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# IFRIC Update

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**#WSS2022**

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# Welcome

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Bruce Mackenzie  
IASB Member and  
Chair of the IFRS  
Interpretations  
Committee



Patrina Buchanan  
IASB Technical Staff



Dennis Deysel  
IASB Technical Staff

# Agenda

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The IFRS Interpretations Committee's process

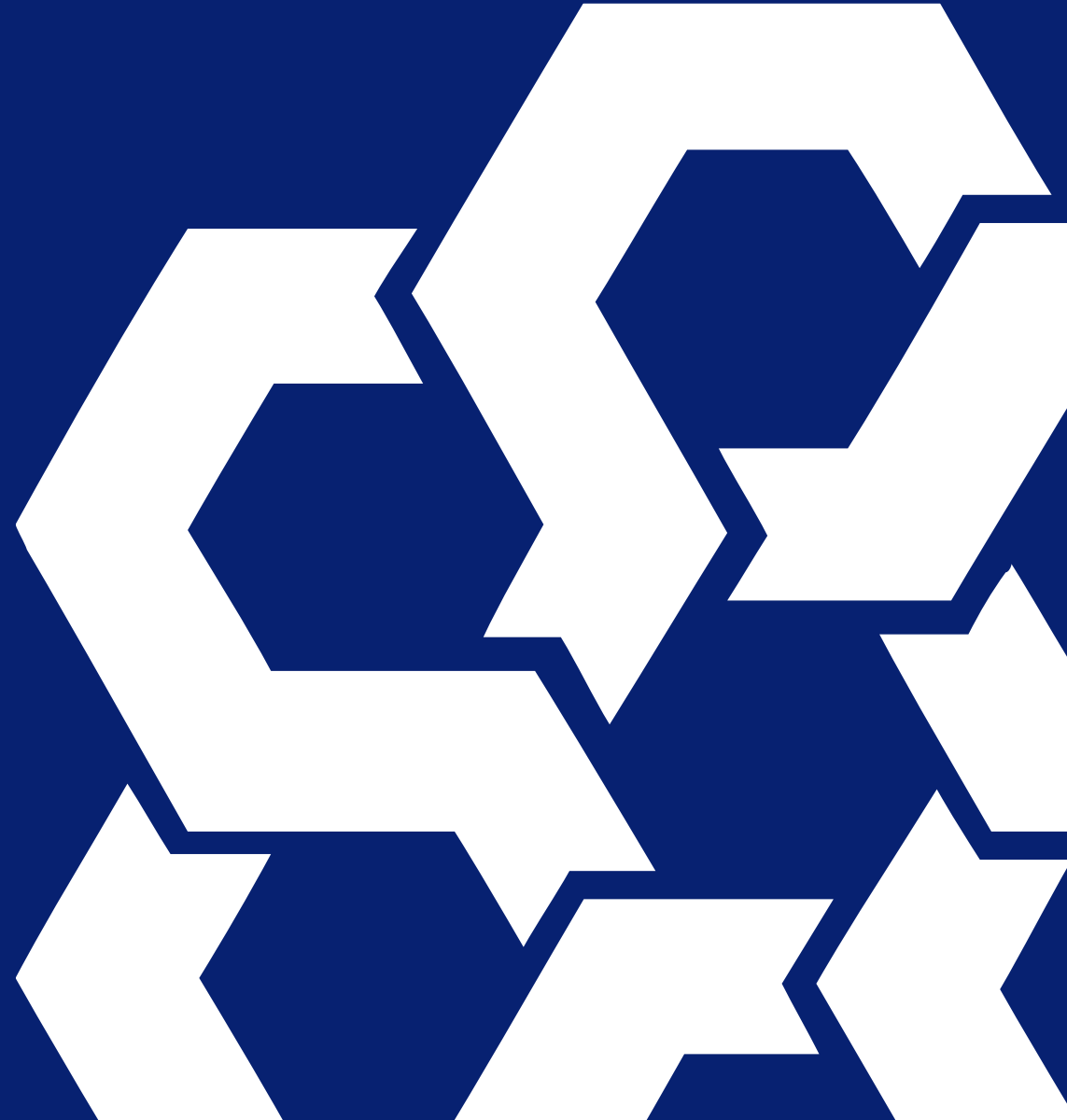
Status and implementation of agenda decisions

