



European Securities and
Markets Authority

Report

22nd Extract from the EECS's Database of Enforcement

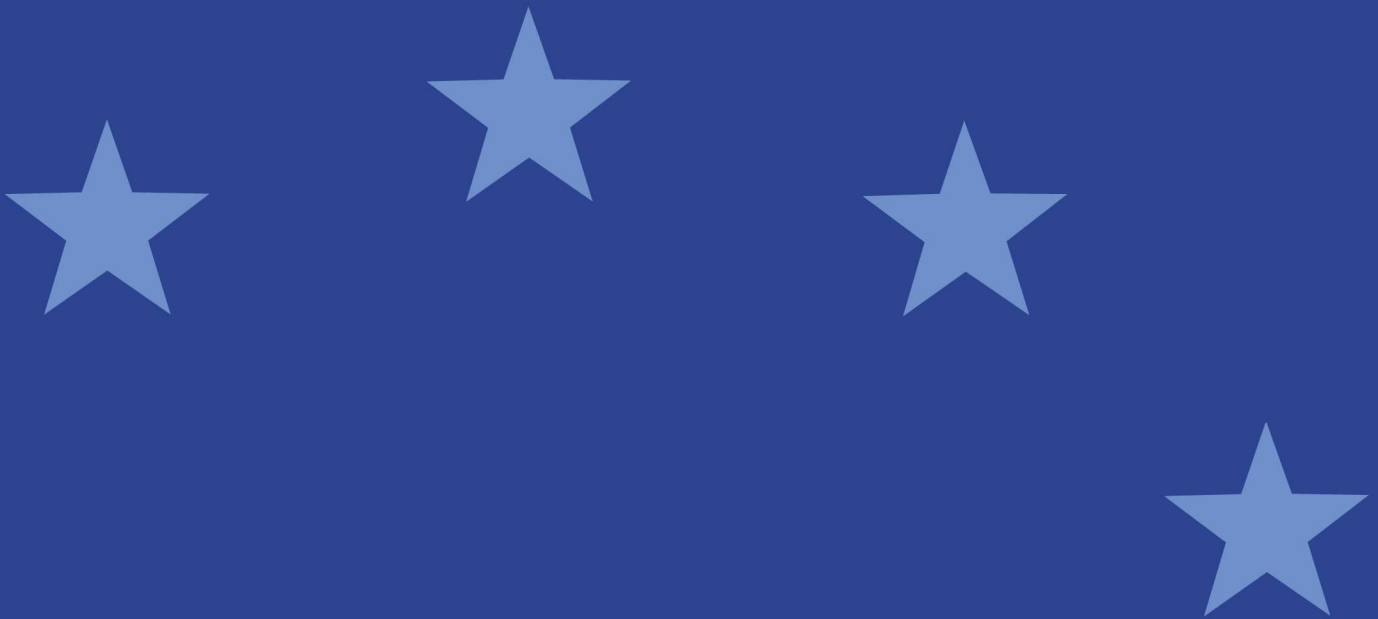


Table of Contents

I.	Decision ref EECS/0118-01 – Classification of an asset that is not expected to be sold within one year	3
II.	Decision ref EECS/0118-02 – Presentation and disclosure of restricted cash balances	4
III.	Decision ref EECS/0118-03 – Perpetual notes classified as liabilities	5
IV.	Decision ref EECS/0118-04 – Disclosure of quantitative commodity price assumptions that have significant risk of resulting in material adjustments to carrying amounts	6
V.	Decision ref EECS/0118-05 – Purchase price allocation of a group of acquired assets	7
VI.	Decision ref EECS/0118-06 – Demerger and distribution of a segment to the issuer’s shareholders	9
VII.	Decision ref EECS/0118-07 – Presentation of revaluation losses of assets used in operating activities	10
VIII.	Decision ref EECS/0118-08 – Obtaining power over an investee following a tender offer	11
IX.	Decision ref EECS/0118-09 – Lack of foreign currency exchangeability and hyperinflation .	12
X.	Decision ref EECS/0118-10 – Amortisation of content rights for films and television programmes	14

The decisions included in this extract were taken by national enforcers in the period from August 2016 to July 2017. ESMA will continue publishing further extracts from the database on a regular basis.

List of abbreviations and acronyms used in this report

BC	Basis for Conclusions
CU	Currency Unit
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
ESMA	European Securities and Markets Authority
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretation Committee Interpretation
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretation Committee
SFAS	Statement of Financial Accounting Standards
US GAAP	United States Generally Accepted Accounting Principles
VEF	Venezuelan Bolivar Fuerte

The European Securities and Markets Authority (ESMA) is publishing extracts from its confidential database of enforcement decisions on financial statements, with the aim of strengthening supervisory convergence and providing issuers and users of financial statements with relevant information on the appropriate application of the International Financial Reporting Standards (IFRS).

