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Update on the IFRS Interpretations Committee's activities

Objective

1 The objective of this paper is to provide, for information purposes, a summary of the main open issues discussed by the IFRS Interpretations Committee (the 'IFRS IC' or the 'Committee').

2 The paper only focuses on the IFRS IC issues that are still 'open' at the date of the summary, that is, matters that have not yet led to a final decision by the IFRS IC (This paper does not provide information on IASB projects where input is being sought from IFRS IC members).

3 This presentation raises EFRAG FR TEG's and EFRAG CFSS's awareness of issues being discussed at the IFRS IC and possible interactions with EFRAG's commenting activities and future standard setting. The session is not intended, however, to respond to the IFRS IC tentative decisions. Therefore, the paper does not contain the EFRAG Secretariat's initial views on the issues and does not seek EFRAG FR TEG's nor EFRAG CFSS's technical assessment on the matters.

4 If EFRAG FR TEG or EFRAG CFSS express the wish to further discuss any of the presented issues, a session could be organised at a future meeting. EFRAG FR TEG-CFSS members can also express the need to participate in the IASB´s outreach on the topics listed.

Overview of IFRS IC's current activity

5 Below is an overview of the IFRS IC's current activities.

Project/Topic (including hyperlinks to the IASB project pages for each item)	**Related Standards**	**Current status**	**Next milestone**	**Next milestone expected date**
Initial Consideration				
Guarantee Issued on Obligations of Other Entities	IFRS 9, IFRS 17, IFRS 15, IAS 37	Initial Consideration	Tentative Agenda Decision	Not specified
Recognition of Revenues from Tuition Fees	IFRS 15	Initial Consideration	Tentative Agenda Decision	Not specified
Tentative Agenda Decision feedback				
Classification of Cash Flows related to margin Calls "Collateralised-to-market"	IAS 7	Tentative Agenda Decision (consultation period ended on 19 August)	Tentative Agenda Decision feedback	November 2024
Input to IASB				
Pollutant Pricing Mechanisms	IAS 38, IAS 20, IAS 37	Horizon-scanning activities	To decide whether to prioritise a project on the topic	Not specified (at a future IASB meeting)
Post-implementation Review of IFRS 16 (to be discussed in session of EFRAG FR TEG-CFSS meeting on 12 September)	IFRS 16	Identifying matters to be examined	To identify matters to include in the RFI	H1 2025
IFRS IC pipeline				
Recognition of intangible assets resulting from climate-related commitments	IAS 38	Pipeline topic	Not specified	Not specified

Initial Consideration

Guarantee Contracts Issued on Obligations of Other Entities

Issue and background

6 The IFRS IC received a request about how an entity, in its separate financial statements, accounts for guarantees that it issues on obligations of its joint venture.

7 In the three fact patterns described in the request, an entity issues several types of contractual guarantees on obligations of its joint venture. These fact patterns include situations in which the entity guarantees to make payments to a bank, a customer, or another third party in the event the entity's joint venture fails to meet the joint venture's contractual obligations under its service contracts or partnership agreements.

8 More details on the request, the three fact patterns and the original submission can be found [here](#).

9 The request asks whether the guarantees issued are financial guarantee contracts to be accounted for in accordance with IFRS 9 Financial Instruments or, if not, which other IFRS Accounting Standards apply.

10 IFRS IC sent an information request to members of the International Forum of Accounting Standard Setters (IFASS), securities regulators and large accounting firms, asking whether:

(a) such guarantees are common.

(b) there is a widespread diversity in accounting for such guarantees. If yes, if it has a material effect on the issuing entities' separate financial statements, in which jurisdictions, industries and what is a root cause of this diversity.

(c) the issuing entities account for such guarantees differently when they are issued on the obligations of (i) joint ventures or (ii) other entities.

11 IFRS IC received 19 responses; 6 from accounting firms, 8 from national standard-setters (NSS) and five securities regulators.

Are such guarantees common?

12 12 out of 19 respondents say guarantees of the types described in the three fact patterns are common.

Is there widespread diversity?

13 4 out of 19 respondents observed widespread diversity in how entities account for guarantees of the types described in the three fact patterns.

14 2 NSSs (in Asia-Oceania and Europe) observed some (but not widespread) diversity depending on the entities' types of business.

