einen *Outreach Request* hierzu gestartet und darin diverse Fragen aufgeworfen. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Request

The submitter requested the Interpretations Committee to clarify whether IAS 12 and a probable threshold is applied where an entity has paid cash to the tax authority but expects to recover some or all of that cash, or whether the guidance in IAS 37 for contingent assets should be applied.

The question arises because some jurisdictions require an entity to make an immediate payment where a tax examination results in an additional charge, even when the entity intends to appeal against the charge. The submitter thinks that two views exist for determining whether an asset should be recognised for the amount potentially recoverable from the tax authority.

- View 1: IAS 12 and the 'probable' recognition threshold should be applied. IAS 12 is the relevant Standard for the accounting for income taxes. According to IAS 12 tax assets are recognised to the extent it is probable that they will be recovered (see paragraphs 14, 24 and 34 of IAS 12). According to paragraph 46 of IAS 12 tax assets should be recognised for the amounts an entity 'expects' to recover from the tax authorities.
- View 2: IAS 37 and the 'virtually certain' recognition threshold should be applied. IAS 12 does not specifically address the accounting for dispute with tax authorities. According to IAS 8, in the ab-

sence of an IFRS that specifically applies to a transaction, management should refer to guidance in another Standard dealing with similar issues. The guidance in IAS 37 for the recognition of contingent assets is the guidance that most closely matches the situation. Consequently, the tax asset is recognised only when it is virtually certain that an inflow of economic benefit will arise.

2. Issues/Questions

Q1. In your jurisdiction, how common is this issue? If it is common, could you provide us with information that the Interpretations Committee could use to assess how widespread the issue is?

Q2. In your view, is there diversity in practice in the recognition of an asset on uncertain tax position? Please describe the predominant approach that you observe in your jurisdiction.

7 Die DRSC-Antwort vom September 2013 hierzu lautete wie folgt:

Question 1

The issue is common and widespread in our jurisdiction with an upward trend.
However, it should be noted that the issue is strongly interrelated with national tax laws, which may be complex as it is true for the German tax law.

Question 2

There is diversity in practice in the recognition of an asset on uncertain tax position in Germany. This is because both Views presented in the Outreach Request find their supporters in Germany and are actually followed by the entities.
However, the local financial reporting enforcement panel in previous examinations considered it to be an error if entities followed View 1. At least big listed companies in Germany, therefore, follow View 2 in order not to risk errors in case of an examination. This is why the predominant approach that we observe in Germany is View 2.

8 Im Januar 2014 traf das IFRS IC die vorläufige Entscheidung, das Thema nicht auf seine Agenda zu nehmen. Das DRSC hinterlegte dazu im April 2014 eine Stellungnahme mit folgendem Inhalt:

We support the decision. However, the question being answered here is also relevant in other circumstances, which look similar but are not within the scope of IAS 12 – i.e. taxes other than income taxes. The IFRS IC's decision leaves open how to account for these issues. While discussing similar issues, another (third) view has emerged: Payments to escrow accounts or deposits in court are similar to a deposit and would constitute a financial asset; hence, IAS 39 / IFRS 9 would likely be the relevant standard in these circumstances, and they require recognition of an asset.

9 Letztlich entschied das IFRS IC doch, eine Interpretation zu IAS 12 zu entwickeln. Auszug aus dem IFRIC Update vom Mai 2014:

> However, the Interpretations Committee noted that practice indicates that there is significant diversity on whether IAS 12 or IAS 37 should be applied to determine whether an asset should be recognised.

10 Der auf der Sitzung des IFRS IC im Januar 2015 zu diskutierende Entwurf der Interpretation behandelt folgende Themen:

- Bilanzierungseinheit: Der Umfang der Bilanzierungseinheit muss vom Unternehmen beurteilt werden. Grundsatz: Wenn mehrere *uncertain tax position* (UTPs) voneinander abhängen, dann sollten diese UTPs als eine Bilanzierungseinheit (*unit of account*) angesehen werden. Allerdings scheint hierbei eher eine Bewertungseinheit gemeint zu sein.
- Informationssymmetrie: Das Unternehmen soll davon ausgehen, dass die Steuerbehörden die gleichen Informationen besitzen, wie das Unternehmen selbst.
- Anwendungsbereich: Dieser soll sich auf alle Ertragsteuer-Positionen erstrecken, nicht jedoch latente Steuern.
- Ansatz-Kriterium: Für den Ansatz gilt das *probable*-Kriterium.
- Bewertungsmaßstab: In Abhängigkeit der Umstände hat das Unternehmen zu entscheiden, ob der wahrscheinlichste (Einzel-)Wert (*most likely amount*) oder der Erwartungswert (*expected value*) besser geeignet ist, um den vom Unternehmen zu zahlenden Betrag oder den Betrag, der dem Unternehmen erstattet wird, zu prognostizieren.