According to its founding regulation, ESMA shall act in the field of financial reporting to ensure the effective and consistent application of European Securities and Markets legislation. In order to fulfil these responsibilities, ESMA organises the European Enforcers Coordination Sessions (EECS), a forum of 41 European enforcers from 28 Member States and 2 countries in the European Economic Area (EEA) with responsibilities in the area of supervision and enforcement of financial information.

With responsibility for the coordination of supervision of approximately 6,000 issuers listed on European regulated markets preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS. Through EECS, European enforcers discuss and share their experience on the application and enforcement of IFRS. In particular, they discuss significant enforcement cases before and/or after decisions are taken in order to promote a consistent approach to the application of IFRS. In addition, EECS produces technical advice on the issuance of ESMA Statements and opinions on accounting matters which deserve specific focus. It also reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and changes in those practices.

In taking enforcement decisions, European enforcers apply their judgement, knowledge and experience to the circumstances of the cases that they consider. Relevant factors may include other areas of national law beyond the accounting requirements. Interested parties should therefore consider carefully the circumstances when reading the cases. As IFRS are principles based, there can be no one particular way of dealing with numerous situations which may seem similar but in substance are different. Decisions taken by enforcers do not provide generally applicable interpretations of IFRS; this remains the role of the IFRS Interpretations Committee (IFRS IC). The decisions published in each extract are based on the IFRS requirements valid at the time of the IFRS financial statements and may be superseded by future developments in IFRS.

The publication of selected enforcement decisions informs market participants about which accounting treatments European enforcers may consider as complying with IFRS; i.e. whether the treatments considered are within the accepted range of those permitted by IFRS. Such publication, together with the rationale behind the decisions, will contribute to a consistent application of IFRS in the EEA.

In accordance with the provisions of the ESMA Guidelines on the enforcement of financial information, cases submitted to the enforcement database are considered to be appropriate for publication if they fulfil one or more of the following criteria:

- The decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS;
 - The decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties;
 - The decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences;
 - The decision has been taken on the basis of a provision not covered by an accounting standard.
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I. Decision ref EECS/0118-01 – Classification of an asset that is not expected to be sold within one year

Financial year end: 31 Dec 2015

Category of issue: Classification as non-current assets held for sale

Standards or requirements involved: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Description of the issuer's accounting treatment

1. The issuer is a football club, which has entered in 2015 into a firm sale commitment regarding a grandstand of the football stadium in which the team plays its home games. The acquirer already owns the rest of the stadium and the sale is to take place in 2017. From 2017, the football team will play in a new stadium in a different location owned by the acquirer.
2. In its financial statements for 2015, the issuer classified the grandstand as a non-current asset held for sale. The issuer refers to paragraph 6 of IFRS 5, which states that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The issuer is aware that paragraph 8 of IFRS 5 contains a condition that in order to qualify as a non-current asset held for sale, the sale of the asset should be expected to be completed within a year from the date of classification. However, the issuer considered that this was not an absolute condition to be fulfilled in every case, but rather that it was a factor to be considered in determining whether a sale is probable. In the issuer's view, the firm purchase commitment by itself makes the sale already probable. Therefore, the one-year condition in paragraph 8 of IFRS 5 would not be relevant.

The enforcement decision

3. The enforcer did not agree with the issuer. In order for an asset to be classified as a non-current asset held for sale, the sale has to be expected to be completed within one year from the date of classification, except in cases permitted by paragraph 9 of IFRS 5. As, in the case at hand, the sale will only be completed after more than a year, it was not appropriate to classify the grandstand as a non-current asset held for sale.

Rationale for the enforcement decision

4. According to paragraph 8 of IFRS 5, in order for an asset to be classified as a non-current asset held for sale, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. The standard only foresees an exemption to this rule if the sale is delayed by events or circumstances that are beyond the entity's control, which is not the case in this instance.
5. The enforcer noted that, according to paragraph BC85 of IFRS 5, the criteria for classification as held for sale are fully converged to the US-GAAP's Statement of Financial Accounting Standards No. 144 (SFAS 144) *Accounting for the Impairment or Disposal of Long-Lived Assets*. Paragraph 30d of SFAS 144, which mirrors paragraph 8 of IFRS 5, sets out the

condition in the following words: *'the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale, within one year'*. It is thus clear that the one-year condition has to be fulfilled in every case.

