IFRIC® *Update*

From the IFRS® Interpretations Committee

IFRS

September 2018

Welcome to the September 2018 IFRIC *Update*

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings.

Decisions on an IFRIC Interpretation become final only after the Committee has taken a formal vote. IFRIC Interpretations require ratification by the International Accounting Standards Board (Board).

The Committee met in London on **11-12 September 2018**, and discussed:

- **Items on the current agenda**
- Customer's right to access supplier's application software (IAS 38 *Intangible Assets*)—Agenda Paper 5
- **Committee's tentative agenda decisions**
- Assessment of promised goods or services (IFRS 15 *Revenue from Contracts with Customers*)—Agenda Paper 2
- Liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 *Joint Arrangements*)—Agenda Paper 3
- Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27 *Separate Financial Statements*)—Agenda Paper 6A
- Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*)—Agenda Paper 6B
- Deposits relating to taxes other than income tax (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Papers 7-7A
- Application of the highly probable requirement in a cash flow hedge relationship (IFRS 9 *Financial Instruments* and IAS 39 *Financial instruments: Recognition and measurement*)—Agenda Paper 12
- **Committee's agenda decisions**
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- Borrowing costs on land (IAS 23 *Borrowing Costs*)—Agenda Paper 9B
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Next IFRS Interpretations Committee meeting

The next meeting will be held on:

27–28 November 2018

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IFRS **website** before the meeting. Further information about the activities of the IFRS Interpretations Committee and instructions for submitting requests to it can be found **here**.

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Items on the current agenda

Customer's right to access supplier's application software (IAS 38 *Intangible Assets*)—Agenda Paper 5

The Committee received a request about a customer's accounting in Software as a Service cloud computing (SaaS) arrangements. Specifically, the request asked how a customer applies IAS 38 and IFRS 16 *Leases* in accounting for fees paid to access the supplier's application software running on the supplier's cloud infrastructure. In these arrangements, the customer accesses the software on an as-needed basis over the internet or via a dedicated line.

Next steps

The Committee will continue its discussion at a future meeting.

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add them to its standard-setting agenda. The Committee will reconsider these tentative decisions, including the reasons for not adding the items to its standard-setting agenda, at a future meeting. The Committee encourages interested parties to submit their responses on the open for comment page by 21 November 2018. The Committee will place all such correspondence on the public record unless a responder specifically requests that its response should remain confidential. Such requests must be made for a good reason, for example, commercial confidentiality.

Assessment of promised goods or services (IFRS 15 *Revenue from Contracts with Customers*)—Agenda Paper 2

The Committee received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing as well as an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.

Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:

a) a good or service (or a bundle of goods or services) that is distinct; or

b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In paragraph BC87 of IFRS 15, the International Accounting Standards Board (Board) noted that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.

Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.

Accordingly, the Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.

Application of IFRS 15 to the fact pattern in the request

The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the facts and circumstances of the contract. Accordingly, the outcome of an entity's assessment depends on those facts and circumstances.

In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, including:

- *assessing internal risk and performing due diligence for new applications;*
- *submitting high-risk applications to the appropriate committee for assessment and approval;*
- *reviewing issuers' listing application forms, including checking all relevant documentation is correctly in place;*
- *issuing reference numbers and tickers for the new security;*
- *circulating data sync files to institutions to allow the security to be traded once admitted;*
- *processing of the listing and admission to the market;*
- *publishing of the security on the order book; and*
- *issuing of dealing notice on the admission date.*

The Committee observed that the activities performed by the entity at or near contract inception are required to successfully transfer the goods or services for which the customer has contracted—ie the service of being listed on the exchange. However, the performance of those activities by the entity does not transfer a service to the customer.

The Committee also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.

Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 *Joint Arrangements*)—Agenda Paper 3

The Committee received a request about the recognition of liabilities by a joint operator in relation to its interest in a joint operation (as defined in IFRS 11). In the fact pattern described in the request, the joint operation is not structured through a separate vehicle. One of the joint operators, as the sole signatory, enters into a lease contract with a third-party lessor for an item of property, plant and equipment that will be operated jointly as part of the joint operation's activities. The joint operator that signed the lease contract (hereafter, lead operator) has the right to recover a share of the lease costs from the other joint operators in accordance with the contractual arrangement to the joint operation.

