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Update on the IFRS Interpretations Committee's activities

Objective and Introduction

- 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.
- 5 Moreover the IASB project "Translation to a Hyperinflationary Presentation Currency" will be discussed. The objective of the session is to discuss the proposal to provide an exception which would require an entity that has a hyperinflationary presentation currency and consolidates a foreign operation with a non-hyperinflationary functional currency to restate the comparative results and financial position of that foreign operation using an inflation index.

Overview of IFRS IC's current activity

6 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					
Guarantee Issued on Obligations of Other Entities	IFRS 9, IFRS 17, IFRS 15, IAS 37	Comment letters received	10 Sep	Finalisation of Agenda Decision	Not specified
Recognition of Revenues from Tuition Fees	IFRS 15	Comment letters received	10 Sep	Finalisation of Agenda Decision	Not specified
Recognition of Intangible Assets Resulting from Climate-related Expenditure	IAS 38	Comment letters received	26 Nov	Finalisation of Agenda Decision	Not specified
Exposure draft feedback					
Translation to a Hyperinflationary Presentation Currency	IAS 21, IAS 29	Exposure Draft Feedback	6-7 June 2023	Exposure Draft Feedback	Not specified

Comment letters received on tentative agenda decisions

Guarantee Issued on Obligations of Other Entities

Issue and background

- 7 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.
- 8 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.
- 9 More details on the request, the three fact patterns and the original submission can be found [here](#).

Update on the activity of the IFRS Interpretations Committee

- 10 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.
- 11 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.
- 12 IFRS IC received 19 responses; 6 from accounting firms, 8 from national standard-setters (NSS) and five securities regulators.

Are such guarantees common?

- 13 12 out of 19 respondents say guarantees of the types described in the three fact patterns are common.

Is there widespread diversity?

- 14 Four out of 19 respondents observed widespread diversity in how entities account for guarantees of the types described in the three fact patterns.
- 15 Two NSSs (in Asia-Oceania and Europe) observed some (but not widespread) diversity depending on the entities' types of business.
- 16 The remaining respondents say they have not observed widespread diversity.
- 17 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?

- 18 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

- 19 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 and recommendations

- 20 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.
- 21 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).

22 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.

23 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

24 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.

25 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.

26 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.

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

Comment letter analysis

28 The IFRS IC received 10 comment letters by the comment letter deadline. Only these comment letters are included in the analysis.

29 The feedback received was mixed.

- 30 Six respondents agreed (or partially agreed) with the IFRS IC conclusion and tentative decision not to add a standard-setting project to the work plan.
- 31 Two of the above respondents suggested the following changes to the tentative agenda decision:
- (a) additional wording related to warranties excluded from the scope of IFRS 17; and
 - (b) one respondent disagreed with the applicability of IAS 37 to issued guarantees and suggested revisions to refer to IFRS 9 as the 'fallback' Standard for issued guarantees.
- 32 Two respondents disagreed with the IFRS IC conclusion and tentative decision not to add a standard-setting project to the work plan. In their view, IFRS Accounting Standards do not provide an adequate basis for an entity to account for guarantees that it issues because of a lack of clarity in:
- (a) the scoping requirements in IFRS Accounting Standards and the applicability of IAS 37 to issued guarantees;
 - (b) the meaning of the term 'debt instrument'; and
 - (c) the debit-side accounting for issued guarantees
- 33 Two respondents did not express agreement or disagreement but provided observations about the accounting for guarantees based on their experience.

IFRS IC Staff analysis and recommendations

Warranties excluded from the scope of IFRS 17

- 34 The IASB Staff **did not recommend changes** to the agenda decision, because:
- a) the tentative agenda decision states that when an entity considers whether a guarantee it issues is an insurance contract, it 'considers the scoping requirements in paragraphs 3–13 of IFRS 17 and the definition of an 'insurance contract'.' Accordingly, the tentative agenda decision already reflects paragraph 7(a) of IFRS 17.
 - b) paragraph 7 of IFRS 17 excludes from the scope of the Standard various items that might meet the definition of an insurance contract - warranties are only one such item.

Scoping requirements and applicability of IAS 37 to issued guarantees

- 35 The IASB Staff disagreed with the view that contractual guarantees cannot be within the scope of IAS 37 or that IFRS 9 is (or should be applied as) the ‘fallback’ Standard for issued guarantees. Paragraph 2 of IAS 37 excludes from the scope of that Standard ‘financial instruments (including guarantees) that are within the scope of IFRS 9’. This paragraph does not exclude the possibility of any guarantees issued by an entity being in the scope of IAS 37.
- 36 In the IASB Staff view, the tentative agenda decision makes it clear that an entity cannot simply conclude that a guarantee is in the scope of IAS 37 because of uncertainty related to the timing or amount of cash flows associated with the guarantee. Therefore, it is not necessary to explicitly state that an entity would disclose guarantees it issues as contingent liabilities only if those guarantees are within the scope of IAS 37.
- 37 The tentative agenda decision already clearly sets out a sequence in which an entity assesses the scoping requirements in IFRS Accounting Standards.
- 38 Based on the above, **the IASB Staff recommended no changes** to the tentative agenda decision.