II. Decision ref EECS/0118-02 – Presentation and disclosure of restricted cash balances

Financial year end: 31 December 2016

Category of issue: Restricted cash; Cash and cash equivalents

Standards or requirements involved: IAS 7 *Statement of Cash Flows*

Description of the issuer's accounting treatment

6. Subsidiary A of the issuer issued perpetual notes. The issuer faced liquidity issues. One of the provisions of the financing agreement was that the subsidiary maintains a CU 30 million minimum cash balance continuously until the perpetual notes are fully redeemed. This minimum cash balance has to be deposited with an authorised deposit taking institution. If the balance on the relevant bank account falls below CU 30 million, subsidiary A is obliged to notify a breach of contract, which triggers certain penalties (e.g. that it is prevented from issuing further notes and separate enforcement actions including indemnities and claims). Moreover, if, at the end of any given month, the issuer is not in compliance with the minimum cash balance clause, this constitutes an early redemption event, except where the issuer remedies the situation within 7 days.
7. In its consolidated statement of financial position, the issuer presented the minimum cash balance within the line item 'cash and cash equivalents'. Moreover, the issuer did not provide any disclosures regarding the restrictions associated with the minimum cash balance.

The enforcement decision

8. The enforcer did not agree with this accounting treatment. The issuer has to provide disclosures about the obligation to maintain a minimum cash balance. Furthermore, the minimum cash balance is ineligible for inclusion in the line item 'cash and cash equivalents' and should either be presented on a separate line or within another line of similar nature (e.g. other financial assets).

Rationale for the enforcement decision

9. According to paragraph 48 of IAS 7, an entity must disclose the amount of significant cash and cash equivalents that are not available for use by the group. Furthermore, regardless of whether or not the minimum cash balance can be classified as cash and cash equivalents, in line with paragraph 31 of IFRS 7, the entity has to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments. In this respect the issuer has to provide information about liquidity restrictions imposed by the obligation to maintain a minimum cash balance.

10. Moreover, the enforcer concluded that, according to paragraph 7 of IAS 7, the issuer should have assessed whether the minimum cash balance was available to meet short-term cash commitments. In the case at hand, the contractual provisions of the perpetual notes oblige subsidiary A to maintain a minimum cash balance continuously until the notes are fully redeemed. Therefore, the minimum cash balance is not available to meet short-term commitments and thus is ineligible to be included in the line item 'cash and cash equivalents'.

III. Decision ref EECS/0118-03 – Perpetual notes classified as liabilities

Financial year end: 31 December 2016

Category of issue: Perpetual notes; Classification as equity or liability

Standards or requirements involved: IAS 32 *Financial Instruments: Presentation*

Description of the issuer's accounting treatment

11. This decision also relates to the perpetual notes issued by subsidiary A, discussed in decision EECS/0118-02. These notes have a notional repayment schedule, according to which they should be repaid by 2021. However, subsidiary A has the ability to defer any and all of those payments. In that case, the unpaid amounts are capitalised and added to the redemption amount of the perpetual notes. The contractual provisions of the perpetual notes contain a number of clauses to guarantee that subsidiary A is funded to meet its obligations.
12. In addition to the requirement to keep a cash balance as mentioned in decision EECS/0118-02 the terms of the perpetual notes also foresee that each time subsidiary A defers a scheduled payment on the perpetual notes, the beneficiaries have the ability to trigger a liquidity facility. This liquidity facility is a requirement for the issuer to transfer cash into subsidiary A up to the amount of the accumulated deferred payments with a cap at CU 75 million. If the liquidity facility is triggered, all proceeds of the facility can be used by subsidiary A in any manner it sees fit. However, if subsidiary A uses the facility for purposes other than making payments on the perpetual notes, the facility can be triggered again on the next payment date (i.e. six months later) in relation to any remaining accumulated deferred repayments at that date. Moreover, the terms of the perpetual notes also include a requirement for the issuer to fund subsidiary A in order to cover unbudgeted payment obligations. This is the case, for example, if subsidiary A incurs a liability to pay unforeseen tax liabilities. The purpose of these clauses is to ensure that subsidiary A has sufficient funds to meet any unforeseen obligations so that they do not jeopardise subsidiary A's development projects.
13. The terms of the agreement also include a number of early redemption events. In the event of an early redemption event, the holders of the perpetual notes can require subsidiary A to redeem the notes. The early redemption events include the failure of the issuer or its group companies to make payments to subsidiary A, if required to satisfy the above mentioned unbudgeted payment obligations or the liquidity facility obligations.
14. The issuer classified the perpetual notes as equity and provided very limited disclosures around them.

The enforcement decision

15. The enforcer did not agree with the classification of the perpetual notes, as equity as the occurrence of the early redemption events is not entirely under the control of the issuer.

Rationale for the enforcement decision

16. According to paragraph 25 of IAS 32, the issuer of a financial instrument that requires an entity to deliver cash in the event of the occurrence or non-occurrence of certain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder of the instrument does not have the unconditional right to avoid delivering cash. Therefore, such an instrument would be a financial liability except in the cases listed in subparagraphs a to c of paragraph 25 of IAS 32, which do not apply to this case.
17. The enforcer concluded that due to the terms and conditions of the perpetual notes, the issuer is not fully in control of events or circumstances to avoid early redemption of the perpetual loans. In case of events triggering payments for unbudgeted payment obligations or liquidity obligations the issuer has to provide subsidiary A with a predetermined amount of liquidity. Neither the occurrence of events that trigger such payments nor the availability of sufficient liquidity that can be transferred to subsidiary A are fully under the control of the issuer, especially considering the liquidity problems of the issuer.