Recent agenda decisions and other Committee work

Narrow-scope standard-setting

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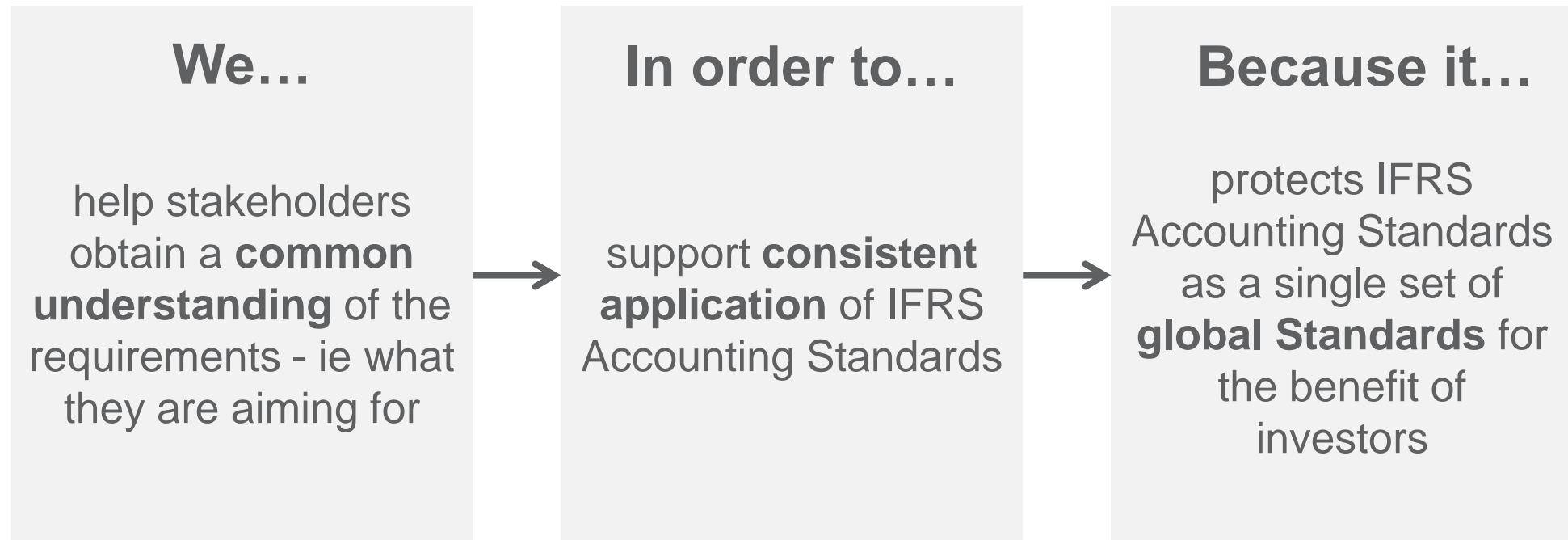
# The IFRS Interpretations Committee's process