3.3 Zu IAS 16 – Property, Plant and Equipment

11 Im Juni 2014 erhielt das DRSC einen *Outreach Request* des IFRS IC. Dabei wurde der Sachverhalt wie folgt übermittelt:

> **1. Summary of the issue**
> The submitted fact pattern relates to the accounting for revenue received from the sale of goods during the testing phase of plant and equipment. Specifically, the describes a situation in which the 'revenue from production when testing the plant' exceeds 'direct production cost when testing the plant during the period'. The submitter has asked whether the amount by which the revenue received exceeds the costs should be recognised in profit or loss or as a deduction form the cost of the PPE.
> Paragraph 16 (b) of IAS 16 Property, Plant and Equipment states as follows:
> The cost of an item of property, plant and equipment comprises:
> [...] any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Paragraph 17 (e) of IAS 16 states as follows:
Examples of directly attributable costs are: [...] costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
The submitter states that the paragraph 17 (e) causes variations in application in industries where "the net proceeds from selling any items produced while bringing the asset to that location and condition.." materially exceeds the cost of testing. Some companies credit the fixed asset under construction with net proceeds in excess of cost of testing.

Example is as follows:

Revenue from production when testing the plant during the period:	CU 1,177 million
Direct production cost when testing the plant during the period:	CU 1,038 million
Net income from testing activities	CU 139 million

The difference (CU 139 million) was credited to "assets under construction". The submitter states that the company offsets other costs of construction that are not attributable to testing, because IAS 16 paragraph 17(e) puts no ceiling on the use of the proceeds from selling items produced during the testing activities.

2. Submitters suggestion

The submitter argues that the use of the proceeds from selling items produced should be limited when testing equipment to offsetting of the cost of testing only. Any excess over the cost of testing should be recognised in profit or loss for the period. The submitter also expressed concern about the lack of disclosure requirements about proceeds from testing and testing costs.

3. Questions

Q1. Are you aware of examples of circumstances in which sales proceeds from testing exceed the testing cost?

Q2. If yes to Q1, please would you:
(a) inform us about how common this is in your jurisdiction;
(b) describe the prevalent accounting approach/basis followed in your jurisdiction; and
(c) provide us with examples that illustrate the practices that you observe?

12 Die DRSC-Antwort vom 14. Juli 2014 hierzu lautete wie folgt:

> ***Question 1***
> We do not observe such circumstances in Germany. However, it was brought to our attention that in other regions (Eurasia) the issue occurs in the oil production sector - when during a testing phase oil is produced and sold.
>
> ***Question 2***
> From a theoretical perspective, the majority of our constituents agreed that the amount of proceeds exceeding the cost of testing should be recognised as a gain in profit or loss.
> However, some indicated that crediting the asset with this exceeding amount (rather than recognising a gain) would be appropriate, because of the following:
> - Costs that are directly attributable to bringing the asset into condition or location to operate are an element of the (total) cost of an item of PP&E (IAS 16.16).
> - Cost of testing are an explicit example of those cost (IAS 16.17(e)).
> - Net proceeds may be deducted from those costs, with no ceiling mentioned (IAS 16.17(e)).
> - Costs that are not necessary to bring the item into condition or location to operate are deemed occurring from "incidental operations" (IAS 16.21).
> - Cost of testing and proceeds from those testing activities are not "incidental operations", thus, IAS 16.21 does not apply.
> - Even if the proceeds from testing activities may be considered "incidental income", they do not meet the definition of "incidental operations" that is the basis of IAS 16.21 and the principle of recognising them in profit or loss.

13 Das IFRS IC entschied zunächst, diesen Sachverhalt nicht in die Agenda aufzunehmen. Diese Entscheidung wurde durch das DRSC nicht kommentiert. Im November 2014 beschloss das IFRS IC, das Thema doch weiter zu verfolgen.