The request asked about the recognition of liabilities by the lead operator.

In relation to its interest in a joint operation, paragraph 20(b) of IFRS 11 requires a joint operator to recognise its liabilities, including its share of any liabilities incurred jointly. Accordingly, a joint operator identifies and recognises both (a) liabilities it incurs in relation to its interest in the joint operation, and (b) its share of any liabilities incurred jointly with other parties to the joint arrangement.

Identifying the liabilities that a joint operator incurs and those incurred jointly requires an assessment of the terms and conditions in all contractual agreements that relate to the joint operation, including consideration of the laws pertaining to those agreements.

The Committee observed that the liabilities a joint operator recognises include those for which it has primary responsibility.

The Committee highlighted the importance of disclosing information about joint operations that is sufficient for a user of financial statements to understand the activities of the joint operation and a joint operator's interest in that operation. The Committee noted that, applying paragraph 20(a) of IFRS 12 *Disclosure of Interests in Other Entities*, a joint operator is required to disclose information that enables users of its financial statements to evaluate the nature, extent and financial effects of its interests in a joint operation, including the nature and effects of its contractual relationship with the other investors with joint control of that joint operation.

The Committee concluded that the requirements in existing IFRS Standards provide an adequate basis for the lead operator to identify and recognise its liabilities in relation to its interest in a joint operation. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27 *Separate Financial Statements*)—Agenda Paper 6A

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.

- holds an initial investment in a subsidiary (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation.*

- subsequently disposes of part of its investment and loses control of the investee. After the disposal, the entity has neither joint control of, nor significant influence over, the investee.

The request asked whether:

(a) the investment retained (retained interest) is eligible for the presentation election in paragraph 4.1.4 of IFRS 9 *Financial Instruments*. That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income (OCI) (Question A).

(b) the entity presents in profit or loss or OCI any difference between the cost of the retained interest and its fair value on the date of losing control of the investee (Question B).

Question A

Paragraph 9 of IAS 27 requires an entity to apply all applicable IFRS Standards in its separate financial statements, except when accounting for investments in subsidiaries, associates and joint ventures. After the partial disposal transaction, the investee is not a subsidiary, associate or joint venture of the entity. Accordingly, the entity applies IFRS 9 for the first time in accounting for its retained interest in the investee. The Committee observed that the presentation election in paragraph 4.1.4 of IFRS 9 applies at initial recognition of an investment in an equity instrument. An investment in an equity instrument within the scope of IFRS 9 is eligible for the election if it is neither held for trading (as defined in Appendix A of IFRS 9) nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In the fact pattern described in the request, assuming the retained interest is not held for trading, the Committee concluded that (i) the retained interest is eligible for the presentation election in paragraph 4.1.4 of IFRS 9, and (ii) the entity would make this presentation election when it first applies IFRS 9 to the retained interest (ie at the date of losing control of the investee).

Question B

IAS 27 does not explicitly specify how, in its separate financial statements, an entity recognises any difference between the cost of the retained interest and its fair value on the date the entity loses control of a subsidiary. In such circumstances, the entity applies the requirements in paragraphs 10-11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy. The entity's management refers to, and considers the applicability of, requirements in other IFRS Standards dealing with similar and related issues. The Committee observed that paragraph 22(b) of IAS 28 *Investments in Associates and Joint Ventures* and paragraph 11B of IAS 27 deal with similar and related issues. Based on its analysis of those requirements, the Committee concluded that the entity recognises this difference in profit or loss. This is the case regardless of whether the entity presents subsequent changes in the fair value of the retained interest in profit or loss or OCI.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for a partial disposal transaction in its separate financial statements.

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

Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*)—Agenda Paper 6B

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.

- holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 *Financial Instruments* in accounting for its initial investment (initial interest).

- subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee—ie the investee becomes a subsidiary of the entity.

The request asked:

(a) whether the entity determines the cost of its investment in the subsidiary as the sum of:

(i) the fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or

(ii) the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A).

(b) how the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B).

Question A

IAS 27 does not define 'cost', nor does it explicitly specify how an entity determines the cost of an investment acquired in stages. The Committee noted that cost is defined in other IFRS Standards (for example, paragraph 6 of IAS 16 *Property Plant and Equipment*, paragraph 8 of IAS 38 *Intangible Assets* and paragraph 5 of IAS 40 *Investment Property*). The Committee observed that the two approaches outlined in the request arise from different views of whether the step acquisition transaction involves (i) the entity exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee, or (ii) purchasing the additional interest while retaining the initial interest.

Based on its analysis, the Committee concluded that a reasonable reading of requirements in IFRS Standards could result in the application of either one of the two approaches outlined in this agenda decision (ie fair value as deemed cost approach or accumulated cost approach).

The Committee observed that an entity would apply its reading of the requirements consistently to all step acquisition transactions. An entity would also disclose the selected approach applying paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* if that disclosure would assist users of financial statements in understanding how step acquisition transactions are reflected in reporting financial performance and financial position.

Question B

IFRS Standards do not explicitly specify how an entity applying the accumulated cost approach accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration. In these circumstances, an entity applies the requirements in paragraphs 10-11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy. The Committee observed that such a difference meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Applying paragraph 88 of IAS 1, the Committee concluded that the entity recognises this difference as income or expense in profit or loss, regardless of whether, before obtaining control, the entity had presented subsequent changes in fair value of the initial interest in profit or loss or OCI.

For Question A, the Committee considered whether to develop a narrow-scope amendment to address how an entity determines the cost of an investment acquired in stages. The Committee observed that:

(a) it did not have evidence to assess whether the application of the two acceptable approaches to determining cost, outlined in this [tentative] agenda decision, would have a material effect on those affected.

(b) the matter could not be resolved without also considering the requirements in paragraph 10 of IAS 28 to initially measure an investment in an associate or joint venture at cost. The Committee has not obtained information to suggest that the Board should reconsider this aspect of IAS 28 at this stage, rather than as part of its wider consideration of IAS 28 within its research project on the Equity Method.

On balance, the Committee [decided] not to undertake standard-setting to address Question A. Nonetheless, Committee members expressed their preference for the fair value as deemed cost approach. This is because, in their view, the accumulated cost approach would not provide useful information to users of financial statements. Committee members' views will be reported to the Board at a future Board meeting.

For Question B, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting.

Consequently, the Committee [decided] not to add these matters to its standard-setting agenda.

Deposits relating to taxes other than income tax (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 7–7A

The Committee received a request about how to account for deposits of taxes that are outside the scope of IAS 12 *Income Taxes* (ie deposits of taxes other than income tax). In the fact pattern described in the request, an entity and a tax authority dispute whether the entity is required to pay the tax. The tax is not an income tax, so it is not within the scope of IAS 12. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37*.* Taking account of all available evidence, the preparer of the entity's financial statements judges it probable that the entity will not be required to pay the tax—it is more likely than not that the dispute will be resolved in the entity's favour. Applying IAS 37, the entity discloses a contingent liability and does not recognise a liability. To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will either refund the tax deposit to the entity (if the dispute is resolved in the entity's favour) or use the deposit to settle the entity's liability (if the dispute is resolved in the tax authority's favour).