IV. Decision ref EECS/0118-04 – Disclosure of quantitative commodity price assumptions that have significant risk of resulting in material adjustments to carrying amounts

Financial year end: 31 January 2015

Category of issue: Disclosure on impairment tests; Disclosure of assumptions about the future

Standards or requirements involved: IAS 1 *Presentation of Financial Statements*; IAS 36 *Impairment of Assets*

Description of the issuer's accounting treatment

18. The issuer recognised, in 2015, material impairment losses on producing and developing assets. This was primarily due to declining commodity price forecasts. The recoverable amount of assets tested for impairment was mainly based on value in use estimates on the basis of internal forecasts on costs, production profiles and commodity prices. For short-term commodity prices, observed forward oil and gas price curves for the first two to three years were used. Long-term commodity price forecasts were based on internal price forecasts, which were not disclosed by the issuer.
19. The issuer argued that the disclosure of assumptions to determine the recoverable amount of cash-generating units that do not contain goodwill is not specifically required by IAS 36.

The enforcement decision

20. The enforcer did not accept that no quantitative information on the commodity price assumptions used in the impairment tests needed to be disclosed in the issuer's financial statements.

Rationale for the enforcement decision

21. The enforcer acknowledged that paragraph 132 of IAS 36 only encourages, but does not require, entities to provide details of assumptions used in impairment tests. However, according to paragraph 125 of IAS 1, an entity should disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The value in use of the issuer's producing and developing assets is highly sensitive to long-term price assumptions. Market participants use different long-term price assumptions. Consequently, in the case at hand, a reasonable change to the price assumptions may result in material additional impairments or reversal of previous impairments within the next year. As such, the issuer should have provided quantitative information about the long-term price assumptions to enable issuers to assess the impairments recognised and the risks associated with the recoverable amount of the impaired assets.

V. Decision ref EECS/0118-05 – Purchase price allocation of a group of acquired assets

Financial year end: 31 December 2015

Category of issue: Identification of intangible assets; Intangible assets with indefinite useful life

Standards or requirements involved: IFRS 3 *Business Combinations*; IFRS 13 *Fair Value Measurement*; IAS 38 *Intangible Assets*

Description of the issuer's accounting treatment

22. The issuer is a gambling solutions and entertainment provider, which completed, in 2015 and 2016, five transactions in which it purchased groups of assets that do not constitute a business. Therefore, the Issuer has to allocate the purchase price to the individual identifiable assets and liabilities on the basis of their relative fair values as required by paragraph 2(b) of IFRS 3.
23. The acquired assets related to affiliate marketing, which is a form of online performance marketing in which the service provider receives a commission for referring new customers to online gambling websites. Entities that wish to offer affiliate marketing services typically establish an affiliate network, which is a network of internet sites. In establishing these, a number of domain names with a semantic mix of gaming-related expressions and suffixes must first be registered or bought. After acquiring these domains, the affiliate marketing service provider must fill them with content. This content is tailor-made to ensure a high ranking of the website on search engines' search result lists in order to maximise the online visibility of the website, a process called search engine optimisation. The affiliate marketing service provider then enters into affiliate contracts with gambling operators, which regulate how the commission of the affiliate service provider is calculated. In most cases, the affiliate marketing services provider either receives an up-front payment for every customer referred from the affiliate network to the gambling site or it receives

a share of the customer's future revenue streams from future gambling. Technically, the registration of customers that were referred from the affiliate network to the gambling operator's website works in such way, that if a visitor visits a webpage of the affiliate network, a tracker cookie is uploaded to the visitor's computer. If the visitor then registers within a specified period as a customer with one of the online gambling partners, its system will register the customer as being referred from the affiliate network.

24. In all five transactions, the issuer identified intangible assets, for only domains and customer databases. It allocated 95% of the consideration to domains and 5% to customer databases. While the customer databases were amortised over 3 years, the domains were deemed to have indefinite lives and were hence not amortised.

The enforcement decision

25. The enforcer did not agree with the allocation of the purchase price. The issuer should also have identified intangible assets related to contractual rights on the revenue streams from the affiliate contracts, website content and search engine optimisation. Furthermore, the issuer's 'rule of thumb' approach, to allocate in all transactions 5% of the consideration to the customer database and 95% of the consideration to domains with indefinite lives, was not appropriate.

