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IFRS® Foundation

Compilation of Agenda Decisions—Volume 3

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IFRS®

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Introduction

Compilation of Agenda Decisions—Volume 3 compiles all agenda decisions published by the IFRS Interpretations Committee (Committee) in the period April 2020 to September 2020. The Committee publishes an agenda decision to explain why a standard-setting project has not been added to the work plan to address a question submitted. For ease of reference, the agenda decisions are sorted by IFRS Standard.

How the Committee supports consistent application of IFRS Standards

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

The Committee's process

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

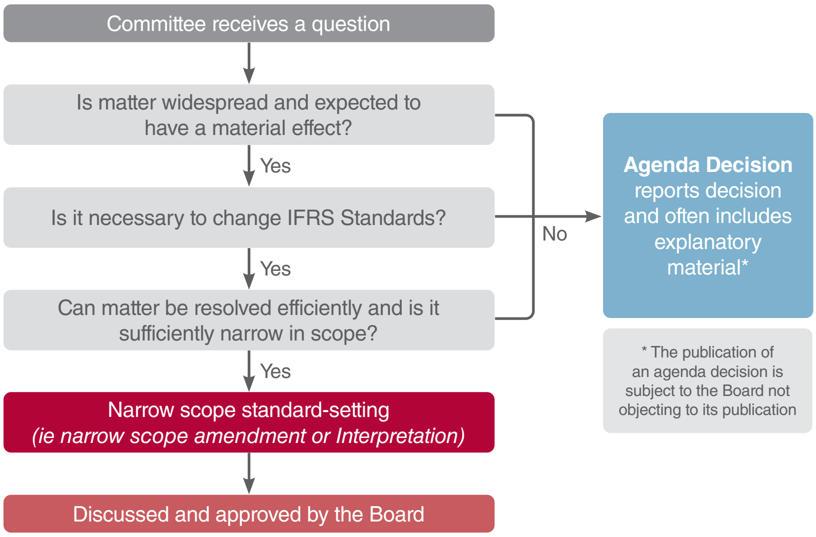
- allow any stakeholder to submit a question for consideration; and
- be transparent—all eligible application questions are considered at a public meeting.

The Committee then decides whether a standard-setting project should be added to the work plan to address the question submitted. 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 the required 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 a standard-setting project is not added, the Committee publishes an agenda decision. Agenda decisions report the Committee's decision and, in many cases, also include explanatory material.

The following diagram summarises the criteria the Committee considers when deciding whether a standard-setting project should be added to the work plan:



Explanatory material in an agenda decision

Agenda decisions often include explanatory material. The objective of including such explanatory material is to improve the consistency of application of IFRS Standards.

Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.

Explanatory material derives its authority from the Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an agenda decision (subject to it having sufficient time to implement that accounting).

Explanatory material included as part of a tentative agenda decision is subject to comment. The comment period is normally 60 days. After considering comments received, the Committee decides whether to confirm its decision and publish an agenda decision (subject to the Board not objecting). An agenda decision is published if no more than three Board members object to its publication. 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 support consistent application' 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, which adds requirements to IFRS Standards but does not remove or replace any requirements in the Standards; or
- recommend that the Board develop 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 work plan as maintenance projects.

IFRS 16 *Leases*

Sale and Leaseback with Variable Payments (IFRS 16)

June 2020

The Committee received a request about a sale and leaseback transaction with variable payments. In the transaction described in the request:

a. an entity (seller-lessee) enters into a sale and leaseback transaction whereby it transfers an item of property, plant and equipment (PPE) to another entity (buyer-lessor) and leases the asset back for five years.

b. the transfer of the PPE satisfies the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale of the PPE. The amount paid by the buyer-lessor to the seller-lessee in exchange for the PPE equals the PPE's fair value at the date of the transaction.

c. payments for the lease (which are at market rates) include variable payments, calculated as a percentage of the seller-lessee's revenue generated using the PPE during the five-year lease term. The seller-lessee has determined that the variable payments are not in-substance fixed payments as described in IFRS 16.

