IFRS Accounting

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Compilation of Agenda Decisions

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Volume 6
(November 2021—April 2022)

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Introduction

Compilation of Agenda Decisions—Volume 6 compiles all agenda decisions published by the IFRS Interpretations Committee (Committee) in the period November 2021 to April 2022. The Committee publishes an agenda decision to explain why a standard-setting project has not been added to the work plan to address a question submitted. For ease of reference, the agenda decisions are sorted by IFRS Accounting Standard.

How the Committee supports consistent application of IFRS Accounting Standards

The Committee works with the International Accounting Standards Board (IASB) in supporting the consistent application of IFRS® Accounting Standards.

The Committee's process

Committee projects typically begin as an application question submitted for consideration. The process is designed to:

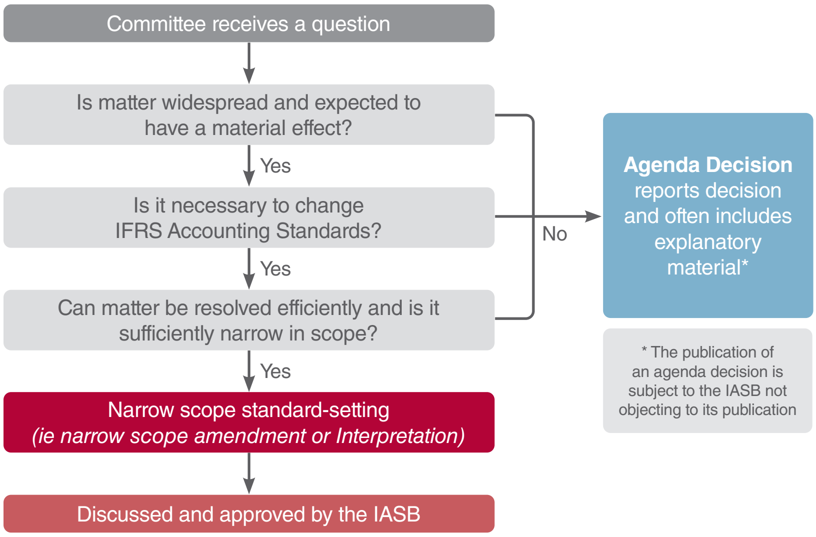
- allow any stakeholder to submit a question for consideration; and
- be transparent—all eligible application questions are considered at a public meeting.

The Committee then decides whether a standard-setting project should be added to the work plan to address the question submitted. The Committee may decide not to do so if it concludes that standard-setting would be:

- unnecessary—typically because, in the Committee's view, IFRS Accounting Standards provide an adequate basis for an entity to determine the required accounting or because there is no evidence that a widespread financial reporting problem exists; or
- not sufficiently narrow in scope—the question could be resolved only as part of a larger IASB project (not a narrow-scope project).

To explain why a standard-setting project is not added, the Committee publishes an agenda decision. Agenda decisions report the Committee's decision and, in many cases, also include explanatory material.

The following diagram summarises the criteria the Committee considers when deciding whether a standard-setting project should be added to the work plan:



Explanatory material in an agenda decision

Agenda decisions often include explanatory material. The objective of including such explanatory material is to improve the consistency of application of IFRS Accounting Standards.

Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Accounting Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the agenda decision.

Explanatory material derives its authority from the Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Accounting Standard(s), reflecting the explanatory material in an agenda decision (subject to it having sufficient time to implement that accounting).

Explanatory material included as part of a tentative agenda decision is subject to comment. The comment period is normally 60 days. After considering comments received, the Committee decides whether to confirm its decision and publish an agenda decision (subject to the IASB not objecting). An agenda decision is published if no more than three IASB members object to its publication. Please visit the project pages on our website if you would like more information about the agenda decisions included in this compilation.

Agenda decisions published by the Committee are available on the 'how the IFRS Interpretations Committee helps support consistent application' page.

Agenda decisions published by the Committee are available on the 'how we help support consistent application' page.