Rationale for the enforcement decision

26. As the gambling operators have to share the future revenue streams from the gamblers that were in the past referred from the acquired affiliate network to their websites, the issuer has a present right to receive future cash flows under the affiliate contracts. Therefore, in accordance with paragraphs 21 and 25 of IAS 38, an intangible asset should be recognised for these contractual rights as it is probable that the expected future economic benefits that are attributable to the affiliate contracts will flow to the issuer.
27. Furthermore, the enforcer noted that the issuer also acquired i) website content on the acquired affiliate websites programmed in HTML code using a publishing software and ii) the keyword and network architecture created by the developer related to the individual sites as well as their interrelation in the network hierarchy for the search engine optimisation. As it is possible to copy both from one domain address to another, both satisfy the separability criterion for recognition in paragraph 12a) of IAS 38 and should therefore be recognised as intangible assets.
28. When determining the useful lives of the website content and the search engine optimisation, the enforcer noted that paragraphs 92 and 93 of IAS 38 indicate that given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, caution should be exercised when estimating the useful life of such intangible assets. Only when there are, after careful analysis of all the relevant factors, no foreseeable limits to the period over which the asset is expected to generate net cash inflows for the entity, should the asset be deemed to have an indefinite useful life. Considering the factors listed in paragraph 90 of IAS 38, especially subparagraphs c), d) and e), the enforcer concluded that both the website content and the intangible asset related to the search engine optimisation do not have an indefinite useful life.

29. Moreover, the enforcer did not agree with the quantitative allocation of the purchase price as performed by the issuer in which it allocated 95% to domains, which have an indefinite useful life. While internet domain addresses on occasions can have significant value in itself, the enforcer deems this typically to be the case when the domain address itself is the brand or the trademark of the business which is not the case here.
30. The enforcer required the issuer to perform new comprehensive purchase price allocations for the five affiliate transactions. In these purchase price allocations the issuer had also to measure the additional intangible assets identified by the enforcer and to use appropriate valuation techniques in accordance with paragraph 61 of IFRS 13 instead of the rule of thumb approach initially used.

VI. Decision ref EECS/0118-06 – Demerger and distribution of a segment to the issuer’s shareholders

Financial year end: 31 December 2017

Category of issue: Demerger; Measurement of dividend payables

Standards or requirements involved: IFRIC 17 *Distributions of Non-Cash Assets to Owners*

Description of the issuer’s accounting treatment

31. The issuer planned to carry out a demerger in which segment A, one of the issuer’s segments, is transferred to a newly founded company. The shares of the newly founded company were to be distributed to the shareholders of the issuer; hence, the demerger would not result in a change of ultimate ownership of segment A.
32. The issuer proposed to account for the derecognition of segment A by recording the transfer of its assets and liabilities directly in equity at carrying amounts without recognising any gains or losses.

The enforcement decision

33. The enforcer did not agree with the issuer’s assessment. The transaction represents a distribution of non-cash assets to owners in scope of IFRIC 17. Consequently, the issuer has to measure the distribution at the fair value of the assets being distributed. Any gain or loss on the distribution has to be recognised in profit or loss.

Rationale for the enforcement decision

34. The distribution of segment A to the issuer’s shareholders is a non-reciprocal distribution of non-cash assets to the entity’s owners acting in their capacity as owners. None of these owners control the issuer individually, nor is there any arrangement that allows them to control it as a group. Furthermore, as each shareholders will after the demerger have the same equity interest in both the issuer and the newly founded company, all owners are treated equally. Consequently, the transaction is, in accordance with paragraphs 3 to 5 of IFRIC 17, in scope of IFRIC 17.

35. According to paragraph 11 of IFRIC 17, the issuer should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. As in this case a business is to be distributed, the fair value of the business could include goodwill and identified intangible assets as set out in paragraph BC57 of IFRIC 17. When the issuer settles the dividend payable, it should recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.
36. Paragraph BC34 of IFRIC 17 states explicitly that no exceptions should be made to the requirement that the fair value of the assets to be distributed should be used to measure the dividend payable. Therefore, it is not in accordance with IFRS to record the transfer of segment A to the issuer's shareholders directly in equity at carrying amounts.

VII. Decision ref EECS/0118-07 – Presentation of revaluation losses of assets used in operating activities

Financial year end: 31 December 2015

Category of issue: Operating activities; labelling

Standards or requirements involved: IAS 1 *Presentation of Financial Statements*

Description of the issuer's accounting treatment

37. The issuer uses the revaluation model in IAS 16 *Property, Plant and Equipment* for its vessels. In 2015, the fair value of the vessels decreased and the issuer was required to recognise a revaluation loss. In the consolidated income statement the issuer presented this revaluation loss as a separate line item after the 'net result'.

The enforcement decision

38. The enforcer did not agree with this presentation. The issuer should have presented the revaluation loss within its operating activities.

Rationale for the enforcement decision

39. The revaluation loss of an asset that is being used in the issuer's operations is an operating item in nature. As set out in paragraph BC 56 of IAS 1, it would be misleading if items of an operating nature were excluded from the results of operating activities. Consequently, the revaluation loss should not have been presented as a separate line after net result.