15 The remaining respondents say they have not observed widespread diversity.

16 For each type of guarantee, most respondents say entities do not account for them differently based on whether the guarantees are issued on obligations of (i) joint ventures or (ii) other entities.

Does the diversity have (or could have) a material effect?

17 Of the 6 respondents who have observed diversity:

(a) 4 say that either the diversity does not have a material effect or they could not confirm whether there is a material effect.

(b) 1 accounting firm which has observed widespread diversity, says that it has (or could have) a material effect in Australia, South Africa, South Korea and the United Kingdom.

(c) 1 national standard-setter that has observed some diversity, notes that it could potentially have a material effect.

What is the root cause of the diversity

18 The 6 respondents who have observed diversity, say that the root cause is the lack of clarity in the relevant IFRS Accounting Standards requirements. In particular, the lack of clarity arises when applying:

(a) *the scoping requirements in the relevant IFRS Accounting Standards* - namely, IFRS 9, IFRS 17 and IAS 37.

(b) *the definition of 'financial guarantee contract' in IFRS 9* - 3 out of 6 respondents say that entities encounter difficulties in determining whether a guarantee meets the definition of a 'financial guarantee contract' in IFRS 9, particularly because that definition contains the term 'debt instrument' which is not defined in IFRS Accounting Standards.

IASB Staff analysis

19 The IASB Staff notes that the fact patterns submitted are highly specific and that the subtle differences in the terms and conditions could reach a different conclusion. Therefore, it would be inappropriate to conclude on whether the guarantees described in the submitted fact patterns are accounted for as financial guarantee contracts applying IFRS 9 or whether other IFRS Accounting Standards requirements apply. The IASB Staff considers a conclusion on the submitted fact patterns:

(a) would provide little benefit to stakeholders who encounter different facts and circumstances. Moreover, those stakeholders might inappropriately analogise to the conclusion.

(b) could inadvertently undermine the appropriate use of judgement that is required when applying the principles-based framework in IFRS Accounting Standards.

20 The IASB Staff concludes that in determining which IFRS Accounting Standard to apply to a guarantee that it issues:

(a) an entity's accounting is based on the terms and conditions of the guarantee and not on the type of entity issuing the guarantee; and

(b) an entity applies judgement in determining whether the guarantee is a financial guarantee contract in the scope of IFRS 9, or an insurance contract in the scope of IFRS 17, or in the scope of other requirements in IFRS Accounting Standards (including IFRS 9, IFRS 15 and IAS 37).

21 Therefore, the IASB Staff concludes that the criterion included in sub-paragraph 5.16(b) of the Due Process Handbook is not met; and therefore, the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine which IFRS Accounting Standard to apply to guarantees that it issues.

IASB Staff recommendations

22 Based on the assessment of the work plan criteria in paragraph 5.16 of the Due Process Handbook, the IASB Staff recommends not to add a standard-setting project to the work plan. The IASB Staff recommends that the IFRS IC publishes instead a tentative agenda decision that identifies the IFRS Accounting Standards an entity considers in accounting for guarantees that it issues.

Recognition of Revenues from Tuition Fees (IFRS 15)

Issue and background

23 The IFRS IC received a submission about the period over which an entity that provides educational services.

24 In particular, by applying IFRS 15, the educational institution recognises revenue from tuition fees over time. The submission outlines two different accounting treatments:

(a) **View 1**—recognise revenue from tuition fees evenly over the academic year (10 months)

(b) **View 2** – recognise revenue from tuition fees evenly over the calendar year.

25 Some specific aspects of the fact-pattern:

(a) students attend classes for approximately 10 months and have a summer break of approximately two months;

(b) during the summer break the school's academic staff take a four-week holiday and use the rest of the time for administrative tasks;

(c) during the four-week period in which academic staff are on holiday the academic staff continue to receive salary;

(d) non-academic staff provide administrative support and the educational institution receive and pay for services such as IT services and cleaning during the whole year.

26 The application of the different views could have a material effect on the educational institution's interim financial statements.

