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IFRS® Foundation

Compilation of Agenda Decisions—Volume 2

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Introduction

Compilation of Agenda Decisions—Volume 2 compiles all agenda decisions published by the IFRS Interpretations Committee (Committee) in the period October 2019 to March 2020. The Committee publishes an agenda decision to explain why it does not recommend standard-setting in response to a particular application question. For ease of reference, the agenda decisions are sorted by IFRS Standard.

How the Committee supports consistency in application of IFRS Standards

The Committee works with the International Accounting Standards Board (Board) in supporting consistency in application of IFRS® Standards.

The Committee's process

Committee projects typically begin as an application question. The process is designed to:

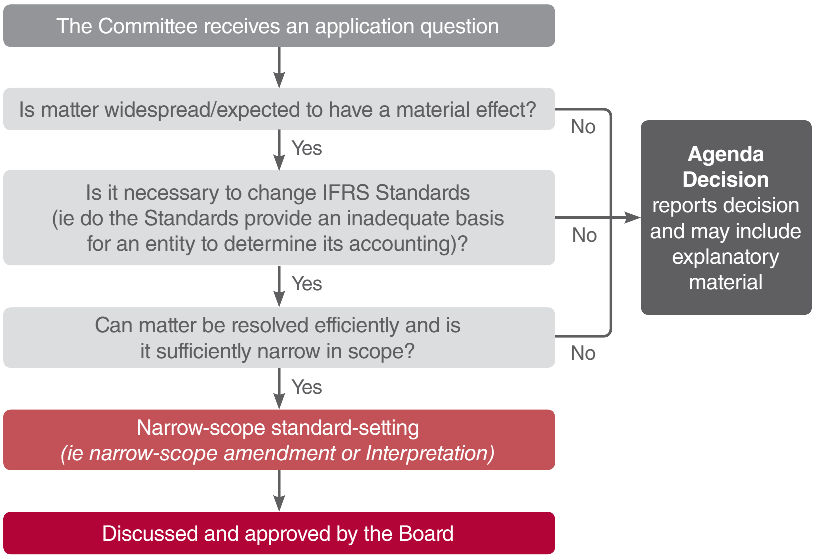
- allow any stakeholder to submit a matter for consideration; and
- be transparent—all eligible application questions are considered at a public meeting.

The Committee then decides whether to recommend standard-setting to address the application question. The Committee may decide not to do so if it concludes that standard-setting would be:

- unnecessary—typically because, in the Committee's view, IFRS Standards provide an adequate basis for an entity to determine its accounting or because there is no evidence that a widespread financial reporting problem exists; or
- not sufficiently narrow in scope—the question could be resolved only as part of a larger Board project (not a narrow-scope project).

To explain why it did not recommend standard-setting, the Committee publishes an agenda decision to report its decision, which may include explanatory material.

The following diagram summarises the criteria the Committee considers when deciding whether to recommend standard-setting:



Explanatory material in an agenda decision

Agenda decisions often include information to help entities applying IFRS Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the application question described in the agenda decision. The objective of including explanatory material in an agenda decision is to improve consistency in application of the Standards.

Agenda decisions are subject to due process. They are open for comment for 60 days and, before finalising, the Committee considers comments received.

Please visit the project pages on our website if you would like more information about the agenda decisions included in this compilation.

Agenda decisions published by the Committee are available on the 'how the IFRS Interpretations Committee helps implementation' page.

Narrow-scope standard-setting

Some questions result in narrow-scope standard-setting that follows the applicable due process. The Committee may decide to:

- develop an IFRIC Interpretation of a Standard—this adds to the requirements in a Standard without changing the Standard itself; or
- recommend a narrow-scope amendment to a Standard.

Narrow-scope standard-setting projects recommended by the Committee and approved by the Board are added to the Board's work plan as maintenance projects.