Whether the tax deposit gives rise to an asset, a contingent asset or neither

The Committee observed that if the tax deposit gives rise to an asset, that asset may not be clearly within the scope of any IFRS Standard. Furthermore, the Committee concluded that no IFRS Standard deals with issues similar or related to the issue that arises in assessing whether the right arising from the tax deposit meets the definition of an asset. Accordingly, applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Committee referred to the two definitions of an asset in IFRS literature—the definition in the *Conceptual Framework for Financial Reporting* issued in March 2018 and the definition in the previous *Conceptual Framework* that was in place when many existing IFRS Standards were developed. The Committee concluded that the right arising from the tax deposit meets either of those definitions. The tax deposit gives the entity a right to obtain future economic benefits, either by receiving a cash refund or by using the payment to settle the tax liability. The nature of the tax deposit—whether voluntary or required—does not affect this right and therefore does not affect the conclusion that there is an asset. The right is not a contingent asset as defined by IAS 37 because it is an asset, and not a possible asset, of the entity.

Consequently, the Committee concluded that in the fact pattern described in the request the entity has an asset when it makes the tax deposit to the tax authority.

Recognising, measuring, presenting and disclosing the tax deposit

In the absence of a Standard that specifically applies to the asset, an entity applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy for the asset. The entity's management uses its judgement in developing and applying a policy that results in information that is relevant to the economic decision-making needs of users of financial statements and reliable. The Committee noted that the issues that need to be addressed in developing and applying an accounting policy for the tax deposit may be similar or related to those that arise for the recognition, measurement, presentation and disclosure of other monetary assets. If this is the case, the entity's management would refer to requirements in IFRS Standards dealing with those issues for other monetary assets.

The Committee concluded that the requirements in IFRS Standards and concepts in the *Conceptual Framework for Financial Reporting* provide an adequate basis for an entity to account for deposits relating to taxes other than income tax. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Application of the highly probable requirement in a cash flow hedge relationship (IFRS 9 *Financial Instrument*s and IAS 39 *Financial instruments: Recognition and measurement*)—Agenda Paper 12

The Committee received a request about the requirement in IFRS 9 and IAS 39 that a forecast transaction must be 'highly probable' to qualify as a hedged item in a cash flow hedge relationship. The request asked how an entity applies that requirement when the notional amount of the derivative designated as a hedging instrument ('load following swap') varies depending on the outcome of the hedged item (forecast energy sales). In addition, the request asked whether, when assessing or measuring hedge effectiveness, the hedged item must be fixed (in volume terms) at the inception of the hedging relationship, and whether the answers to these questions depend on whether the entity applies IAS 39 or IFRS 9.

The responses to outreach performed on the request and those received in comment letters confirmed that the financial instrument described in the request is not common. The comment letters also confirmed the views expressed by some Committee members that the request relates to the broader matter of how uncertainty over the timing and magnitude of a forecast transaction affects the highly probable assessment applying IAS 39 and IFRS 9.

The Committee observed that, when assessing whether a forecast transaction (in the request, the forecast energy sales) is highly probable, an entity considers uncertainty over both the timing and magnitude of the forecast transaction (paragraphs F.3.7 and F.3.11 of the Implementation Guidance accompanying IAS 39). In addition, the Committee observed that the terms of the hedging instrument (in the request, the load following swap) do not affect this assessment because the highly probable requirement is applicable to the hedged item.

The Committee also observed that, for hedge accounting purposes, the entity must document the forecast energy sales with sufficient specificity in terms of magnitude and timing so that when such transactions occur the entity can identify whether the transaction is the hedged transaction. Consequently, the forecast energy sales cannot be specified solely as a percentage of sales during a period because that would lack the required specificity (paragraphs F.3.10 and F.3.11 of the Implementation Guidance accompanying IAS 39).

The Committee noted that the highly probable requirement in IFRS 9 is not new; IAS 39 includes the same requirement. Although the Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39, paragraph BC6.95 of IFRS 9 explains that not carrying forward the Implementation Guidance did not mean that the Board had rejected that guidance.

The Committee concluded that the requirements in IAS 39 and IFRS 9 provide an adequate basis for an entity to determine whether a forecast transaction is highly probable.

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

Committee's agenda decisions

Expenditures on a qualifying asset (IAS 23 *Borrowing Costs*)—Agenda Paper 9A

The Committee received a request about the amount of borrowing costs eligible for capitalisation when an entity uses general borrowings to obtain a qualifying asset.