3.4 Zu IAS 39 – Financial Instruments: Recognition and Measurement (FI with a negative interest rate)

14 Das IFRC IC hat sich mit dem Thema erstmals im September 2012 beschäftigt. Die im IFRIC Update vom September 2012 veröffentlichte vorläufige Agenda-Entscheidung hatte folgenden Wortlaut:

> The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 Revenue because it reflects a gross outflow, instead of a gross inflow, of economic benefits. The Interpretations Committee also noted that this amount is not an interest expense because it arises on a financial asset instead of on a financial liability of the entity. Consequently, the expense arising on a financial asset because of a negative

> effective interest rate should not be presented as interest revenue or interest expense, but in some other appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 85 and 112(c) of IAS 1 Presentation of Financial Statements, the entity is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item. The Interpretations Committee considered that in the light of the existing IFRS requirements an interpretation was not necessary and consequently [decided] not to add the issue to its agenda.

15 Daraufhin übermittelte das DRSC seine Stellungnahme an das IFRS IC mit folgendem Inhalt:

> We disagree with the IFRSIC's tentative agenda decision for the following reasons:
>
> - The interest yield of a financial asset can contain several components, some of which can be negative;
> - interest cash flows with a negative yield component or even a total negative yield are, intuitively and economically, still considered part of (net) interest income;
> - interest cash flows from a financial asset can be negative as a temporary and exceptional phenomenon – but are still interest revenue;
> - adding positive with negative yield components of the same origin (same instrument) is not a matter of offsetting but of aggregation;
> - the definition of revenue is interpreted too narrow in the context of IAS 18 but not as a financial instrument's issue.
>
> Our rationale for the above is as follows: Firstly, we agree that interest cash flows of an asset resulting in a negative yield cannot be considered interest expenses, thus, we agree with the argument that interest expenses can arise on liabilities only. Secondly, we also agree that interest revenue and interest expenses must not be offset. However, we consider both positive and negative interest cash flows from a financial asset being revenue, hence, adding (temporarily) negative interest cash flows (i.e. negative yield) with positive interest cash flows does not violate offsetting constraints.
>
> Therefore, we suggest that the IFRSIC reconsider and change its tentative decision such that interest cash flows can exceptionally and temporarily be negative with the nature of interest revenue still being preserved. As argued above, negative interest yield from a financial asset should be presented as part of interest revenue, thus, being part of interest (net) income.

16 Die vorläufige Agenda-Entscheidung wurde im Januar 2013 zunächst zurückgezogen. Die Begründung dafür stand im Zusammenhang mit dem neu zu veröffentlichenden Standard zur Bilanzierung von Finanzinstrumenten (IFRS 9). Das IFRS IC wollte den Entscheidungen des IASB nicht vorgreifen. Nachdem IFRS 9 im Juli 2014 verabschiedet wurde und die Europäische Zentralbank (EZB) in Juni 2014 negative Zinsen für Einlagen von Banken eingeführt hat (-0,1% p.a., ab September 2014 -0,2%) ist das Thema durch das IFRS IC wieder aufgegriffen worden.

3.5 Zu IAS 21 – The Effects of Changes in Foreign Exchange Rates

17 Im Oktober 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. Issue

An entity enters into a sales contract with a customer for delivery of goods or services that is denominated in a foreign currency. A non-refundable payment for the contract is received in advance and, at a later date, the entity performs the services/delivers the goods to the customer.

The submitter questions which exchange rate should be used to recognise the revenue under such a contract in the entity's functional currency in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates.

Paragraphs 21 and 22 of IAS 21 require that:

- A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IFRSs.

The submitter has put forward three views when there is a revenue contract with payment in advance of performance:

2. Views

View A – Revenue is recognised using the exchange rate at *the date the contract is entered into or the date the contract becomes enforceable if later*.

- Those of this view argue that as an enforceable executory contract contains a right and an obligation to exchange economic resources entering into such a contract is the date at which the transaction 'first qualifies for recognition' (regardless of whether such contracts are recorded in the balance sheet or whether payment is in advance or in arrears of delivery of the goods or services).
- This approach treats the whole contract as 'the transaction' for the purposes of applying paragraphs 21 and 22 of IAS 21 (ie entering into the contract, payment and performance are one unit of account for the purposes of determining the date of transaction in accordance with IAS 21), on the basis of their interdependency. Those of this view see this consistent with the way IFRS 15 uses the term 'transaction' (eg in the use of the term 'transaction price').