Narrow-scope standard-setting

Some questions result in narrow-scope standard-setting that follows the applicable due process. The Committee may decide to:

- develop an IFRIC Interpretation, which adds requirements to IFRS Accounting Standards but does not remove or replace any requirements in the Standards; or
- recommend that the IASB develop a narrow-scope amendment to a Standard.

Narrow-scope standard-setting projects recommended by the Committee and approved by the IASB are added to the work plan as maintenance projects.

IFRS 9 *Financial Instruments* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

TLTRO III Transactions (IFRS 9 and IAS 20)

March 2022

The Committee received a request about how to account for the third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank (ECB). The TLTROs link the amount a participating bank can borrow and the interest rate the bank pays on each tranche of the operation to the volume and amount of loans it makes to non-financial corporations and households.

The request asks:

a. whether TLTRO III tranches represent loans with a below-market interest rate and, if so, whether the borrowing bank is required to apply IFRS 9 or IAS 20 to account for the benefit of the below-market interest rate;

b. if the bank applies IAS 20 to account for the benefit of the below-market interest rate:

    i. how it assesses in which period(s) it recognises that benefit; and

    ii. whether, for the purpose of presentation, the bank adds the benefit to the carrying amount of the TLTRO III liability;

c. how the bank calculates the applicable effective interest rate;

d. whether the bank applies paragraph B5.4.6 of IFRS 9 to account for changes in estimated cash flows resulting from the revised assessment of whether the conditions attached to the liability have been met; and

e. how the bank accounts for changes in cash flows related to the prior period that result from the bank's lending behaviour or from changes the ECB makes to the TLTRO III conditions.

Applying the requirements in IFRS Accounting Standards

The Committee observed that IFRS 9 is the starting point for the borrowing bank to decide how to account for TLTRO III transactions because each financial liability arising from the bank's participation in a TLTRO III tranche is within the scope of IFRS 9. The bank:

a. assesses whether it would separate any embedded derivatives from the host contract as required by paragraph 4.3.3 of IFRS 9;

b. initially recognises and measures the financial liability, which includes determining the fair value of the financial liability, accounting for any difference between the fair value and the transaction price and calculating the effective interest rate; and

c. subsequently measures the financial liability, which includes accounting for changes in the estimates of expected cash flows.

The Committee noted that the request did not ask about the existence of an embedded derivative and, therefore, this agenda decision does not discuss the requirements in IFRS 9 regarding the separation of embedded derivatives.

Initial recognition and measurement of the financial liability

Applying paragraph 5.1.1 of IFRS 9, at initial recognition a bank measures each TLTRO III tranche at fair value plus or minus transaction costs, if the financial liability is not measured at fair value through profit or loss. A bank therefore measures the fair value of the liability using the assumptions that market participants would use when pricing the financial liability as required by IFRS 13 *Fair Value Measurement*. The fair value of a financial liability at initial recognition is normally the transaction price—that is, the fair value of the consideration received (paragraphs B5.1.1 and B5.1.2A of IFRS 9). If the fair value at initial recognition differs from the transaction price, paragraph B5.1.1 requires a bank to determine whether a part of the consideration received is for something other than the financial liability.

The Committee observed that determining whether an interest rate is a below-market rate requires judgement based on the specific facts and circumstances of the relevant financial liability. A difference between the fair value of a financial liability at initial recognition and the transaction price might indicate that the interest rate on the financial liability is a below-market rate.

If a bank determines that the fair value of a TLTRO III tranche at initial recognition differs from the transaction price and that the consideration received is for only the financial liability, the bank applies paragraph B5.1.2A of IFRS 9 to account for that difference.

If a bank determines that the fair value of a TLTRO III tranche at initial recognition differs from the transaction price and that the consideration received is for more than just the financial liability, the bank assesses whether that difference represents the benefit of a government loan at a below-market rate of interest (treated as a government grant in IAS 20). An entity assesses this difference only at initial recognition of the TLTRO III tranche. The Committee noted that if the difference is treated as a government grant, paragraph 10A of IAS 20 applies only to that difference. The bank applies IFRS 9 to account for the financial liability, both on initial recognition and subsequently.