In the fact pattern described in the request:

(a) an entity constructs a qualifying asset;

(b) the entity has no borrowings at the start of the construction of the qualifying asset. Partway through construction, it borrows funds generally and uses them to finance the construction of the qualifying asset; and

(c) the entity incurs expenditures on the qualifying asset both before and after it incurs borrowing costs on the general borrowings.

The request asked whether an entity includes expenditures on a qualifying asset incurred before obtaining general borrowings in determining the amount of borrowing costs eligible for capitalisation.

The Committee observed that an entity applies paragraph 17 of IAS 23 to determine the commencement date for capitalising borrowing costs. The paragraph requires an entity to begin capitalising borrowing costs when it meets all the following conditions:

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Applying paragraph 17 of IAS 23 to the fact pattern described in the request, the entity would not begin capitalising borrowing costs until it incurs borrowing costs.

Once the entity incurs borrowing costs and therefore satisfies all three conditions in paragraph 17 of IAS 23, it then applies paragraph 14 of IAS 23 to determine the expenditures on the qualifying asset to which it applies the capitalisation rate. The Committee observed that in doing so the entity does not disregard expenditures on the qualifying asset incurred before it obtains the general borrowings.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the amount of borrowing costs eligible for capitalisation in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Borrowing costs on land (IAS 23 *Borrowing Costs*)—Agenda Paper 9B

The Committee received a request about when an entity ceases capitalising borrowing costs on land.

In the fact pattern described in the request:

(a) an entity acquires and develops land and thereafter constructs a building on that land—the land represents the area on which the building will be constructed;

(b) both the land and the building meet the definition of a qualifying asset; and

(c) the entity uses general borrowings to fund the expenditures on the land and construction of the building.

The request asked whether the entity ceases capitalising borrowing costs incurred in respect of expenditures on the land (land expenditures) once it starts constructing the building or whether it continues to capitalise borrowing costs incurred in respect of land expenditures while it constructs the building.

The Committee observed that in applying IAS 23 to determine when to cease capitalising borrowing costs incurred on land expenditures:

(a) an entity considers the intended use of the land. Land and buildings are used for owner-occupation (recognised as property, plant and equipment applying IAS 16 *Property, Plant and Equipment*); rent or capital appreciation (recognised as investment property applying IAS 40 *Investment Property*); or for sale (recognised as inventory applying IAS 2 *Inventories*). The intended use of the land is not simply for the construction of a building on the land, but rather to use it for one of these three purposes.

(b) applying paragraph 24 of IAS 23, an entity considers whether the land is capable of being used for its intended purpose while construction continues on the building. If the land is not capable of being used for its intended purpose while construction continues on the building, the entity considers the land and building together to assess when to cease capitalising borrowing costs on the land expenditures. In this situation, the land would not be ready for its intended use or sale until substantially all the activities necessary to prepare both the land and building for that intended use or sale are complete.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to cease capitalising borrowing costs on land expenditures. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*)—Agenda Paper 10

The Committee considered the determination of the exchange rate an entity uses to translate the results and financial position of a foreign operation into its presentation currency applying IAS 21. The Committee considered this matter in the following circumstances:

(a) the exchangeability of the foreign operation's functional currency with other currencies is administered by jurisdictional authorities. This exchange mechanism incorporates the use of an exchange rate(s) set by the authorities (official exchange rate(s)).

(b) the foreign operation's functional currency is subject to a long-term lack of exchangeability with other currencies—ie the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21; it has not been restored after the end of the reporting period.

(c) the lack of exchangeability with other currencies has resulted in the foreign operation being unable to access foreign currencies using the exchange mechanism described in (a) above.

The Committee observed that those circumstances currently exist in Venezuela.

The Committee discussed whether, in those circumstances, an entity is required to use an official exchange rate(s) in applying IAS 21.

The Committee observed that an entity translates the results and financial position of a foreign operation into its presentation currency applying the requirements in paragraphs 39 and 42 of IAS 21. Those paragraphs require an entity to translate:

(a) the assets and liabilities of the foreign operation at the closing rate; and

(b) income and expenses of the foreign operation at the exchange rates at the dates of the transactions if the functional currency of the foreign operation is not the currency of a hyperinflationary economy, or otherwise at the closing rate.