The request asked how, in the transaction described, the seller-lessee measures the right-of-use asset arising from the leaseback, and thus determines the amount of any gain or loss recognised at the date of the transaction.

The Committee observed that the requirements applicable to the transaction described in the request are in paragraph 100 of IFRS 16. Paragraph 100 states that 'if the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset: (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. …'.

Consequently, to measure the right-of-use asset arising from the leaseback, the seller-lessee determines the proportion of the PPE transferred to the buyer-lessor that relates to the right of use retained—it does so by comparing, at the date of the transaction, the right of use it retains via the leaseback to the rights comprising the entire PPE. IFRS 16 does not prescribe a method for determining that proportion. In the transaction described in the request, the seller-lessee could determine the proportion by comparing, for example, (a) the present value of expected payments for the lease (including those that are variable), with (b) the fair value of the PPE at the date of the transaction.

The gain or loss the seller-lessee recognises at the date of the transaction is a consequence of its measurement of the right-of-use asset arising from the leaseback. Because the right of use the seller-lessee retains is not remeasured as a result of the transaction (it is measured as a proportion of the PPE's previous carrying amount), the amount of the gain or loss recognised relates only to the rights transferred to the buyer-lessor. Applying paragraph 53(i) of IFRS 16, the seller-lessee discloses gains or losses arising from sale and leaseback transactions.

The seller-lessee also recognises a liability at the date of the transaction, even if all the payments for the lease are variable and do not depend on an index or rate. The initial measurement of the liability is a consequence of how the right-of-use asset is measured—and the gain or loss on the sale and leaseback transaction determined—applying paragraph 100(a) of IFRS 16.

Illustrative example

Seller-lessee enters into a sale and leaseback transaction whereby it transfers an asset (PPE) to Buyer-lessor, and leases that PPE back for five years. The transfer of the PPE satisfies the requirements in IFRS 15 to be accounted for as a sale of the PPE.

The carrying amount of the PPE in Seller-lessee's financial statements at the date of the transaction is CU1,000,000, and the amount paid by Buyer-lessor for the PPE is CU1,800,000 (the fair value of the PPE at that date). All the payments for the lease (which are at market rates) are variable, calculated as a percentage of Seller-lessee's revenue generated using the PPE during the five-year lease term. At the date of the transaction, the present value of the expected payments for the lease is CU450,000. There are no initial direct costs.

Seller-lessee determines that it is appropriate to calculate the proportion of the PPE that relates to the right of use retained using the present value of expected payments for the lease. On this basis, the proportion of the PPE that relates to the right of use retained is 25%, calculated as CU450,000 (present value of expected payments for the lease) ÷ CU1,800,000 (fair value of the PPE). Consequently, the proportion of the PPE that relates to the rights transferred to Buyer-lessor is 75%, calculated as (CU1,800,000 – CU450,000) ÷ CU1,800,000.

Applying paragraph 100(a), Seller-lessee:

a. *measures the right-of-use asset at CU250,000, calculated as CU1,000,000 (previous carrying amount of the PPE) × 25% (proportion of the PPE that relates to the right of use it retains).*

b. *recognises a gain of CU600,000 at the date of the transaction, which is the gain that relates to the rights transferred to Buyer-lessor. This gain is calculated as CU800,000 (total gain on sale of the PPE (CU1,800,000 – CU1,000,000)) × 75% (proportion of the PPE that relates to rights transferred to Buyer-lessor).*

Applying paragraph 100(a), the right-of-use asset would not be measured at zero at the date of the transaction because zero would not reflect the proportion of the previous carrying amount of the PPE (CU1,000,000) that relates to the right of use retained by Seller-lessee.