Should a portion of a TLTRO III tranche be treated as a government grant in IAS 20?

IAS 20 defines:

a. government as referring to 'government, government agencies and similar bodies whether local, national or international';

b. government grants as 'assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity…'; and

c. forgivable loans as 'loans which the lender undertakes to waive repayment of under certain prescribed conditions'.

Paragraph 10A of IAS 20 requires an entity to treat as a government grant the benefit of a government loan at a below-market rate of interest. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan determined by applying IFRS 9 and the proceeds received. Paragraphs 12 and 20 of IAS 20 specify requirements for an entity to recognise government grants in profit or loss.

The Committee observed that a TLTRO III tranche would contain a portion that is treated as a government grant in IAS 20 if the bank assesses that the ECB meets the definition of government in paragraph 3 of IAS 20 and:

a. the interest rate charged on the TLTRO III tranche is a below-market interest rate as referred to in paragraph 10A of IAS 20; or

b. the loan is a forgivable loan (as defined in paragraph 3 of IAS 20) to which paragraph 10 of IAS 20 applies.

The Committee observed that making these assessments require judgement based on the specific facts and circumstances. The Committee therefore noted that it is not in a position to conclude on whether the TLTRO III tranches contain a benefit of a government loan at a below-market rate of interest or a forgivable loan in the scope of IAS 20.

The Committee acknowledged that judgement may also be required to identify the related costs for which the portion of the TLTRO III tranche that is treated as a government grant is intended to compensate. The Committee nonetheless concluded that IAS 20 provides an adequate basis for the bank to assess whether the TLTRO III tranches contain a portion that is treated as a government grant in IAS 20 and, if so, how to account for that portion.

Calculating the effective interest rate at initial recognition of the financial liability

Appendix A to IFRS 9 defines both the amortised cost of a financial liability and the effective interest rate. Calculating the effective interest rate requires an entity to estimate the expected cash flows through the expected life of the financial liability by considering all the contractual terms of the financial instrument.

In calculating the effective interest rate for a TLTRO III tranche at initial recognition, the question arises as to what to consider in estimating the expected future cash flows and, specifically, how to reflect uncertainty that arises from conditionality related to the contractual interest rate. The Committee noted that the question of what to consider in estimating the expected future cash flows to calculate the effective interest rate is also relevant for fact patterns other than that described in the request. The Committee therefore concluded that considering how to reflect conditionality in the contractual interest rate when calculating the effective interest rate is a broader matter, which it should not analyse solely in the context of TLTRO III tranches. Such an analysis could have unintended consequences for other financial instruments, the measurement of which involves similar questions about applying IFRS Accounting Standards. The Committee is therefore of the view that the IASB should consider this matter as part of the post-implementation review of the classification and measurement requirements in IFRS 9, together with similar matters already identified in the first phase of that review.

Subsequent measurement of the financial liability at amortised cost

The original effective interest rate is calculated based on estimated future cash flows at initial recognition as required by IFRS 9. The Committee noted that whether a bank alters the effective interest rate over the life of a TLTRO III tranche depends on the contractual terms of the financial liability and the applicable requirements in IFRS 9.

The contractual terms of TLTRO III tranches require interest to be settled in arrears on maturity or on early repayment of each tranche. There is therefore only one cash outflow over the life of the tranche.

Paragraphs B5.4.5 and B5.4.6 of IFRS 9 specify requirements for how an entity accounts for changes in estimated contractual cash flows.

For floating-rate financial instruments, paragraph B5.4.5 of IFRS 9 specifies that the periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. IFRS 9 does not define what a floating rate is.

Paragraph B5.4.6 of IFRS 9 applies to changes in estimated contractual cash flows of financial liabilities other than those addressed in paragraph B5.4.5, irrespective of whether the change arises from revisions of estimated contractual cash flows or from a modification of the contractual terms of the liability. However, when changes in contractual cash flows arise from a modification of the contractual terms, an entity assesses whether those changes result in the derecognition of the original financial liability and the recognition of a new financial liability by applying paragraphs 3.3.2 and B3.3.6 of IFRS 9.