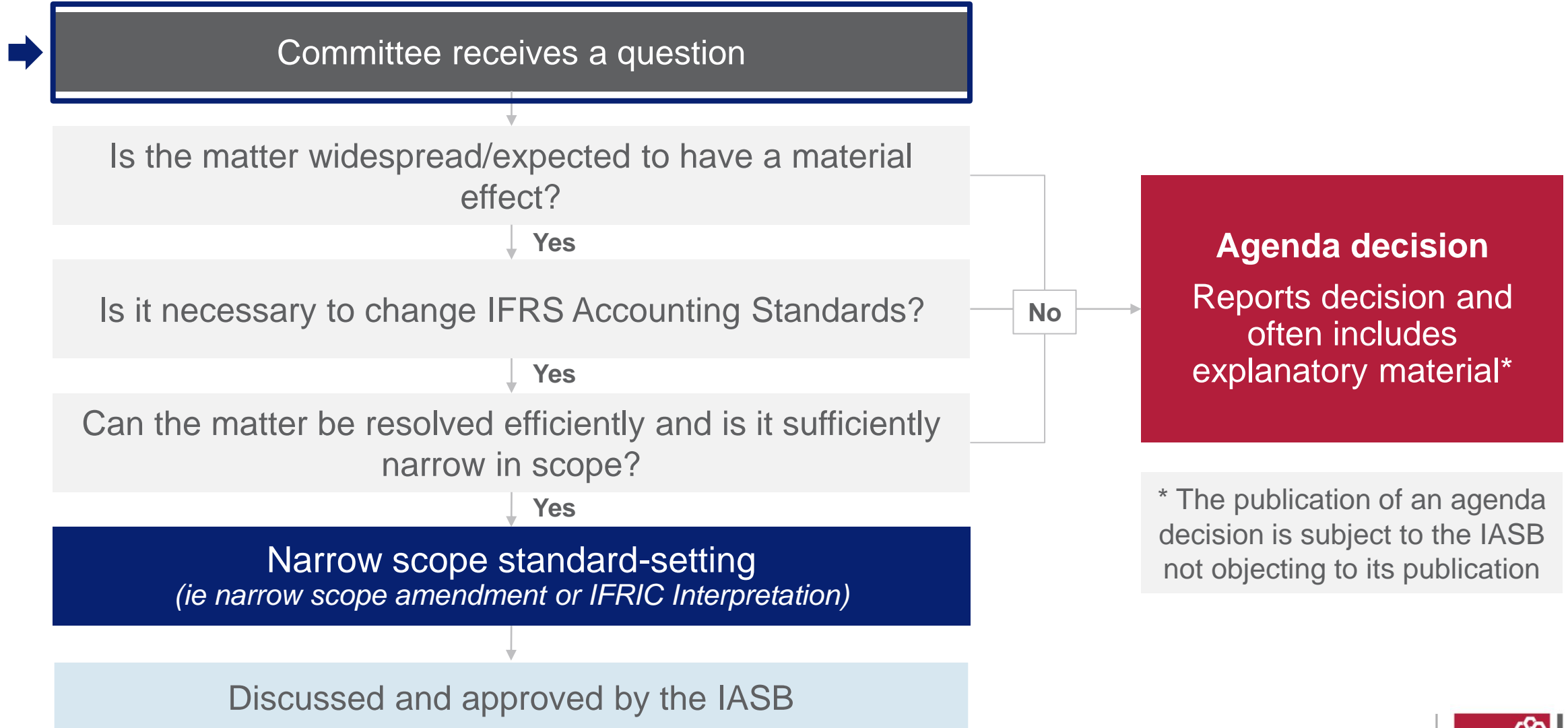
# Why we support consistent application

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## Objective in supporting IFRS Accounting Standards



# The Interpretations Committee's process



# The Committee receives a question

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## The Committee's process is open to all

