EFRAG Secretariat: Sapna Heeralall, Galina Borisova, Ioanna Michailidi

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' or 'IFRIC').

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 detailed 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 website for each item)	**Related Standards**	**Current status**	**Last IFRS IC meeting discussed**	**Next milestone**	**Next milestone expected date**
Comment letters received on tentative agenda decision					
Classification of Cash Flows related to margin Calls "Collateralised-to-market"	IAS 7	Comment letters received (discussed at 26 Nov IFRS IC meeting)	26 Nov	Finalisation of Agenda Decision	Not specified
Initial Consideration					
Assessing Indicators for Hyperinflationary Economies	IAS 7	Initial consideration	26 Nov	Tentative agenda decision feedback	Not specified
Recognition of Intangible Assets Resulting from Climate-related Commitments	IAS 38	Initial consideration	26 Nov	Tentative agenda decision feedback	Not specified
Input to IASB					
IAS 29 Financial Reporting in Hyperinflationary Economies	IAS 29	Collecting input on experiences and usefulness of information in applying IAS 29	26 Nov	IASB meeting	Not specified
Statement of Cash Flows and Related Matters	IAS 7	Collecting input on the nature and prevalence of perceived deficiencies and diversity in application of IAS 7	26 Nov	To decide on the topics for the IASB's project	Q1 2025
Amortised Cost Measurement	IFRS 9	Collecting input including on whether the initial list of project topics is complete	26 Nov	To decide on the project direction including scope	Feb 2025
Climate-related and Other Uncertainties in the Financial Statements	IFRS 9	Collecting input on the Exposure Draft questions	26 Nov	Exposure Draft feedback	Q1 2025
Open for consultation					
Guarantee Issued on Obligations of Other Entities	IFRS 9, IFRS 17, IFRS 15, IAS 37	Open for comment until 18 November	10 Sep	Tentative agenda decision feedback	Feb 2025
Recognition of Revenues from Tuition Fees	IFRS 15	Open for comment until 18 November	10 September	Tentative agenda decision feedback	Feb 2025

Comment letters received on tentative agenda decisions

Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts

Issue and background

6 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 recommendations in June 2024

7 The IASB staff recommended to finalise the agenda decision with only minor changes to the wording (i.e. rejecting the request due to the issue not being widespread and not adding additional material).

IFRS IC Tentative Agenda Decision (June 2024)

8 Evidence gathered by the Committee 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 tentatively decided not to add a standard-setting project to the work plan and published a tentative agenda decision.

Comment letter analysis and IASB staff recommendation (Nov 2024)

9 The IFRS IC received nine comment letters. Six respondents agreed with the Committee's conclusion. Two disagreed.

10 The IASB staff recommended finalise the agenda decision with only minor changes to the wording.

Initial Consideration

Assessing Indicators for Hyperinflationary Economies

Issue and background

11 The IFRS IC received a submission about the application of IAS 29 *Financial Reporting in Hyperinflationary Economies* to identify when an economy becomes hyperinflationary.

12 The submitter explained that some (but not all) stakeholders place 'a predominant focus' on the quantitative indicator in paragraph 3(e) of IAS 29 when applying paragraph 3 of IAS 29 while some other stakeholders consider all indicators. The submitter said this apparent diversity in practice could lead to stakeholders reaching different conclusions about when an economy becomes hyperinflationary in accordance with IAS 29. This could, in turn, create practical challenges for multi-national entities operating across multiple jurisdictions.

13 The submitter asked whether:

(a) all indicators in paragraph 3 of IAS 29 should be considered in assessing when an economy becomes hyperinflationary, including continuing to consider all indicators even when one indicator in paragraph 3 has been met (Question 1);

(b) IAS 29 requires the consideration of indicators other than those listed in paragraph 3 of IAS 29 when relevant (Question 2); and

(c) IAS 29 requires both a subsidiary (in its financial statements) and a parent (in its consolidated financial statements) to consistently conclude on when an economy becomes hyperinflationary (Question 3).

Research Feedback

14 13 responses were received—five from national standard-setters, seven from accounting firms and one from an organisation representing a group of securities regulators.

Question 1

15 All respondents noted that multiple indicators are considered in assessing when an economy becomes hyperinflationary. The respondents did not have evidence of economies being concluded to be hyperinflationary based on considering only one of the indicators listed in paragraph 3 of IAS 29.

16 Nonetheless, almost all respondents said that greater weight might be given to one or more indicators in particular situations. All these respondents observed (or applied themselves) a greater weight being given to the quantitative indicator in particular situations. Some of the respondents mentioned that this was due to the quantitative indicator being objectively verifiable, it is typically the most conclusive one, and greater weight is applied to it as the cumulative inflation rate rises.

Question 2

17 Many respondents referred to additional indicators being assessed, such as International Monetary Fund projections, local inflation data and currency exchange rates and monetary policies, the rate of increase in inflation and the effects of non-recurring events.