IFRS 15 *Revenue from Contracts with Customers* and IAS 38 *Intangible Assets*

Training Costs to Fulfil a Contract (IFRS 15)

March 2020

The Committee received a request about training costs incurred to fulfil a contract with a customer. In the fact pattern described in the request:

a. an entity enters into a contract with a customer that is within the scope of IFRS 15. The contract is for the supply of outsourced services.

b. to be able to provide the services to the customer, the entity incurs costs to train its employees so that they understand the customer's equipment and processes. The training costs are as described in paragraph 15 of IAS 38 *Intangible Assets*—the entity has insufficient control over the expected future economic benefits arising from the training to meet the definition of an intangible asset because employees can leave the entity's employment. Applying IFRS 15, the entity does not identify the training activities as a performance obligation.

c. the contract permits the entity to charge to the customer the costs of training (i) the entity's employees at the beginning of the contract, and (ii) new employees that the entity hires as a result of any expansion of the customer's operations.

The request asked whether the entity recognises the training costs as an asset or an expense when incurred.

Which IFRS Standard applies to the training costs?

Paragraph 95 of IFRS 15 requires an entity to recognise an asset from the costs incurred to fulfil a contract with a customer if the costs are not within the scope of another IFRS Standard, and only if those costs meet all three criteria specified in paragraph 95. Consequently, before assessing the criteria in paragraph 95, the entity first considers whether the training costs incurred to fulfil the contract are within the scope of another IFRS Standard.

Paragraphs 2–7 of IAS 38 describe the scope of that Standard—paragraph 5 explicitly includes expenditure on training within IAS 38's scope, stating that IAS 38 'applies to, among other things, expenditure on advertising, training, start-up, research and development activities'. Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity applies IAS 38 in accounting for the training costs incurred to fulfil the contract with the customer.

Application of IAS 38

Paragraph 69(b) of IAS 38 includes expenditure on training activities as an example of expenditure that is incurred 'to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised'. Consequently, paragraph 69 states that such expenditure on training activities is recognised as an expense when incurred. Paragraph 15 of IAS 38 explains that 'an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset'.

In addition, in explaining the requirements in IFRS 15 regarding costs to fulfil a contract, paragraph BC307 of IFRS 15 states that 'if the other Standards preclude the recognition of any asset arising from a particular cost, an asset cannot then be recognised under IFRS 15'.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity recognises the training costs to fulfil the contract with the customer as an expense when incurred. The Committee noted that the entity's ability to charge to the customer the costs of training does not affect that conclusion.

The Committee concluded that the principles and requirements in IFRS 15 and IAS 38 provide an adequate basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IFRS 16 *Leases*

Definition of a Lease—Decision-making Rights (IFRS 16)

January 2020

The Committee received a request about whether the customer has the right to direct the use of a ship throughout the five-year term of a contract. In the fact pattern described in the request:

a. there is an identified asset (the ship) applying paragraphs B13–B20 of IFRS 16.

b. the customer has the right to obtain substantially all the economic benefits from use of the ship throughout the five-year period of use applying paragraphs B21–B23 of IFRS 16.

c. many, but not all, decisions about how and for what purpose the ship is used are predetermined in the contract. The customer has the right to make the remaining decisions about how and for what purpose the ship is used throughout the period of use. In the fact pattern described in the request, the customer has determined that this decision-making right is relevant because it affects the economic benefits to be derived from use of the ship.

d. the supplier operates and maintains the ship throughout the period of use.

The right to direct the use of an identified asset

Paragraph B24 of IFRS 16 specifies when a customer has the right to direct the use of an identified asset throughout the period of use. Paragraph B24(b) applies only when the relevant decisions about how and for what purpose the asset is used are predetermined. The Board noted in paragraph BC121 of IFRS 16 that 'it would expect decisions about how and for what purpose an asset is used to be predetermined in relatively few cases'.

The Committee observed that, in the fact pattern described in the request, because not all relevant decisions about how and for what purpose the ship is used are predetermined, the customer considers paragraph B24(a) of IFRS 16 in assessing whether it has the right to direct the use of the ship.

The right to direct how and for what purpose an asset is used

Paragraph B24(a) specifies that a customer has the right to direct the use of an identified asset throughout the period of use if it has 'the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs B25–B30)'.