The Committee also noted that the application of paragraph B5.4.6 of IFRS 9 depends on a bank's estimates of expected future cash flows in calculating the effective interest rate at initial recognition of the financial liability because paragraph B5.4.6 requires the use of the original effective interest rate to discount the revised cash flows.

The Committee observed that the question of how conditionality related to the contractual interest rate is reflected in the estimates of expected future cash flows when applying the effective interest method affects both initial and subsequent measurement. As this question is part of a broader matter, the Committee considered that it should not be analysed solely in the context of TLTRO III tranches. The Committee is therefore of the view that the IASB should consider this matter as part of the post-implementation review of the classification and measurement requirements in IFRS 9, together with similar matters already identified in the first phase of that review.

Disclosure

If a bank assesses that the ECB meets the definition of government in IAS 20 and that it has received government assistance from the ECB, the bank needs to provide the information required by paragraph 39 of IAS 20 regarding government grants and government assistance.

Given the judgements required and the risks arising from the TLTRO III tranches, a bank also needs to consider the requirements in paragraphs 117, 122 and 125 of IAS 1 *Presentation of Financial Statements*, as well as paragraphs 7, 21 and 31 of IFRS 7 *Financial Instruments: Disclosures*. These paragraphs require a bank to disclose information that includes its significant accounting policies and management's assumptions and judgements in applying its accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Conclusion

The Committee concluded that IAS 20 provides an adequate basis for the bank to assess whether TLTRO III tranches contain a portion that is treated as a government grant in IAS 20 and, if so, how to account for that portion.

Regarding the question of how conditionality related to the contractual interest rate is reflected in the estimates of expected future cash flows when calculating the effective interest rate at initial recognition or in the revisions of estimated future cash flows on subsequent measurement of the financial liability, the Committee concluded that the matters described in the request are part of a broader matter that, in isolation, are not possible to address in a cost-effective manner and should be reported to the IASB. The IASB should consider this matter as part of the post-implementation review of the classification and measurement requirements in IFRS 9.

For these reasons, the Committee decided not to add a standard-setting project to the work plan.

IFRS 16 *Leases*

Economic Benefits from Use of a Windfarm (IFRS 16)

December 2021

The Committee received a request about whether, applying paragraph B9(a) of IFRS 16, an electricity retailer (retailer) has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator (supplier). In the fact pattern described in the request:

a. the retailer and supplier are registered participants in an electricity market, in which customers and suppliers are unable to enter into contracts directly with each other for the purchase and sale of electricity. Instead, customers and suppliers make such purchases and sales via the market's electricity grid, the spot price for which is set by the market operator. The retailer therefore purchases electricity from the grid.

b. the retailer enters into an agreement with the supplier. The agreement:

   i. swaps the spot price per megawatt of electricity the windfarm supplies to the grid during the 20-year term of the agreement for a fixed price per megawatt, and is settled net in cash. In effect, the supplier receives a fixed price per megawatt for the electricity it supplies to the grid during the period of the agreement and the retailer settles with the supplier the difference between that fixed price and the spot prices per megawatt for that volume of electricity.

   ii. transfers to the retailer all renewable energy credits that accrue from use of the windfarm.

Paragraph 9 of IFRS 16 states that 'a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. To control the use of an identified asset for a period of time, the customer—throughout the period of use—must have both the right to obtain substantially all the economic benefits from use of the identified asset and the right to direct the use of that asset (paragraph B9 of IFRS 16).

Paragraph B21 of IFRS 16 specifies that 'a customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party'.

The Committee observed that, in the fact pattern described in the request, the economic benefits from use of the windfarm include the electricity it produces (as its primary output) and the renewable energy credits (as a by-product or other economic benefit from use of the windfarm).