View B – Revenue is recognised using the exchange rate used to recognise the related deferred revenue *on receipt of the cash prepayment*.

- This view is based on the principle that the first recognition of the transaction with a value in the financial statements is when either of the parties to the contract first performs. If cash is received first, the spot rate on that date is used to recognise deferred revenue and, subsequently, revenue. Conversely, if the entity performs first, the revenue is recognised at the spot rate at the date of recognition

of the revenue. Hence if payment is in arrears, the accounting treatment is the same as in View C below.

- This view treats the obligation to perform (giving rise to deferred revenue on receipt of the cash in advance) and the subsequent performance by the entity as one transaction, rather than two separate transactions.
- This view reflects the fact that the entity is no longer exposed to foreign exchange risk after receiving the cash payment.
- Under this view, the exchange rates used to recognise revenue may depend on the timing and frequency of payments made by the customer.

View C– Revenue is recognised using the spot rate at *the date of recognition of the revenue* (ie on performance of the obligations under the contract by the entity). When revenue is recognised over time rather than at a point in time different rates may apply to the revenue portions recognised in different periods.

- In this scenario, if payment is received in advance, deferred revenue is recognised using the spot rate at the date of the advance cash receipt. The difference between the deferred revenue balance and revenue recognised in the income statement that is due to movements in the exchange rate is recognised as exchange gains or losses in the income statement as the deferred revenue is amortised to the income statement.
- Those in favour of this view argue that performing the services/delivering the goods is a transaction in its own right and therefore first qualifies for recognition when it meets the recognition criteria in accordance with IAS 18 *Revenue*, IAS 11 *Construction Contracts* or IFRS 15 *Revenue from Contracts with Customers*. For performance obligations satisfied over time the transaction 'first qualifies for recognition' in increments over the performance period.
- Those of this view also argue that it is consistent with the requirement in paragraphs 60 and 61 of IFRS 15 that the promised amount of consideration is adjusted for the effects of the time value of money, if the timing of the payments provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The objective of adjusting the amount of revenue for a significant financing component is to recognise revenue at an amount that reflects the price that 'a customer would have paid for the promised goods or services if the customer paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price)'.

3. Questions

1. In your jurisdiction(s) are you aware of any entities that have significant contracts with customers that are denominated in a foreign currency where there is a significant period of time between entering into the contract; payment (whether in advance or in arrears); and performance under the contract (ie rendering of services or delivery of goods).

   If so, please give examples that you have seen in practice, briefly explaining the prevalence and circumstances of those cases.

2. If you answered 'yes' to Question 1, please could you explain which of the following exchange rates have been used in practice to record the recognition of revenue in the income statement and the basis for using such a rate for each of the examples identified in Question 1 above:

a. the spot exchange rate at the date the executory contract was entered into;

b. the spot exchange rate at the date the entity receives a cash payment in advance of its performance obligations under the contract;

c. the spot exchange rate at the date the entity recognises revenue in the income statement, noting whether payment is in advance or arrears; or

d. any other exchange rate (please provide additional details).

3. Are you expecting your answer to question 2 to change on adoption of IFRS 15 and if so, how and why?

18 Die DRSC-Antwort vom 24. Oktober 2014 hierzu lautete wie folgt:

Ad Q1: Yes, such contracts are common in practice.

Ad Q2: Accounting as described in view B is most commonly used in practice. We are also aware of entities sharing view C. View A is not used. There are different opinions as to which view should be preferred from a theoretical point of view.

Ad Q3: n/a

19 Im November entschied das IFRS IC, eine Interpretation bezüglich IAS 21.22 zu erarbeiten.

3.6 Zu IAS 32 – Financial Instruments: Presentation

20 Im Oktober 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Dabei wurde der Sachverhalt wie folgt übermittelt:

1. The issue

a) Is the unspent balance of gift cards issued by a Bank a financial liability?

b) How should the Bank account for the unspent balance of those gift cards when the likelihood of the cardholder spending the remaining amount becomes remote?

2. Background

Banks may issue gift cards that have the following features:

- no expiry date;
- cannot be refunded, redeemed or exchanged for cash;
- redeemable for goods or services only;
- redeemable only at selected merchants, and depending upon the gift card programme, ranges from a single merchant to all merchants that accept a specific card network; and
- no back-end fees, which means that the balance on the gift card doesn't reduce unless spent by the holder.