To have the right to direct how and for what purpose the asset is used, within the scope of its right of use defined in the contract, the customer must be able to change how and for what purpose the asset is used throughout the period of use (paragraph B25). In assessing whether that is the case, an entity considers rights to make decisions during the period of use that are most relevant to changing how and for what purpose the asset is used throughout that period. Decision-making rights are relevant when they affect the economic benefits to be derived from use (paragraph B25). An entity does not consider decisions that are predetermined before the period of use unless the conditions in paragraph B24(b)(ii) exist (paragraph B29).

Paragraph B26 includes examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used. Rights limited to operating or maintaining the asset do not grant the right to change how and for what purpose it is used (paragraph B27).

The Committee observed that, in the fact pattern described in the request, the customer has the right to direct how and for what purpose the ship is used throughout the period of use. The customer has the right to make decisions about the use of the ship during the period of use that affect the economic benefits to be derived from that use. Therefore, within the scope of its right of use defined in the contract, the customer can change how and for what purpose the ship is used. The predetermination in the contract of many decisions about how and for what purpose the ship is used defines the scope of the customer's right of use—within that scope, the customer has the right to make the decisions that are most relevant to changing how and for what purpose the ship is used.

The Committee also observed that, although the operation and maintenance of the ship are essential to its efficient use, the supplier's decisions in this regard do not give it the right to direct how and for what purpose the ship is used.

The Committee concluded that, in the fact pattern described in the request, the customer has the right to direct the use of the ship throughout the period of use. Consequently, the contract contains a lease.

The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine whether the contract described in the request contains a lease. The Committee therefore decided not to add the matter to its standard-setting agenda.

IFRS 16 *Leases* and IAS 16 *Property, Plant and Equipment*

Lease Term and Useful Life of Leasehold Improvements (IFRS 16 and IAS 16)

November 2019

The Committee received a request about cancellable or renewable leases.

The cancellable lease described in the request is one that does not specify a particular contractual term but continues indefinitely until either party to the contract gives notice to terminate. The contract includes a notice period of, for example, less than 12 months and the contract does not oblige either party to make a payment on termination. The renewable lease described in the request is one that specifies an initial period, and renews indefinitely at the end of the initial period unless terminated by either of the parties to the contract.

The request asked two questions:

a. how to determine the lease term of a cancellable lease or a renewable lease. Specifically, the request asked whether, when applying paragraph B34 of IFRS 16 and assessing 'no more than an insignificant penalty', an entity considers the broader economics of the contract, and not only contractual termination payments. Such considerations might include, for example, the cost of abandoning or dismantling leasehold improvements.

b. whether the useful life of any related non-removable leasehold improvements is limited to the lease term determined applying IFRS 16. Non-removable leasehold improvements are, for example, fixtures and fittings acquired by the lessee and constructed on the underlying asset that is the subject of the cancellable or renewable lease. The lessee will use and benefit from the leasehold improvements only for as long as it uses the underlying asset.

Lease term

Paragraph 18 of IFRS 16 requires an entity to determine the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, paragraph B34 of IFRS 16 requires an entity to determine the period for which the contract is enforceable. Paragraph B34 specifies that 'a lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty'.

Paragraph BC156 sets out the Board's view that 'the lease term should reflect an entity's reasonable expectation of the period during which the underlying asset will be used because that approach provides the most useful information'.

The Committee observed that, in applying paragraph B34 and determining the enforceable period of the lease described in the request, an entity considers:

a. the broader economics of the contract, and not only contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated; and

b. whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Applying paragraph B34, a lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

If an entity concludes that the contract is enforceable beyond the notice period of a cancellable lease (or the initial period of a renewable lease), it then applies paragraphs 19 and B37–B40 of IFRS 16 to assess whether the lessee is reasonably certain not to exercise the option to terminate the lease.

Useful life of non-removable leasehold improvements

Paragraph 50 of IAS 16 requires an item of property, plant and equipment (asset) to be depreciated over its useful life.

IAS 16 defines the useful life of an asset as (emphasis added) '*the period over which an asset is expected to be available for use by an entity*; or the number of production or similar units expected to be obtained from the asset by an entity'.

Paragraphs 56 and 57 of IAS 16 provide further requirements on the useful life of an asset. In particular, paragraph 56(d) specifies that in determining the useful life of an asset, an entity considers any 'legal or similar limits on the use of the asset, such as the expiry dates of related leases'. Paragraph 57 specifies that the useful life of an asset 'is defined in terms of the asset's expected utility to the entity', and 'may be shorter than its economic life'.