IASB Staff analysis

27 The IASB Staff sent an information request to members of IFASS, securities regulators and large accounting firms.

28 Most respondents said the fact pattern is not common because most institutions do not apply IFRS and do not prepare interim financial statements. In addition, revenue from tuition fees are sometimes not material (i.e. educational institutions are primarily financed through government grants).

29 Most respondents noted that educational institutions recognise revenue from tuition fees over the academic year. Respondents indicating that revenue is recognised over a calendar year noted that differences are due to applicable facts and circumstances or that educational institutions do not prepare interim financial statements.

IASB Staff recommendations

30 Based on the feedback received, the IASB Staff has not found evidence that the issue (i.e. the application of the different views included above to similar fact patterns resulting in a material effect on an entity's interim financial statements) is widespread.

Tentative Agenda Decision feedback

Classification of Cash Flows related to Margin Calls on 'Collateralised-to-Market' Contracts (IAS 7)

Issue and background

31 The IFRS IC received a submission about how an entity presents, in the statement of cash flows, cash payments and receipts related to variation margin calls on contracts to purchase or sell commodities at a predetermined price in the future. The contract is centrally cleared. During the life of the contract, the counterparties make or receive daily payments based on the fluctuations of the fair value of the contract (variation margin call payments). The contract may be settled physically or net in cash. The contract may be used to receive commodities in accordance with its expected usage requirements; to hedge against fluctuations in the prices of commodities or to use the contract for trading purposes. The submission only considers 'collateralised-to-market' contracts.

IASB Staff analysis and recommendations

32 The IASB Staff noted that outreach to standard setters had shown that the issue was rare, and there was no or little diversity in how entities classify the cash flows. However, it was also noted by a security regulator and an accounting firm noted that such transactions were

common and could potentially result in significantly different outcomes and volatility in cash flow indicators. The cash flows are generally classified as cash flows from operating activities. It was noted that the root cause of diversity related to: different reasons for entering into such contracts; and diverse interpretations of the requirements in the IFRS Accounting Standards.

33 Based on the responses, the IASB Staff assessed that the matter did not have widespread effect and nor was expected to have, a material effect on those affected. In making that conclusion, the IASB Staff noted that two of the world's largest central counterparties—the Chicago Mercantile Exchange (CME) and London Clearing House (LCH)1 — had amended their rules, such that variation margin payments are now legally considered settlement payments, rather than transfers of collaterals.

IFRS IC tentative agenda decision (June 2024)

34 Evidence gathered by the Committee [to date] did not indicate that the matter described in the request is widespread. On the basis of that evidence, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

35 The topic was controversially discussed during the last EFRAG FR TEG-CFSS meeting. Members were able to provide feedback on the topic until 24 August 2024 to the IASB.

IFRS IC pipeline topic

Recognition of intangible assets resulting from climate-related commitments (IAS 38)

Introduction and summary of the issue

36 The IFRS IC received a request to clarify the agenda decision of 25 April 2024 ('Agenda Decision'). In particular, the request focuses on page 12 of the published Agenda Decision as follows:

If a provision is recognised, is the corresponding amount recognised as an expense or as an asset when the provision is recognised?

The Committee observed that if a provision is recognised, the corresponding amount is recognised as an expense, rather than as an asset, unless it gives rise to—or forms part of the cost of—an item that qualifies for recognition as an asset in accordance with an IFRS Accounting Standard.

37 The request relates specifically to asset treatment under IAS 38 *Intangible Assets* and explains why the primary means of meeting a 'Real World Commitment'[1] (Carbon Credits and Intellectual Capital that results from Innovation Programs) meet the recognition criteria as intangible assets in accordance with paragraph 8 of IAS 38.

Areas of interpretation

38 The eleven new areas of interpretation relate to:

(a) **First scenario:** entities that made a 'Real World Commitment' remain off-balance sheet. Externalities and investments into meeting the commitment are recognised as costs.

(b) **Second range of scenarios:** entities that made a 'Real World Commitment' recognise it as a 'constructive obligation' under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This also enables entities to recognise the commitment as intangible assets in the statement of financial position under IAS 38.

Next steps

39 The EFRAG Secretariat will continue to monitor the IFRS IC's discussions.

[1] Real World Commitments are statements made to reduce a percentage of carbon emissions by 2030 in line with science-based targets made typically in FYs '20 and '21 and affirmed to FY'23.