There are instances in which the cardholders do not spend/redeem the entire amount on the gift card and consequently unspent balances remain in perpetuity subject to any unclaimed property laws in the jurisdiction in which the Bank operates. These unspent balances are often referred to as breakages.

To explain the issue, we have considered the following illustration.

Entity A, a Bank, issues CU1,000 of gift cards in a certain period. These gift cards have the features explained in paragraph 1 above. Based on historical redemption rates, Entity A determined that the gift cards would be redeemed over 24 months with 5 per cent of the gift cards remaining unspent thereafter. There is no unclaimed property law in the jurisdiction in which Entity A operates to allow Entity A to legally cancel the remaining obligation. Consequently, an obligation for the unspent balance remains with Entity A in perpetuity.

3. Nature of the liability recognised on the issue of the gift card

On issue of the gift cards, Entity A receives cash from the customers and recognises a liability of CU1,000. This liability reduces on payments to merchants who accept the gift card as payment for the goods or services purchased by the cardholder. There are the following views about the nature of the liability:

1. Not a financial liability. The gift card issued by Entity A is not a financial liability because Entity A does not have an obligation to deliver cash to the cardholder.
2. A financial liability. Entity A has an obligation to pay cash to the accepting merchant when the cardholder uses the card for purchasing goods or services.

4. Current accounting guidance on recognition of breakages

Prior to the issue of IFRS 15 Revenue from Contracts with Customers there was no specific guidance in IFRS on accounting for breakages. However, in the US, there is an SEC Speech from December 2005 (the SEC Speech) that describes some acceptable and unacceptable methods for recognising gift card breakages. The SEC Staff suggested that the following are the acceptable methods to account for gift card breakages:

1. when the issuer is legally released from its obligation at expiration; or
2. when the issuer is legally released from its obligation on redemption, or when redemption becomes remote; or
3. over the expected redemption period in proportion to the actual gift card redemption.

The accounting for the breakages under the three methods is as follows:

1. On expiration: Entity A will never derecognise the breakages of CU50 because the gift cards never expire.
2. When redemption is remote: Entity A will derecognise the unspent balance of CU50 after 24 months when the redemption of the balance becomes remote.
3. Over the expected redemption period: Entity A will derecognise CU50 over the period of 24 months in proportion to the actual redemption.

It is not clear if the accepted methods are being used in practice irrespective of whether or not the gift card liability is classified as a financial liability. In IFRS, the guidance on derecognition of liabilities is available in IFRS 9 Financial Instruments (July 2014) and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. An entity removes a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires. (Paragraph 3.3.1 of IFRS 9) A provision is used only for expenditures for which the provision was originally recognised (paragraph 61 of IAS 37). Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed (paragraph 59 of IAS 37).

5. New revenue standard

IFRS 15 and the corresponding Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, issued by the Financial Accounting Standards Board (FASB) of the US (collectively referred to as the 'new revenue standard') provides guidance on recognition of breakages.

In accordance with the new revenue standard, "if an entity expects to be entitled to a breakage amount in a contract liability, the entity shall recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity shall recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote." (Paragraph B46 of IFRS 15).

6. Questions

We would appreciate it if you would share your experience of the practices in your jurisdiction on the following aspects to help us learn about the extent to which there is diversity in practice:

(a) Are you aware of the issue by Banks of gift cards of the types described in the submission, ie gift cards that can be redeemed at:

- a single merchant; and
- all merchants that accept a specific card network?

(b) How is the liability for gift cards classified by these Banks, ie as a financial liability or a non-financial liability? and

(c) How are the breakages in respect of these liabilities accounted for? What is the basis on which the Banks derecognise the liability for gift cards?

21 Die Antwort des DRSC vom 23. Oktober 2014 hatte folgenden Wortlaut:

Ad Q1: We are not aware of banks within our jurisdiction issuing gift cards. However, it is the case for entities from other industries issuing gift cards where there is no obligation to deliver cash to the cardholder, but only to deliver cash to merchants (i.e. third parties).

Ad Q2: As there is an obligation to deliver cash to a merchant, the issuing entity should account for this obligation as a financial liability. However, it should be noted that this is not a direct obligation from the gift card itself, but from the related obligation to the merchant.