An entity applies paragraphs 56–57 of IAS 16 in determining the useful life of non-removable leasehold improvements. If the lease term of the related lease is shorter than the economic life of those leasehold improvements, the entity considers whether it expects to use the leasehold improvements beyond that lease term. If the entity does not expect to use the leasehold improvements beyond the lease term of the related lease then, applying paragraph 57 of IAS 16, it concludes that the useful life of the non-removable leasehold improvements is the same as the lease term. The Committee observed that, applying paragraphs 56–57 of IAS 16, an entity might often reach this conclusion for leasehold improvements that the entity will use and benefit from only for as long as it uses the underlying asset in the lease.

Interaction between lease term and useful life

In assessing whether a lessee is reasonably certain to extend (or not to terminate) a lease, paragraph B37 of IFRS 16 requires an entity to consider all relevant facts and circumstances that create an economic incentive for the lessee. This includes significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when an option to extend or terminate the lease becomes exercisable (paragraph B37(b)).

In addition, as noted above an entity considers the broader economics of the contract when determining the enforceable period of the lease described in the request. This includes, for example, the costs of abandoning or dismantling non-removable leasehold improvements. If an entity expects to use non-removable leasehold improvements beyond the date on which the contract can be terminated, the existence of those leasehold improvements indicates that the entity might incur a more than insignificant penalty if it terminates the lease. Consequently, applying paragraph B34 of IFRS 16, an entity considers whether the contract is enforceable for at least the period of expected utility of the leasehold improvements.

The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases. The Committee also concluded that the principles and requirements in IAS 16 and IFRS 16 provide an adequate basis for an entity to determine the useful life of any non-removable leasehold improvements relating to such a lease. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*

Translation of a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 and IAS 29)

March 2020

The Committee received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity:

a. has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29;

b. has a foreign operation with a functional currency that is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation); and

c. translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

Paragraph 43 of IAS 21 requires an entity to restate the results and financial position of a hyperinflationary foreign operation applying IAS 29 before applying the translation method set out in paragraph 42 of IAS 21 (restate/translate approach). The application of the restate/translate approach may result in a change to the entity's net investment in the hyperinflationary foreign operation. This change would include two effects:

a. a restatement effect resulting from restating the entity's interest in the equity of the hyperinflationary foreign operation as required by IAS 29; and

b. a translation effect resulting from translating the entity's interest in the equity of the hyperinflationary foreign operation (excluding the effect of any restatement required by IAS 29) at a closing rate that differs from the previous closing rate.

To illustrate this using a simple example, assume at the beginning of the reporting period that an entity has a 100% interest in a hyperinflationary foreign operation that has a non-monetary asset of 1,000 in local currency (LC), no other assets and no liabilities. Therefore, the foreign operation has net assets (and equity) of LC1,000. The change in the general price index of the hyperinflationary economy during the reporting period is 200%. The entity could, for example, calculate:

a. the restatement effect as (LC1,000 × (1+200%) – LC1,000) × closing exchange rate. This calculation reflects the entity's interest in the equity of the hyperinflationary foreign operation of LC1,000, restated applying IAS 29, and reported in the entity's presentation currency; and

b. the translation effect as (LC1,000 × closing exchange rate) – (LC1,000 × opening exchange rate). This calculation reflects the entity's interest in the equity of the hyperinflationary foreign operation of LC1,000 (excluding the effect of the restatement required by IAS 29) multiplied by the difference between the opening and closing exchange rates.

The request asked how the entity presents the restatement and translation effects in its statement of financial position.

Do the restatement and translation effects meet the definition of an exchange difference?

Paragraph 8 of IAS 21 defines an exchange difference as the difference 'resulting from translating a given number of units of one currency into another currency at different exchange rates'. The Committee concluded that, in the fact pattern described in the request, either the translation effect alone meets the definition of an exchange difference, or the combination of the restatement and translation effects meets that definition.

How does an entity present any exchange difference arising from translating a hyperinflationary foreign operation?