Any stakeholder can submit questions to the Committee, at any time

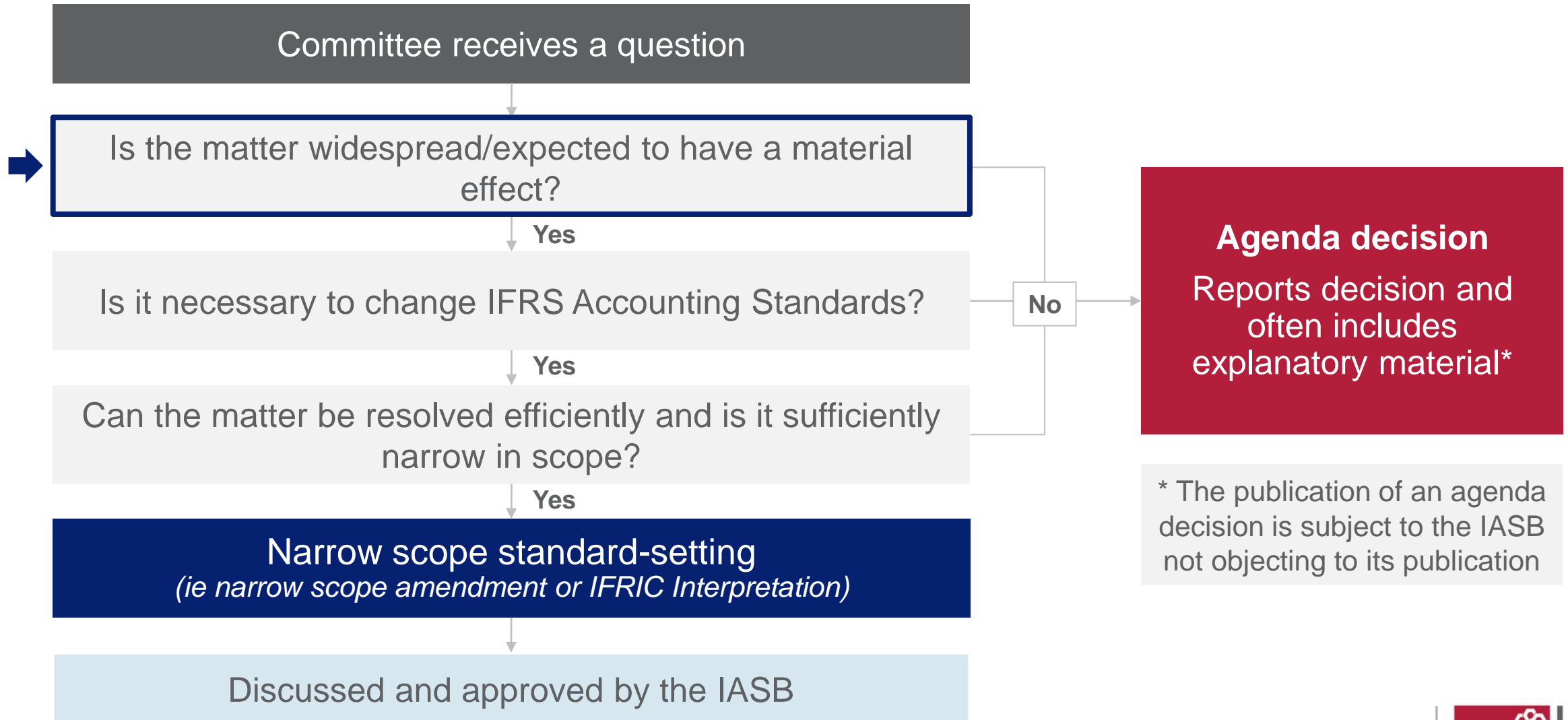
### Reasons for new submissions

- **Application of new IFRS Accounting Standards**  
*eg Transfer of Insurance Coverage (IFRS 17)*
- **Interaction between new and existing IFRS Accounting Standards**  
*eg Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)*
- **Application of existing IFRS Accounting Standards to new transactions**  
*eg Negative Low Emission Vehicle Credits (IAS 37)*
- **Submissions by regulators**  
*eg TLTRO III Transactions (IFRS 9 and IAS 20)*

### Submissions

- Explain why the Committee should address the matter
- Are available on the Committee's [pipeline projects](#) page

# The Interpretations Committee's process





# Is the matter widespread/material?

## Prevalence of the matter

Initial outreach with stakeholders is often performed to determine whether the matter is:

**Widespread**

Fact pattern is relevant to many entities across industries/jurisdictions

**Material**

Matter is expected to have a material effect on those affected

**Committee's  
assessment**

If this criterion is not  
satisfied, **no further work  
is performed**

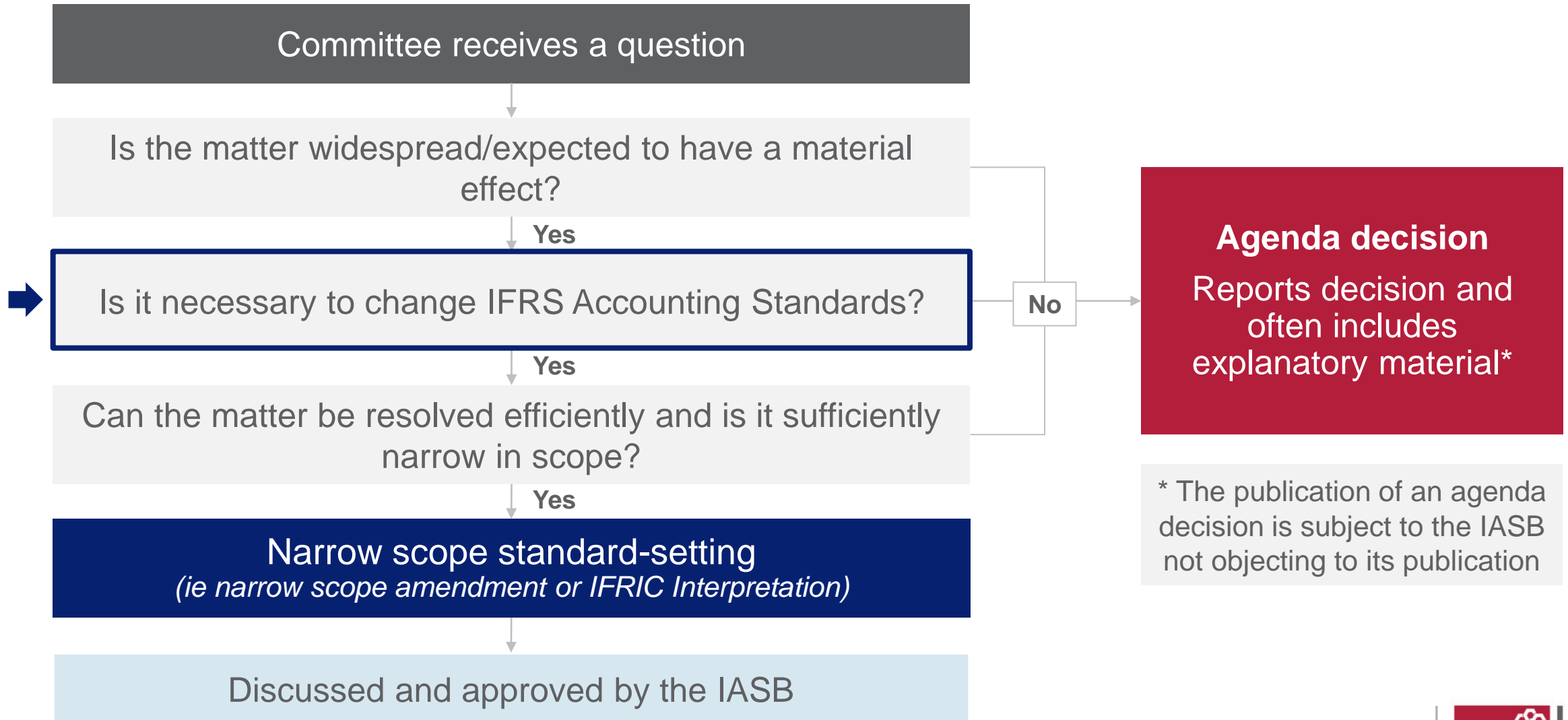
Stakeholders can comment on  
prevalence when responding  
to a tentative agenda decision

Including whether  
there is diversity in  
accounting

**Recent Example**

*Non-refundable Value Added Tax on Lease Payments (IFRS 16)*

# The Interpretations Committee's process



# Is it necessary to change IFRS Accounting Standards?

## The Committee assesses the following:

Do the principles and requirements in IFRS Accounting Standards provide an **adequate basis for an entity to determine the required accounting?**

*(Paragraph 5.16(b) of the Due Process Handbook)*

### The Committee does not assess

- whether existing requirements result in **useful information**
- the **costs** of applying these requirements

The Committee may report concerns about existing requirements to the IASB

## If IFRS Accounting Standards provide an adequate basis to determine the accounting:

Committee publishes a **tentative agenda decision** including **explanatory material**