VIII. Decision ref EECS/0118-08 – Obtaining power over an investee following a tender offer

Financial year end: 31 December 2015

Category of issue: Power over an investee; Potential voting rights

Standards or requirements involved: IFRS 10 *Consolidated Financial Statements*

Description of the issuer's accounting treatment

40. Issuer X entered into a memorandum of understanding to acquire entity Y in an all-share deal whereby Y's shareholders would receive 0.55 shares of entity X for each share of entity Y tendered. The share tender was opened in November in country A and country B and the share tender offer period closed on 23 December 2015. On 30 December, the final results of the tender in country A were available and were confidentially communicated to the management of X and to the securities regulator of country B. However, while, on this day, there were already preliminary results from the tender in country B, which were also confidentially communicated to the management of X and to country B's securities regulator, the final results were not yet available. Therefore, the outcome of the tender was not yet published. The final results of country B were not available before 4 January 2016, when the securities regulator in country B published the combined tender offer results. The settlement, i.e. the exchange of tendered shares of entity Y for shares of issuer X took place on 7 January. Issuer X had to determine on which day it obtained control of entity Y.
41. The shareholders of entity Y were able to tender, and withdraw the tender, at any point up to the closing of the tender offer period. After the offer period closed, the shareholders did not have withdrawal rights. Thus, issuer X had the irrevocable right to obtain the tendered shares at the date that the offer period closed.
42. Per the memorandum of understanding, entity X's board of directors was required to authorise the exchange of tendered shares if a minimum of 50% of shares were tendered during the offer period. Eventually, considering the results of the offers in both countries, more than 70% of entity Y's shares were tendered, so the minimum condition was met.
43. While the settlement of shares did not occur until 7 January, the issuer's right to exchange the tendered shares of Y with the shares of X was irrevocable already with the closing of the tender offer period, i.e. 23 December. Hence, the right of issuer X to exchange the shares can give it power over entity Y according to paragraph B38 of IFRS 10 by way of potential voting rights. As the current shareholders of Y were unable to change the existing policies until 7 January because no extraordinary shareholder meeting could be scheduled with such short notice, issuer X had substantive rights that were essentially equivalent to a majority shareholder – see also example 3 B in paragraph B24 of IFRS 10. However, this applied only if more than 50% of the shares of entity Y were tendered, because otherwise the board of directors would not authorise the exchange. The issuer determined that it obtained power on 4 January because on this day the final tender results were available. Before 4 January, only preliminary and unofficial aggregate

results of the tender with no legal standing were available. Therefore, X did not have sufficient evidence that it controlled entity Y.

The enforcement decision

44. The enforcer did not object to the issuer's assessment.

Rationale for the enforcement decision

45. In order to determine at which point in time the issuer obtained control over entity Y, the criteria in paragraph 7 of IFRS 10 have to be considered. Thus, it is necessary to assess when the issuer obtained power over Y, whether this provided the issuer with rights to variable returns and whether it had the ability to use its power to affect its returns from the investment in Y.

46. Regarding the determination of the point in time the issuer obtains power, the enforcer noted that it requires careful judgement of what weight should be attached to preliminary and confidential notifications on the tender results as opposed to the final tender results. The enforcer did not object to the argument that before the availability of the final results of the tender on 4 January it was not clear that the tender was successful and that the exchange of shares of entity Y for shares of issuer X would take place.

47. The enforcer further noted that by 4 January the issuer also had rights to variable returns. The issuer had the irrevocable right to obtain the tendered shares and as by this date the number of tendered shares was already available, the issuer was able to quantify its rights and exposure. As the issuer does not act as an agent for another entity, it has according to paragraphs 17 and 18 of IFRS 10 the ability to use its power to affect its returns from the involvement with the investee as of that date.

IX. Decision ref EECS/0118-09 – Lack of foreign currency exchangeability and hyperinflation

Financial year end: 31 December 2017

Category of issue: Effects of changes in foreign exchange rates; Hyperinflationary economies

Standards or requirements involved: IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; IAS 21 The Effects of Changes in Foreign Exchange Rates; IAS 29 Financial Reporting in Hyperinflationary Economies

Description of the issuer's accounting treatment

48. The issuer owns subsidiary A in Venezuela. The Venezuelan Bolivar Fuerte ('VEF') is subject to strict currency restrictions and is not freely exchangeable. In the recent past, the currency exchange rate regime was in constant flux. For instance, as of 31 December 2014 there were three legal exchange rates in Venezuela: CENCOEX, SICAD-I and SICAD-II. Currency exchange legislation in Venezuela was then amended in the first quarter of 2015 to create a new mechanism (known as SIMADI), which permitted both individuals and entities to buy and sell foreign currency with fewer restrictions than other mechanisms in Venezuela (CENCOEX and SICAD). In addition,