The agreement results in the retailer settling with the supplier the difference between the fixed price and the spot prices per megawatt of electricity the windfarm supplies to the grid throughout the 20-year term of the agreement. That agreement, however, conveys neither the right nor the obligation for the retailer to obtain any of the electricity the windfarm produces and supplies to the grid. Although the retailer has the right to obtain the renewable energy credits (which represent a portion of the economic benefits from use of the windfarm), the retailer does not have the right to obtain substantially all the economic benefits from use of the windfarm because it has no right to obtain any of the electricity the windfarm produces throughout the period of the agreement.

The Committee therefore concluded that, in the fact pattern described in the request, the retailer does not have the right to obtain substantially all the economic benefits from use of the windfarm. Consequently, the agreement does not contain a lease.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that enters into an agreement as described in the request to assess whether it has the right to obtain substantially all the economic benefits from use of an identified asset. Consequently, the Committee decided not to add a standard-setting project to the work plan.

In considering the request, the Committee noted two other agenda decisions that include explanatory material that may be relevant to the agreement described in this request:

a. the Agenda Decision *Meaning of delivery* (IFRS 9 *Financial Instruments*) (August 2005); and

b. for entities applying the hedge accounting requirements in IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement*, the Agenda Decision *Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument* (IFRS 9 and IAS 39) (March 2019).

IAS 7 *Statement of Cash Flows*

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7)

April 2022

The Committee received a request about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. In the fact pattern described in the request, the entity:

a. holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it (that is, were the entity to request any amount from the deposit, it would receive that amount on demand).

b. has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.

Cash and cash equivalents in the statement of cash flows

The Committee noted that the question in the request is about whether the demand deposit meets the definition of 'cash' in IAS 7.

Paragraph 6 of IAS 7 defines 'cash' by stating that it 'comprises cash on hand and demand deposits.' IAS 7 includes no requirements on whether an item qualifies as cash beyond the definition itself.

IAS 7 and IAS 1 *Presentation of Financial Statements* indicate that amounts included in cash and cash equivalents may be subject to restrictions, namely:

a. paragraph 48 of IAS 7 requires an entity to disclose information about 'significant cash and cash equivalent balances held by the entity that are not available for use by the group'; and

b. paragraph 66(d) of IAS 1 requires an entity to classify as current an asset that is 'cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period'.

The Committee concluded that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. In the fact pattern described in the request, the contractual restrictions on the use of the amounts held in the demand deposit do not change the nature of the deposit—the entity can access those amounts on demand. Therefore, the Committee concluded that the entity includes the demand deposit as a component of 'cash and cash equivalents' in its statement of cash flows.

Presentation in the statement of financial position

Paragraph 54(i) of IAS 1 requires an entity to include a line item in its statement of financial position that presents the amount of 'cash and cash equivalents'. Paragraph 55 of IAS 1 states 'an entity shall present additional line items (including by disaggregating the line items listed in paragraph 54) … in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position'.

Therefore, the Committee concluded that, in the fact pattern described in the request, the entity presents the demand deposit as cash and cash equivalents in its statement of financial position. When relevant to an understanding of its financial position, the entity would disaggregate the 'cash and cash equivalents' line item and present the demand deposit separately in an additional line item.

An entity that presents assets as current or non-current would classify the demand deposit as current applying paragraph 66(d) of IAS 1, unless the demand deposit is 'restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period'.

Disclosures

Paragraph 45 of IAS 7 states that 'an entity shall disclose the components of cash and cash equivalents…'. Applying this requirement, in the fact pattern described in the request, the entity discloses the demand deposit as a component of cash and cash equivalents. The entity also considers whether to disclose additional information:

a. in the context of the requirements in IFRS 7 *Financial Instruments: Disclosures* about liquidity risk arising from financial instruments and how an entity manages that risk; and

b. if the information it provides in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient to enable users of financial statements to understand the impact of the restrictions on the entity's financial position (paragraph 31 of IAS 1).

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether to include demand deposits subject to contractual restrictions on use agreed with a third party as a component of cash and cash equivalents in its statements of cash flows and financial position. Consequently, the Committee decided not to add a standard-setting project to the work plan.

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