At the date of the transaction, Seller-lessee accounts for the transaction as follows:

Dr. Cash	*CU1,800,000*	
Dr. Right-of-use asset	*CU250,000*	
Cr. PPE		*CU1,000,000*
Cr. Liability		*CU450,000*
Cr. Gain on rights transferred		*CU600,000*

The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine, at the date of the transaction, the accounting for the sale and leaseback transaction described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IAS 12 *Income Taxes*

Multiple Tax Consequences of Recovering an Asset (IAS 12)

April 2020

The Committee received a request about deferred tax when the recovery of the carrying amount of an asset gives rise to multiple tax consequences. In the fact pattern described in the request:

a. an entity acquires an intangible asset with a finite useful life (a licence) as part of a business combination. The carrying amount of the licence at initial recognition is CU100. The entity intends to recover the carrying amount of the licence through use, and the expected residual value of the licence at expiry is nil.

b. the applicable tax law prescribes two tax regimes: an income tax regime and a capital gains tax regime. Tax paid under both regimes meets the definition of income taxes in IAS 12. Recovering the licence's carrying amount has both of the following tax consequences:

   i. under the income tax regime—the entity pays income tax on the economic benefits it receives from recovering the licence's carrying amount through use, but receives no tax deductions in respect of amortisation of the licence (taxable economic benefits from use); and

   ii. under the capital gains tax regime—the entity receives a tax deduction of CU100 when the licence expires (capital gain deduction).

c. the applicable tax law prohibits the entity from using the capital gain deduction to offset the taxable economic benefits from use in determining taxable profit.

The request asked how the entity determines the tax base of the asset and, consequently, how it recognises and measures deferred tax.

The fundamental principle in IAS 12

The fundamental principle upon which IAS 12 is based (as stated in paragraph 10 of IAS 12) is that 'an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences'.

Applying the fundamental principle to the fact pattern

The recovery of the asset's carrying amount gives rise to two distinct tax consequences—it results in taxable economic benefits from use and a capital gain deduction that cannot be offset in determining taxable profit. Accordingly, applying the fundamental principle in IAS 12, an entity reflects separately these distinct tax consequences of recovering the asset's carrying amount.

An entity identifies temporary differences in a manner that reflects these distinct tax consequences by comparing:

a. the portion of the asset's carrying amount that will be recovered under one tax regime; to

b. the tax deductions the entity will receive under that same tax regime (which are reflected in the asset's tax base).

In the fact pattern described in the request, the Committee concluded that the entity identifies both:

a. a taxable temporary difference of CU100—the entity will recover the licence's carrying amount (CU100) under the income tax regime, but will receive no tax deductions under that regime (that is, none of the tax base relates to deductions under the income tax regime); and

b. a deductible temporary difference of CU100—the entity will not recover any part of the licence's carrying amount under the capital gains tax regime, but will receive a deduction of CU100 upon expiry of the licence (that is, all of the tax base relates to deductions under the capital gains tax regime).

The entity then applies the requirements in IAS 12 considering the applicable tax law in recognising and measuring deferred tax for the identified temporary differences.

The Committee concluded that the principles and requirements in IAS 12 provide an adequate basis for an entity to recognise and measure deferred tax in the fact pattern described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Deferred Tax related to an Investment in a Subsidiary (IAS 12)

June 2020

The Committee received a request about how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary. In the fact pattern described in the request:

a. undistributed profits of the subsidiary give rise to a taxable temporary difference associated with the entity's investment in the subsidiary.

b. the entity has determined that the conditions in paragraph 39 of IAS 12 for applying the exception from recognising a deferred tax liability related to its investment in the subsidiary are not satisfied because the entity expects the subsidiary to distribute its profits (which are available for distribution) in the foreseeable future.

c. the entity and subsidiary operate in a jurisdiction in which:

    i. profits are taxable only when distributed—that is, the income tax rate applicable to undistributed profits is nil (undistributed tax rate).

    ii. a 20% tax rate applies to profit distributions (distributed tax rate). However, profit distributions made by the entity are not taxable to the extent that the subsidiary has already been taxed on that profit—that is, profit distributions are taxed only once.

The request asked whether the entity recognises a deferred tax liability for the taxable temporary difference associated with its investment in the subsidiary.