The Committee observed that all requirements in IAS 21 that specify the recognition (or presentation) of exchange differences require an entity to recognise (or present) exchange differences in profit or loss or other comprehensive income (OCI). IAS 21 requires the recognition of exchange differences in profit or loss or OCI—with no reference to equity—because exchange differences meet the definition of income or expenses. Accordingly, the Committee concluded that an entity does not recognise exchange differences directly in equity.

Paragraph 7 of IAS 1 *Presentation of Financial Statements* states that components of OCI include 'gains and losses arising from translating the financial statements of a foreign operation'. Paragraph 41 of IAS 21 explains that exchange differences arising from translating the financial statements of a non-hyperinflationary foreign operation are recognised in OCI—and not in profit or loss—because 'the changes in exchange rates have little or no direct effect on the present and future cash flows from operations'. The Committee observed that this explanation is also relevant if the foreign operation's functional currency is hyperinflationary. Accordingly, the Committee concluded that an entity presents in OCI any exchange difference resulting from the translation of a hyperinflationary foreign operation.

Applying the requirements in IFRS Standards to the restatement and translation effects

The Committee concluded that, in the fact pattern described in the request, the entity presents:

a. the restatement and translation effects in OCI, if the entity considers that the combination of those two effects meets the definition of an exchange difference in IAS 21; or

b. the translation effect in OCI, if the entity considers that only the translation effect meets the definition of an exchange difference in IAS 21. In this case, consistent with the requirements in paragraph 25 of IAS 29, the entity presents the restatement effect in equity.

In the light of its analysis, the Committee considered whether to add a project on the presentation of exchange differences resulting from the restatement and translation of hyperinflationary foreign operations to its standard-setting agenda. The Committee has not obtained evidence that a project with that scope—undertaken in isolation of other aspects of the accounting for hyperinflationary foreign operations—would result in an improvement in financial reporting that would be sufficient to outweigh the costs.

Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)

March 2020

The Committee received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity:

a. has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29;

b. has a foreign operation with a functional currency that is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation); and

c. translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

Before the foreign operation becomes hyperinflationary, IAS 21 requires an entity to:

a. present in other comprehensive income (OCI) any exchange differences resulting from translating the results and financial position of that non-hyperinflationary foreign operation; and

b. present in a separate component of equity the cumulative amount of those exchange differences (cumulative pre-hyperinflation exchange differences).

The request asked whether the entity reclassifies within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary—that is, whether the entity transfers the cumulative pre-hyperinflation exchange differences to a component of equity that is not subsequently reclassified to profit or loss.

Paragraph 41 of IAS 21 requires an entity to present the cumulative amount of exchange differences recognised in OCI in a separate component of equity 'until disposal of the foreign operation'. Further, paragraphs 48 and 48C of IAS 21 require an entity to reclassify the cumulative amount of those exchange differences—or a proportionate share of that cumulative amount—from equity to profit or loss on disposal—or partial disposal—of a foreign operation (except as specified in paragraph 48C).

Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity presents the cumulative amount of the exchange differences as a separate component of equity (to which paragraph 48 or 48C of IAS 21 applies) until disposal or partial disposal of the foreign operation. The entity does not reclassify within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary.

The Committee concluded that the principles and requirements in IAS 21 provide an adequate basis for an entity to determine how to present the cumulative pre-hyperinflation exchange differences once a foreign operation becomes hyperinflationary. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary (IAS 21 and IAS 29)

March 2020

The Committee received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity:

a. has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29;

b. has a foreign operation whose functional currency is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation); and

c. translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

The request asked whether the entity restates comparative amounts presented for the foreign operation in:

a. its annual financial statements for the period in which the foreign operation becomes hyperinflationary; and

b. its interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during the comparative interim period.

On the basis of responses to outreach, comment letters received and additional research, the Committee observed little diversity in the application of IAS 21 with respect to the questions in the request—in applying paragraph 42(b) of IAS 21, entities generally do not restate comparative amounts in their interim or annual financial statements in the situations described above. Therefore, the Committee has not obtained evidence that the matter has widespread effect. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

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The International Accounting Standards Board (Board) is the independent standard-setting body of the IFRS® Foundation.

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