Ad Q3: At a first glance, we would favour that breakages be accounted for due to alternative 2. We would expect the same accounting under IAS 18 as well as under IFRS 15. However, given our view that the obligation (to the merchant) from the gift card is a financial liability, alternatives 2 and 3 do not apply under IAS 39 / IFRS 9. Moreover, alternative 1 is the only way how to account for breakages. Thus, the proposed alternatives must not be used in practice "irrespective of whether or not the gift card liability is classified as a financial liability" (as is stated in your request and in the submission), but strongly depend on the classification of the obligation.

22 Während der Sitzung des IFRS IC im November 2014 wurden keine Entscheidungen getroffen.

4 Endgültige Entscheidungen

4.1 Übersicht

23 Folgende Themen werden behandelt:

TOP	Thema	Gegenstand
7 - IAS 28	Investments in Associates and Joint Ventures *Assessment of significant influence: Fund manager acting as agent and holding own investment in the fund*	NIFRIC
8 – IFRIC 21	Levies *Accounting for cost of levy on PPE of service provider: Is it an admin or production overhead? Is it part of inventories?*	NIFRIC
9 - IAS 39	Financial Instruments: Recognition and Measurement *Accounting for embedded foreign currency derivatives in host contracts – request for guidance on applying the 'closely related' criterion*	NIFRIC
10 - IFRS 13	Fair Value Measurement *The fair value hierarchy – what level in the hierarchy applies when using consensus prices provided by third parties*	NIFRIC
11 - IFRS 12	Disclosure of Interests in Other Entities *Request for clarification of what disclosures are required, and basis of preparation, for (a) subsidiary with a material non-controlling interest and (b) a material joint venture or associate*	NIFRIC

4.2 Zu IAS 28: Investments in Associates and Joint Ventures

24 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 ihn 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?

25 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.

26 Im September 2014 entschied das IFRS IC vorläufig, dem IASB vorzuschlagen, dieses Thema im Rahmen des Forschungsprojekts zur Equity-Methode zu behandeln. Dazu hatte sich das DRSC in seiner Stellungnahme wie folgt geäußert:

> We do not agree with the IFRS IC's abstract view that "IAS 28 does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence, its participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others". Whereas it is appropriate to state that this issue is not explicitly addressed by IAS 28, we think that the fund manager's participation in policy decisions, combined with its holding, should implicitly be considered when estimating whether the fund manager has significant influence.
> This derives from the definition of significant influence in IAS 28.3, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Since – as to the submitted issue – the fund manager is participating in the financial and operating policy decisions of the investee, as a first step, an assessment has to be made whether the fund manager has control (IFRS 10.7) or joint control (IFRS 10.9) of the investee. This assessment by the fund manager shall include all facts and circumstances (IFRS 10.8) including whether it is a principal or an agent (IFRS 10.18). An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (IFRS 10.B58). Therefore, the assessment of control, joint control or, if neither, significant influence by the fund manager shall include the participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others. As to our knowledge, this understanding is common in practice, with no diversity.
> Beyond that, we deem the tentative agenda decision on this issue being detrimental, as it would create room for judgment and, thus, risk that diversity in practice arises.

27 Im Agenda-Papier 7 zur IFRS IC-Sitzung im Januar wird vorgeschlagen, die vorläufige Entscheidung grundsätzlich beizubehalten.

4.3 Zu IFRIC 21: Levies

28 Zwei Anfragen gingen im Frühsommer 2014 beim IFRS IC ein und betreffen Abgaben in Zusammenhang mit Sachanlagevermögen. 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?

29 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.

30 Im September 2014 entschied das IFRS IC vorläufig, das Thema nicht auf die Agenda zu nehmen. Diese vorläufige Entscheidung wurde durch das DRSC nicht kommentiert.

4.4 Zu IAS 39: Financial Instruments: Recognition and Measurement (embedded fx derivatives)

31 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.

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

33 Im September 2014 entschied das IFRS IC vorläufig, dass es hierzu weder einer Interpretation noch einer Standardänderung bedarf. Diese vorläufige Entscheidung wurde durch das DRSC nicht kommentiert.