SICAD-I and SICAD-II were merged. While the SIMADI exchange rate initially represented an exchange rate by which transactions or balances could be settled, this became less so in the second half of 2015. By this point, the SIMADI exchange rate, which did not fluctuate freely but was set officially, hardly fluctuated, despite the fact that the IMF in its economic outlook estimated an inflation rate of 190% for 2015. In February 2016, a new rate called DICOM was introduced to align the SIMADI, which was suspended, to the country's new reality. Between 31 December 2015 and 31 December 2016, the VEF's exchange rate compared to the Euro decreased from 217 to 710 VEF per Euro (about 230%). Even though this represented a very high decrease in value, it was dwarfed by the inflation in the same period, which was estimated by the IMF to be 720%. This disconnection of decrease in the official exchange rate and inflation continued in the first quarter of 2017 with a decrease of the VEF's exchange rate by 7% (from 710 VEF/EUR to 758 VEF/EUR) and an inflation of 72%.

49. On 24 May 2017, the Central Bank of Venezuela launched a new exchange rate regime, the 'New DICOM', which fluctuated between 2,000 and 2,500 VEF per EUR during the first weekly auctions and represented a more realistic exchange rate than the last DICOM exchange rate published, which was 813 VEF/EUR. Nevertheless, also the new official DICOM exchange rate diverged significantly from the parallel exchange rate, which indicated that exchangeability at the official new DICOM rate was limited. E.g. on 30 June 2017, the official exchange rate was 3,015 VEF/EUR whereas the parallel exchange rate was around 8,900 VEF/EUR.
50. The issuer notes that according to paragraph 26 of IAS 21, when several exchange rates are available, the rate should be used at which the future cash flows represented by a transaction or balance could have been settled. However, as the government controlled new DICOM exchange rate does not sufficiently fluctuate to reflect the hyperinflation rates, there is not sufficient liquidity and therefore settlement is not possible. Furthermore, IAS 29 assumes that the exchange rate of currencies of hyperinflationary economies is reflecting the inflation rate. This underlying assumption is expressed in paragraph 17 of IAS 29 which sets out that in situations in which a general price index is not available, it may be necessary to use an estimate based for example on the movements in exchange rates. As explained above, this link is broken in Venezuela.
51. According to paragraph 11 of IAS 29, the statement of financial position amounts not already expressed in the measuring unit current at the end of the reporting period have to be restated by applying a general price index. Therefore, in the issuer's group financial statements, subsidiary A's non-monetary items such as property, plant and equipment have to be restated with the high inflation price index. However, this restatement of the non-current items is in no way compensated by the opposite effect of the exchange rate depreciation when translating to the issuer's functional and presentation currency. The reason for this is that according to the official exchange rate the value of the VEF decreased only relatively moderately. Consequently, in the issuer's consolidated financial statements, equity and non-monetary items relating to subsidiary A increased massively.
52. Therefore, the issuer deemed it necessary to determine an estimate for an exchange rate which better reflects the economic reality and at which cash flows could actually be settled based on a sound methodology. The main input for this methodology would be the evolution of the inflation rate in Venezuela compared to more stable economies. Although this accounting treatment is not expressly included neither in IAS 29 nor IAS 21, paragraph 17 of IAS 29 allows calculating the

general price index indirectly through movements in the exchange rate. If the general price index could be estimated using movements in the exchange rate, the converse may also be possible, namely to estimate an exchange rate based on movements of the general price index.

The enforcement decision

53. The enforcer did not object to the issuer's accounting treatment, considering the very specific circumstances in Venezuela.

Rationale for the enforcement decision

54. Considering the above-mentioned facts, it is evident that the development of the official exchange rate in Venezuela does not reflect the hyperinflation and the economic reality in Venezuela.

55. Paragraph 26 of IAS 21 gives guidance when exchangeability between two currencies is *temporarily* lacking in the context of reporting foreign currency transactions in the functional currency in the local entity's financial statements: 'If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made'. However, in the case at hand, exchangeability is lacking on a longer-term basis. IAS 21 is silent about what rate to use in such case.

56. The enforcer acknowledges that it could be argued that when there is a lack of exchangeability for longer than a 'temporary' period, the definition of 'closing rate' in IAS 21 is not met. This is because IAS 21 defines closing rate as 'the exchange rate for immediate delivery at the end of the reporting period' and an exchange of currencies can only be delivered if the exchange mechanism or market is available to the entity.

57. Therefore, considering the very specific circumstances in Venezuela, the enforcer did not object to the issuer's conclusion that no IFRS addresses the fact pattern and that management uses its judgement to determine and apply an accounting policy to estimate an exchange rate in accordance with paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

58. The enforcer underlined that the issuer has to provide additional information in order to allow users to assess the impact of estimating a synthetic exchange rate instead of applying the official new DICOM rate.