Question 3

18 Most respondents had observed in particular situations a parent entity applying IAS 29 to the financial statements of a subsidiary that has a functional currency of a local economy that the parent entity assesses to be hyperinflationary, but IAS 29 not being applied to the financial statements of the hyperinflationary subsidiary itself which are typically prepared for statutory local filings. These respondents said that such differences typically arise due to the provisions of specific laws or regulations within the jurisdiction considered for application of IAS 29.

IASB Staff recommendations

19 The IASB Staff recommended not to add a standard-setting project since, although the questions raised in the submission arise in many jurisdictions that are subject to higher levels of inflation and can be prevalent, there was limited or no diversity in practice when it came to the questions asked in the submission.

Recognition of Intangible Assets Resulting from Climate-related Commitments

Issue and background

20 The IFRS IC received a submission about whether an entity's expenditures for carbon credits and research and development (R&D) activities an entity incurs in achieving its climate-related commitments meet the requirements in IAS 38 to be recognised as intangible assets. The request followed the March 2024 agenda decision about Climate-related Commitments for which the Committee observed that if a provision is recognised, the corresponding amount is recognised as an expense unless it qualifies for recognition as an asset in accordance with IFRS Accounting Standards.

21 The following fact pattern is described in the submission:

(a) an entity made a commitment in 2020 and 2021 to reduce a percentage of it carbon emissions by 2030.

(b) the entity has established a plan to achieve its 2030 commitment and has taken 'affirmative actions'.

(c) the entity's 'innovation programs' will typically involve creating teams of people with know-how, expertise and other intellectual property to create and develop solutions for emissions reductions specific to the entity or its sector and will result in the creation of intellectual capital;

(d) the entity's investors, insurers and bankers have made their own transition commitments relying on the entity's actions; and

(e) the entity, at its 2023 fiscal year-end, concludes that its 2030 commitment have created a constructive or legal obligation under IAS 37.

IASB Staff analysis

22 The IASB staff sent an information request to members of IFASS, securities regulators and large accounting firms. The request asked respondents if there are widespread differences in accounting for expenditure on research and development activities broadly and, if so, the underlying reasons and if the diversity is only present in specific jurisdictions and/or industries. The question about the accounting for carbon credits was not included because the IASB had already been conducting horizon-scanning activities on the matter.

23 The IASB received 22 responses. Most respondents did not identify widespread and material differences in accounting. Three respondents observed divergencies in accounting related to the application of judgement in different facts and circumstances, as well as different practices in different industries. Some respondents commented specifically about R&D activities linked to climate-related commitments and they did not observe widespread and material differences.

IASB Staff recommendations

24 Following the responses to the information request, the IASB Staff concluded it had not obtained evidence of widespread and material diversity in how entities account for expenditure, such as research and development activities, including for innovation programs associated with climate related commitments. Thus, it recommended the Committee not to add a standard-setting project.

Open for consultation

Guarantee Contracts Issued on Obligations of Other Entities

Issue and background

25 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.

26 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.

27 More details on the request, the three fact patterns and the original submission can be found here.

28 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.

29 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.

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

Are such guarantees common?

31 12 out of 19 respondents say guarantees of the types described in the three fact patterns are common.

Is there widespread diversity?

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

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

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

35 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?

36 Of the six respondents who have observed diversity:

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

(b) One 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) One 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

37 The six 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

38 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.

39 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).

40 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

41 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.

IFRS IC tentative agenda decision

42 The IFRS IC observed that an entity accounts for a guarantee that it issues based on the requirements, including the scoping requirements, in IFRS Accounting Standards and not based on the nature of the entity's business activities. An entity applies judgement in determining which IFRS Accounting Standard applies to a guarantee that it issues and in considering the specific facts and circumstances and the terms and conditions of the guarantee contract.

43 The Committee noted that the International Accounting Standards Board (IASB), at its April 2024 meeting, discussed diversity in practice in the interpretation of the term 'debt instrument' in the definition of a financial guarantee contract. The IASB decided to consider during its next agenda consultation the broader application questions related to financial guarantee contracts, including about the meaning of the term 'debt instrument' in the definition of a financial guarantee contract. The Committee therefore concluded that an entity applies judgement in interpreting the meaning of the term 'debt instrument' when determining whether a guarantee is accounted for a financial guarantee contract.

44 With regard to the scoping requirements in the IFRS Accounting Standards, the Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for a guarantee that it issues.

45 Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Recognition of Revenues from Tuition Fees (IFRS 15)

Issue and background

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

47 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.

48 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.

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

IASB Staff analysis

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

51 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).

52 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

53 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.

IFRS IC tentative agenda decision

54 Evidence gathered by the Committee [to date] indicated no diversity in accounting for revenue from tuition fees. Feedback suggested that any differences in the period over which these educational institutions recognise revenue from tuition fees result from differing facts and circumstances and do not reflect diversity in accounting for revenue from tuition fees.

55 Based on its findings, 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.

Next steps

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