4.5 Zu IFRS 13: Fair Value Measurement

34 Die Anfrage wurde durch das DRSC eingereicht. Details hierzu sind dem IFRS-FA bekannt. Im August 2014 hatte das IFRS IC einen *Outreach Request* hierzu gestartet. Das IFRS IC entschied im September:

> The Interpretations Committee noted that when assets or liabilities are measured on the basis of prices provided by third parties, the classification of those measurements within the fair value hierarchy will depend on the evaluation of the inputs used by the third party to derive those prices instead of on the pricing methodology used. In other words, the fair value hierarchy prioritises the inputs to valuation

> techniques, not the valuation techniques used to measure fair value. In accordance with IFRS 13, only unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date qualify as Level 1 inputs. Consequently, the Interpretations Committee noted that a fair value measurement that is based on prices provided by third parties may only be categorised within Level 1 of the fair value hierarchy if the measurement relies solely on unadjusted quoted prices in an active market for an identical instrument that the entity can access at the measurement date. The Interpretations Committee also observed that the guidance in IFRS 13 relating to the classification of measurements within the fair value hierarchy is sufficient to draw an appropriate conclusion on the issue submitted. On the basis of the analysis performed, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

35 Das DRSC hat dazu gegenüber dem IFRS IC wie folgt Stellung bezogen:

> We understand the rationale that the determination of fair value level shall be based on evaluating the input parameters. We are aware of this principle, and we are also aware that if any of the input parameters would not satisfy level 1, the fair value cannot be a level 1 price.
>
> However, we think that the IFRS IC's tentative decision does not answer our main question submitted, being "under which circumstances do third party prices ... qualify as level 1 ... of the fair value hierarchy". Moreover, the IFRS IC's main finding that "the classification ... within the fair value hierarchy will depend on the evaluation of the inputs ... instead of the pricing methodology used" raises follow-up questions. Actually, all our constituents supporting View A as well as those supporting View B understand the IFRS IC's tentative decision as supporting their respective views.
>
> The most obvious question that arises and, so far, remains unanswered is the following: If a third-party pricing service used a model to determine the fair value and if all of the input parameters used in that model constitute a level 1 input, would then a fair value based on that model be a level 1 fair value? Or would the mere use of a pricing algorithm, resulting in a composite price, in itself lead to a fair value that cannot be considered "unadjusted", thus, would not be a level 1 fair value?
>
> We further like to note that, to our knowledge, there are indeed circumstances where any of the input parameters for such composite prices are considered level 1 inputs. However, this might be subject to approval by additional outreach. Regardless of this, we would raise the question of whether, and how, the nature of a quote drives the fair value hierarchy level. In other words: can certain input parameters that lack an actual transaction – such as executable prices (binding offer) – be considered "quoted" prices, thus satisfying the level 1 definition? We deem IFRS 13 not being sufficiently clear, since it only states that the nature of a quote drives the weight that shall be placed on them (B46-47), which does not indicate whether and how the nature of a quote drives the level.
>
> We urge the IFRS IC to discuss these two additional questions raised by us before finalising its decision on the issue.

4.6 Zu IFRS 12: Disclosure of Interests in Other Entities

36 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), insbesondere 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.

37 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.

38 Im September 2014 entschied das IFRS IC vorläufig, dass es hierzu weder einer Interpretation noch einer Standardänderung bedarf. Diese vorläufige Entscheidung wurde durch das DRSC wie folgt kommentiert.

> We appreciate and support the IFRS IC's tentative agenda decision and the clarification it comprises. However, we have concerns about not developing any formal clarification of the standard, but declaring that sufficient guidance would exist and neither a clarification nor an interpretation is needed.
>
> Moreover, the wording of the tentative decision actually represents that clarification which IFRS 12 is lacking, stating that the entity would apply judgement in determining whether:
> (a) the entity presents this information about the subgroup of the subsidiary that has a material non-controlling interest (i.e. present the required information on the basis of the subsidiary together with its investees), or

(b) it is necessary in achieving the disclosure objective in IFRS 12.10 to disaggregate the information further to present information about individual subsidiaries that have material non-controlling interests within that subgroup.

Thus, we urge the IFRS IC to hold onto its view, but to revise the decision by proposing a narrow scope amendment which would add guidance to IFRS 12, relying on the wording of the current tentative agenda decision.

5 Neue Themen

39 Folgende Themen werden behandelt:

TOP	Thema	Gegenstand
12 - IAS 40	Investment Property *Can a property under construction be transferred from inventory to investment property, when there is an evident change in use?*	TAD
13 - IAS 24	Related Party Disclosures *Definition of close members of the family of a person*	TAD

40 Das IFRS IC hat zu beiden Themen *Outreach Requests* gestartet. Das DRSC hat sich nicht daran beteiligt.