The closing rate and the rates at the dates of the transactions

Paragraph 8 of IAS 21 defines (a) the 'closing rate' as the spot exchange rate at the end of the reporting period; and (b) the 'spot exchange rate' as the exchange rate for immediate delivery. In the light of those definitions, the Committee concluded that the closing rate is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism.

Accordingly, the Committee observed that in the circumstances described above an entity assesses whether the official exchange rate(s) meets the definition of the closing rate—ie is it the rate to which the entity would have access at the end of the reporting period? Similarly, if the foreign operation's functional currency is not the currency of a hyperinflationary economy, the entity also assesses whether the official exchange rate(s) represents the exchange rates at the dates of the transactions in applying paragraph 39(b) of IAS 21.

Continuous assessment of facts and circumstances

In the circumstances described above, economic conditions are in general constantly evolving. Therefore, the Committee highlighted the importance of reassessing at each reporting date whether the official exchange rate(s) meets the definition of the closing rate and, if applicable, the exchange rates at the dates of the transactions.

Disclosure requirements

An entity is required to provide information that is relevant to an understanding of an entity's financial statements (paragraph 112 of IAS 1 *Presentation of Financial Statements*). The Committee highlighted the importance of disclosing relevant information in the circumstances described above. In particular, the Committee observed that the following disclosure requirements may be relevant to an understanding of an entity's financial statements:

(a) significant accounting policies, and judgements made in applying those policies that have the most significant effect on the amounts recognised in the financial statements (paragraphs 117–124 of IAS 1);

(b) sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include sensitivity analysis (paragraphs 125–133 of IAS 1); and

(c) the nature and extent of significant restrictions on an entity's ability to access or use assets and settle liabilities of the group, or in relation to its joint ventures or associates (paragraphs 10, 13, 20 and 22 of IFRS 12 *Disclosures of Interests in Other Entities*).

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to assess whether, in the circumstances described above, it uses the official exchange rate(s) to translate into its presentation currency the results and financial position of a foreign operation. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

Research

In addition to publishing the agenda decision above, at its June 2018 meeting the Committee decided to research possible narrow-scope standard-setting aimed at addressing the exchange rate a reporting entity uses when the spot exchange rate (as defined in IAS 21) is not observable. The Committee will discuss this matter at a future meeting.

Classification of a particular type of dual currency bond (IFRS 9 *Financial Instruments*)—Agenda Paper 11

The Committee received a request about how a holder would classify a particular financial asset applying IFRS 9. The submitter described a 'dual currency bond' with a par amount denominated in one currency and fixed interest coupon payments denominated in another currency. The fixed interest payments are paid annually and the par amount is repaid at a stated maturity date. The submitter asked whether such a financial instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding applying paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9.

On the basis of the responses to outreach performed on the request and those received in comment letters, the Committee observed that the financial instrument described in the request is not common. Therefore, the Committee has not obtained evidence that the matter has widespread effect.

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

Other matters

Cryptocurrencies—Agenda Papers 4–4C

The Committee discussed how an entity might apply existing IFRS Standards in determining its accounting for holdings of cryptocurrencies and Initial Coin Offerings.

The Committee also provided advice to the Board about (i) the usefulness of information provided by existing IFRS Standards in relation to holdings of cryptocurrencies and, (ii) possible standard-setting activities the Board could undertake.

The Board will consider the Committee's advice when it discusses the matter at a future meeting.

Accounting policies and accounting estimates (IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)—Agenda Paper 8

The Committee provided advice on the staff's analysis of feedback on, and next steps for, the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8).

The Board will consider the Committee's advice when it discusses the matter at a future meeting.

Committee work in progress—Agenda Paper 13

The Committee received a report on three requests for consideration at a future meeting. In addition, the Committee was informed of one ongoing matter. The Committee will discuss each of these at a future meeting.

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