X. Decision ref EECS/0118-10 – Amortisation of content rights for films and television programmes

Financial year end: 31 December 2016

Category of issue: Amortisation of intangible assets; Revenue based amortisation

Standards or requirements involved: IAS 38 *Intangible Assets*

Description of the issuer's accounting treatment

59. The issuer's principal activity is the production or purchase and distribution of films and television programmes across numerous channels (cinema, television, DVD, internet, etc.). The issuer holds material intangible assets for its content rights.
60. IAS 38 was amended to include paragraph 98A of IAS 38, which sets out a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The effective date of the amendment is 1 January 2016. The presumption can be overcome only in limited circumstances including when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. Nevertheless, the issuer concluded that it would be appropriate to amortise the intangible assets related to content rights on a revenue forecast basis.
61. The issuer observed that future economic benefits stemming from the content rights decrease progressively over time. For example, for films, the value of the right is highest when the film is broadcasted for the first time in theatres. This is because the film was not yet released to the public and revenues are much higher during the first exhibition of the film. The value of the content rights decreases with exhibition on the later stage channels (e.g. when it is available later on as DVD) and so decreases normally the revenue.
62. According to the issuer, the underlying intellectual property rights purchased or created can be considered to be consumed as customers view the related film or television programme, which is also the basis on which revenues are generated. The sales prices are normally not linked to the quality or the success of the film or television programme, with the price of a cinema ticket being comparable across different films. Similarly, the price of a single DVD or blue ray does not fluctuate much across films or television programmes. Thus, also, the revenue generated from DVD or blue ray is highly correlated to the number of units sold. Within television and internet channels, end-consumer viewership is driven and derived through the activities of the contractual customer (i.e. television network or subscription platform). While there is a somewhat more indirect link between the number of viewers watching the respective content and the issuer's revenues from these channels, they are still highly correlated with the revenue the issuer can expect. Therefore, revenue can be considered a proxy for the pattern of consumption from the multiple activities in which the film or television programme can be used.
63. Furthermore, the issuer argued that while content was consumed by the end user through a unique viewing, regardless of the viewing window, in all cases the economic benefit derived by the issuer was the revenue received. Thus from the perspective of the issuer, the receipt of the revenue is not only a proxy for the consumption of the economic benefits, but it rather represents it directly.
64. Finally, the issuer observed that the estimated revenues for a given film or television programme determine the costs of production to which the issuer is ready to commit and thus the cost of the intangible asset.

The enforcement decision

65. The enforcer did not object to the issuer's accounting policy to base the amortisation of the intangible asset for content rights on a ratio of the current period revenue stemming from the rights to the total estimated revenues for those rights.

Rationale for the enforcement decision

66. According to paragraph 98A of IAS 38, a precondition to determine the amortisation of the intangible asset for the content rights based on revenue is that revenue and the consumption of the economic benefits are highly correlated.

67. The enforcer observed that according to paragraph BC72H of IAS 38 the IASB has, during the development of the amendments to IAS 38, considered how to analyse situations in which an asset is used in multiple activities to provide multiple revenue streams such as in the case at hand (revenue from cinema, DVD sales, video-on-demand, etc.). The IASB noted that some respondents expressed the view that 'the producer of a motion picture will typically use the intellectual property embodied in the film to generate cash flows through exhibiting the film in theatres, licensing the rights to characters to manufacturers of toys and other goods, selling DVDs or digital copies of the film and broadcasting rights to television broadcasters. Some respondents thought that the best way to amortise the cost of the intellectual property embodied in the film was to use a revenue-based method, because revenue was considered a common denominator to reflect a suitable proxy of the pattern of consumption of all the benefits received from multiple activities in which the intellectual property could be used.' In this respect, the IASB acknowledged in paragraph BC72I of IAS 38 that determining an appropriate amortisation method for situations in which an intangible asset generates multiple cash flow streams in different markets requires judgement. Furthermore, it suggests the componentisation of the asset for amortisation purposes.

68. The enforcer considered such componentisation. However, the issuer argued that it would be very difficult and arbitrary to split the intangible assets for the content rights. According to the issuer, there would be no basis for allocating the value of the intangible assets to the different channels as the predictability of the pattern of revenues from each channel is difficult. Further, from a legal point of view, the issuer owns a multi-use right without any decomposition of the value of the rights for the different channels. Moreover, the issuer argues that the amortisation pattern for each channel would also be based on revenue. Bearing this in mind, the enforcer acknowledged the issuer's arguments that the timing of amortisation expense would not be significantly different without componentisation of the intangible asset.

69. The enforcer considered the issuer's argument that in the case at hand, revenue and consumption of the economic benefits of the intangible asset are either highly correlated or that even a one-to-one relationship exists. The enforcer noted that determining an appropriate amortisation method for situations in which an intangible asset is used in multiple activities, and generates multiple cash flow streams, requires judgement. The proposed amortisation method, which is digressive, seems to indeed reflect the deterioration of the content rights' economic benefits. The enforcer concluded that the issuer's assessment to use a revenue-based amortisation method does not seem inappropriate in the case at hand.