

Staff Issues Paper International Projects

Purpose

- 1 The purpose of this agenda paper is to update the Board on recent international standard-setting activities since last reported on 12 May 2015 (see Agenda Paper 13.1).
- 2 Staff consider the below issues, in relation to rate-regulated activities and IAS 16 *Property, Plant and Equipment*, warrant noting to the Board.

IASB – Rate-regulated Activities (see Agenda Paper 13.3C)

- 3 The IASB met on 18-20 May 2015 and discussed the Discussion Paper (DP) on Rate-regulated Activities. The IASB decided the fastest way to progress with the project would be to develop a second DP. The AASB did not support the approach exposed in the first DP.¹

Interpretations Committee – Accounting for net proceeds and costs of testing for property, plant and equipment (see Agenda Paper 13.4B)

- 4 The Interpretations Committee (Committee) met on 12 May 2015 and discussed the treatment of net proceeds from sales in excess of the costs of testing an item of property, plant and equipment (PPE) in IAS 16.

Background

- 5 In July 2014,² the Committee tentatively decided the requirements in IAS 16 were clear in that any excess of net proceeds over the costs of testing should be recognised in profit and loss.
- 6 In its comment letter to the Committee in September 2014,³ the AASB disagreed with the Committee's tentative agenda decision, noting that the requirements in IAS 16 do not clearly read as a credit to profit or loss.⁴ Accordingly, the AASB recommended the Committee add the issue to its agenda.

May 2015 meeting

- 7 At its May meeting,⁵ the Committee tentatively decided to develop an interpretation on the meaning of 'functioning properly' in paragraph 17(e) of IAS 16. The

1 http://www.aasb.gov.au/admin/file/content102/c3/M143_A8_AASB_Submission_IASB_Rate-Regulation_DP_02-15_Tabled.pdf

2 <http://media.ifrs.org/2014/IFRIC/July/IFRIC-Update-July-2014.html#M>

3 http://www.aasb.gov.au/admin/file/content102/c3/AASB_Comment_Letter_on_IFRIC_TADs_PPE_09-14.pdf

4 Evident from the discussion by Committee members and the results of the Committee's outreach activities indicating that practice predominantly made a credit to the asset.

5 <http://media.ifrs.org/2015/IFRIC/May/IFRIC-Update-May.pdf>

Committee decided that the net proceeds from sales in excess of the costs of testing an item of PPE would result in a credit to the asset.⁶

- 8 In addition to developing an interpretation on the meaning of ‘functioning properly’, the Committee tentatively decided to develop guidance on disclosures within that interpretation.

Staff view

- 9 Staff agree with the Committee in that paragraph 17(e) of IAS 16 requires the excess of net proceeds from sales over the costs of testing to be credited to the asset.
- 10 In relation to diversity in practice when determining when testing an item of PPE has ceased, staff agree that developing an interpretation on the meaning of ‘functioning properly’ might reduce diversity in practice, which is particularly relevant for determining when PPE is initially subject to depreciation.
- 11 Staff also agree with developing guidance on disclosures within that interpretation, as opposed to developing specific disclosures within IAS 16, particularly due to the IASB’s ongoing review of existing disclosures within IFRS.
- 12 Staff would have preferred that the IFRIC Update explicitly state the appropriate treatment of the excess of net proceeds as this was the specific issue that the submitter sought clarification on. However, staff do not consider the issue warrants raising to the Committee at this stage.

Question to Board Members:

- Q1 Do Board members agree with the staff recommendation **not** to write to the Committee at this stage?

6 While the IFRIC Update does not explicitly note this, it is inferred through the tentative decision to provide guidance on disclosures of amounts credited to the asset.