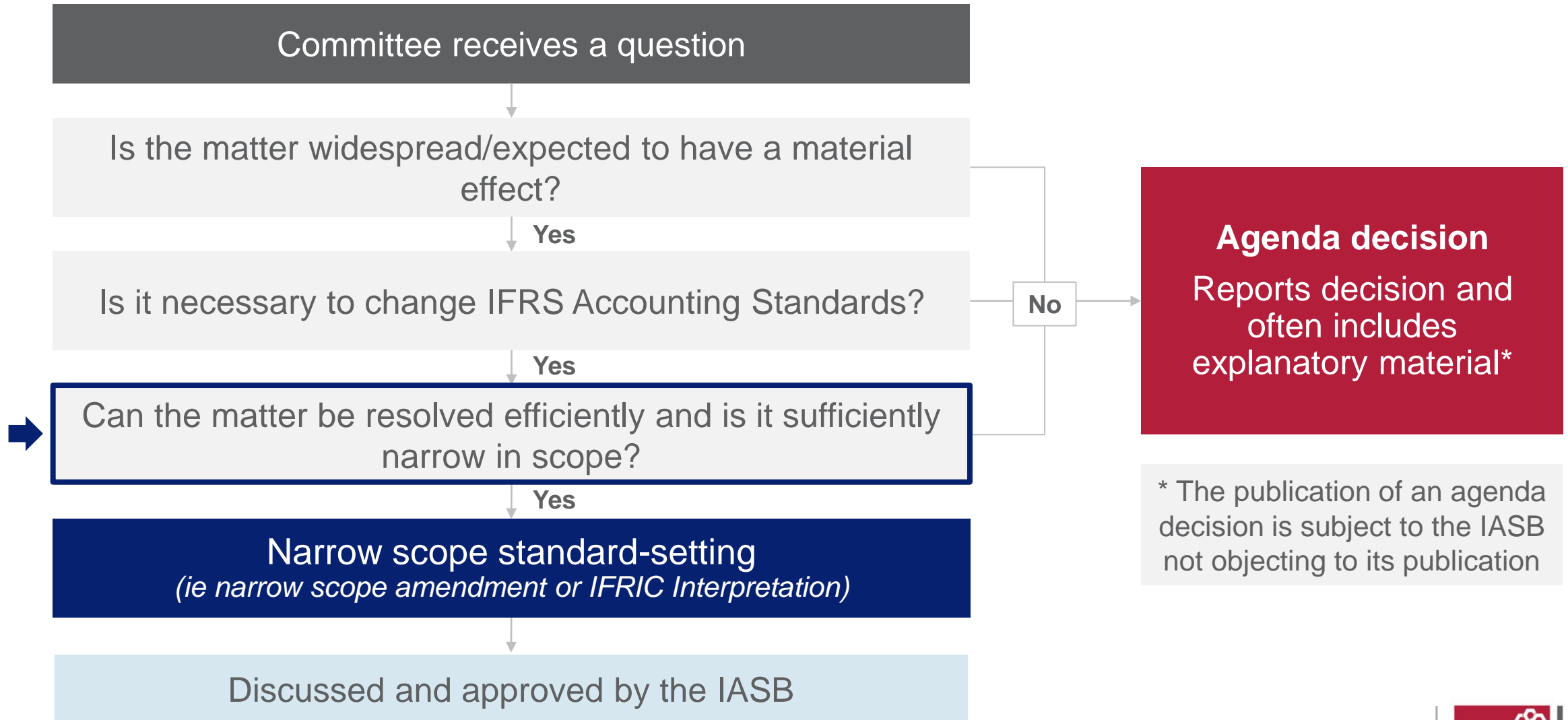
Explanatory material in agenda decisions aim to **improve consistent application**

Explanatory material **cannot add or change** requirements in IFRS Accounting Standards

### Recent Example

*Sample of agenda decisions are discussed later in this presentation*

# The Interpretations Committee's process



\* The publication of an agenda decision is subject to the IASB not objecting to its publication