Meaning of the term ‘debt instrument’

- 39 The IASB Staff acknowledged in the tentative agenda decision that the term ‘debt instrument’ is not defined in IFRS Accounting Standards, and that there is diversity in interpreting the term.
- 40 In the IASB Staff view, including guidance on what is a ‘debt instrument’ would add or change requirements in the Standards, which **IFRS IC cannot do through an agenda decision** as set out in paragraph 8.4 of the Due Process Handbook.

Debit-side accounting for issued guarantees

- 41 The IASB Staff noted that questions on how to account for issued guarantees were not the focus of the submission and therefore, **did not recommend addressing them**.
- 42 **Based on the above analysis, the IASB Staff recommend finalising the agenda decision, as published in IFRIC Update in September 2024, with changes to the wording of the tentative agenda decision as marked in the appendix to this paper. If the IFRS IC agrees with the IASB Staff recommendation, the IASB Staff will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.**

Recognition of Revenues from Tuition Fees (IFRS 15)

Issue and background

- 43 Applying IFRS 15, the educational institution recognises revenue from tuition fees over time. The submission asks about the period over which the educational institution recognises that revenue:
- (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.
- 44 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.

IASB Staff analysis and recommendations

- 45 The IASB staff sent an information request to members of IFASS, securities regulators and large accounting firms.
- 46 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, revenues from tuition fees are sometimes not material (i.e. educational institutions are primarily financed through government grants).
- 47 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.
- 48 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

- 49 Based on the feedback received, the IASB staff did not find 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. Therefore, the Committee tentatively decided not to add a standard-setting project to the work plan.

Comment letter analysis

- 50 The IASB Staff received 7 comment letters – 4 respondents (two accounting firms and two standard setters) agreed with the Committee's decision, 2 individuals provided their own analysis without specifying whether they agreed with the Committee and one standard setter agreed that the recognition of revenue depends on facts and circumstances. However, they suggested to explain how an entity applies IFRS 15 when considering the submitted fact pattern together with the prevalent practice.

IFRS IC Staff recommendation

- 51 The IFRS IC Staff recommends retaining the tentative decision with some minor edits.

Recognition of Intangible Assets Resulting from Climate-related Commitments

Issue and background

- 52 The IFRS Interpretations Committee 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.
- 53 The following fact pattern is described in the submission:
- (a) an entity made a commitment in 2020 and 2021 to reduce a percentage of its 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 and recommendations

- 54 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.
- 55 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.
- 56 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.

IFRS IC tentative agenda decision

- 57 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.

Comment letter analysis

- 58 The IASB Staff received 13 comment letters (5 national standard-setters, 4 accounting practitioners, 1 accounting professional body, 1 organisation involved in sustainability and 2 individuals).

Carbon credits

59 Seven respondents agreed with the tentative decision to not consider question about the accounting for carbon credits separately from the IASB's research on PPMs. Four respondents did not comment on this matter. The organisation involved in sustainability noted that existing requirements in IAS 38 are sufficient to determine whether investments in carbon credits should be recognised as intangible assets. One individual considered climate related expenditures as intangible assets because they are 'intellectual capital' with long-term future benefits.

R&D activities

60 Six respondents agreed with the tentative decision that there is no material diversity in the accounting for R&D activities and that the matter described in the request does not have widespread effect. The other respondents did not comment on this.

61 The organisation involved in sustainability noted that existing requirements in IAS 38 are sufficient to determine whether investments in R&D activities should be recognised as intangible assets.

62 Two respondents highlighted the possibility of diversity in practice arising in the future as more entities begin to make climate-related commitments.

63 Two respondents, including the OIC, asked the IASB to address the accounting for climate-related expenditure on research activities and development activities in its intangible assets project. OIC's noted that since IAS 38 was developed in a different economic context, it could penalise companies investing in R&D to reduce CO2 emissions. Another respondent supported addressing this matter in the IASB's research project on intangible assets and recommended that the IASB take action in the interim to assist preparers by developing educational materials.

IFRS IC Staff recommendation

64 The IFRS IC Staff recommends retaining the tentative decision with some minor edits.

Next steps

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