Paragraph 39 of IAS 12 requires an entity to recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, except to the extent that (a) the parent is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

In the fact pattern described in the request, there is a taxable temporary difference associated with the entity's investment in the subsidiary. The entity has also determined that the recognition exception in paragraph 39 of IAS 12 does not apply because it is probable that the temporary difference will reverse in the foreseeable future when the subsidiary distributes its undistributed profits. Accordingly, the Committee concluded that the entity recognises a deferred tax liability for that taxable temporary difference.

Paragraph 51 of IAS 12 requires an entity to reflect—in the measurement of deferred tax assets and deferred tax liabilities—'the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities'.

In the fact pattern described in the request, the entity expects to recover the carrying amount of its investment in the subsidiary through distributions of profits by the subsidiary, which would be taxed at the distributed tax rate. Accordingly, the Committee concluded that, in applying paragraph 51 of IAS 12, the entity uses the distributed tax rate to measure the deferred tax liability related to its investment in the subsidiary.

The Committee observed that, in the fact pattern described in the request, the entity does not apply paragraph 57A of IAS 12—that paragraph applies only in the context of dividends payable by the reporting entity. Further, paragraph 52A of IAS 12 does not apply to the measurement of a current or deferred tax asset or liability that itself reflects the tax consequences of a distribution of profits.

The Committee concluded that the principles and requirements in IAS 12 provide an adequate basis for an entity to account for deferred tax in the fact pattern described in the request. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

IAS 38 *Intangible Assets*

Player Transfer Payments (IAS 38)

June 2020

The Committee received a request about the recognition of player transfer payments received. In the fact pattern described in the request:

a. a football club (entity) transfers a player to another club (receiving club). When the entity recruited the player, the entity registered the player in an electronic transfer system. Registration means the player is prohibited from playing for another club, and requires the registering club to have an employment contract with the player that prevents the player from leaving the club without mutual agreement. Together the employment contract and registration in the electronic transfer system are referred to as a 'registration right'.

b. the entity had recognised costs incurred to obtain the registration right as an intangible asset applying IAS 38. As part of its ordinary activities, the entity uses and develops the player through participation in matches, and then potentially transfers the player to another club.

c. the entity and the receiving club enter into a transfer agreement under which the entity receives a transfer payment from the receiving club. The transfer payment compensates the entity for releasing the player from the employment contract before the contract ends. The registration in the electronic transfer system is not transferred to the receiving club but, legally, is extinguished when the receiving club registers the player and obtains a new right.

d. the entity derecognises its intangible asset upon the receiving club registering the player in the electronic transfer system.

The request asked whether the entity recognises the transfer payment received as revenue applying IFRS 15 *Revenue from Contracts with Customers* or, instead, recognises the gain or loss arising from the derecognition of the intangible asset in profit or loss applying IAS 38.

Recognition of transfer payment received

In the fact pattern described in the request, the entity recognised the registration right as an intangible asset applying IAS 38. Accordingly, the entity applies the derecognition requirements in IAS 38 on derecognition of that right.

Paragraph 113 of IAS 38 states that 'the gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised … Gains shall not be classified as revenue'. Applying that paragraph, the entity recognises in profit or loss, but not as revenue, the difference between the net disposal proceeds and the carrying amount of the registration right.

Does the transfer payment represent disposal proceeds?

The transfer payment arises from the transfer agreement, which requires the entity to release the player from the employment contract. The entity is therefore required to undertake some action for the right to be extinguished. Accordingly, the transfer payment compensates the entity for its action in disposing of the registration right and, thus, is part of the net disposal proceeds described in paragraph 113 of IAS 38.

The Committee concluded that, in the fact pattern described in the request, the entity recognises the transfer payment received as part of the gain or loss arising from the derecognition of the registration right applying paragraph 113 of IAS 38. In the fact pattern described in the request (in which the entity recognises the registration right as an intangible asset), the entity does not recognise the transfer payment received, or any gain arising, as revenue applying IFRS 15.

Statement of cash flows

IAS 7 *Statement of Cash Flows* lists cash receipts from sales of intangibles as an example of cash flows arising from investing activities. Accordingly, in the fact pattern described in the request, the entity presents cash receipts from transfer payments as part of investing activities.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity to determine the recognition of player transfer payments received. 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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