# Is the matter sufficiently narrow in scope?

## How the Committee assesses whether a matter is narrow in scope?

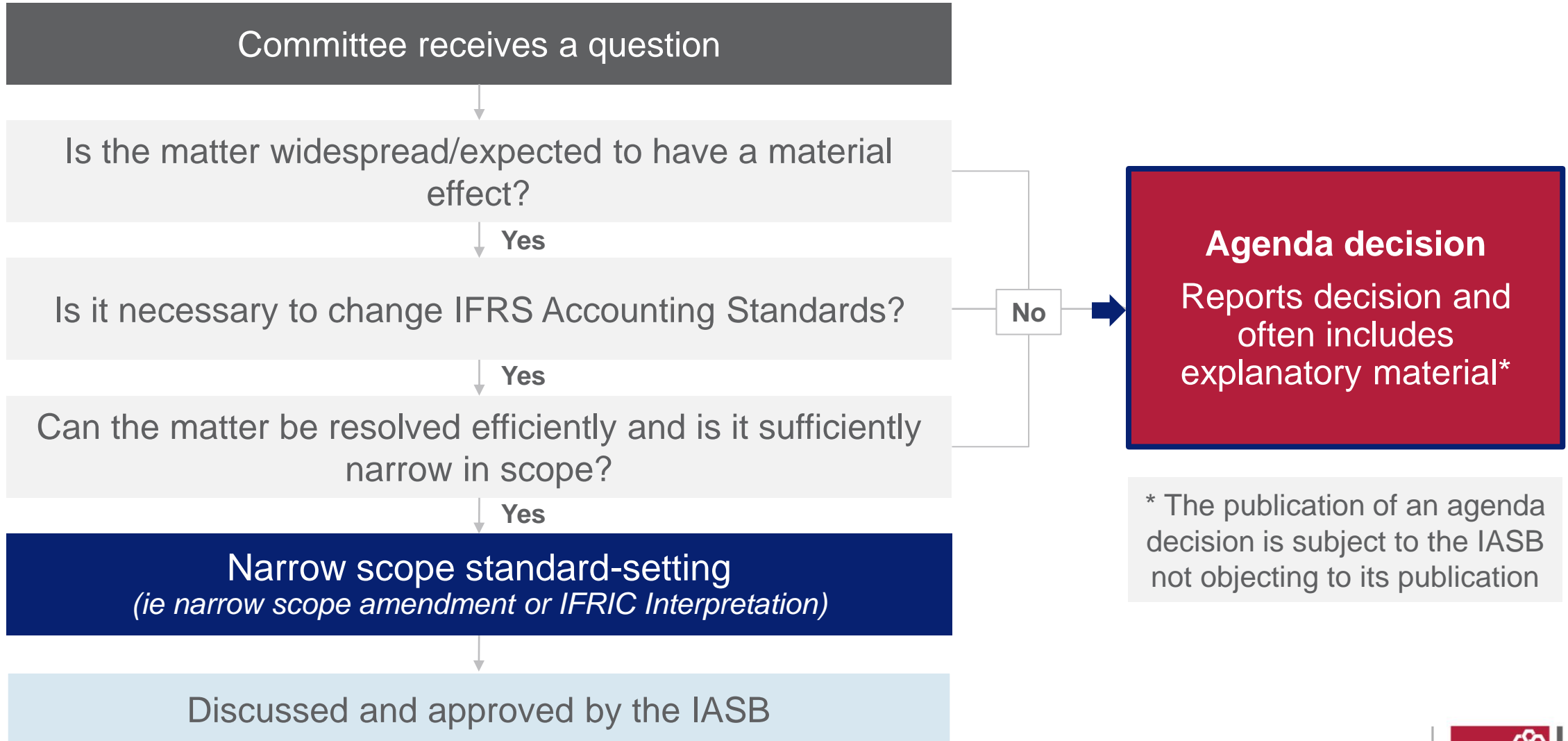
- Topics discussed by the Committee should be **narrow in scope**
- The Committee may add a standard-setting project to the work plan if both:
  - the matter **can be resolved *efficiently*** within the confines of existing IFRS Accounting Standards and the *Conceptual Framework*
  - the matter is **sufficiently narrow** in scope to be addressed in an efficient manner
- If the Committee concludes IFRS Accounting Standards do not provide an adequate basis but the matter is not sufficiently narrow in scope, **a project is not added to the work plan**

The Committee may report the matter to the IASB

### Recent Example

*Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)*

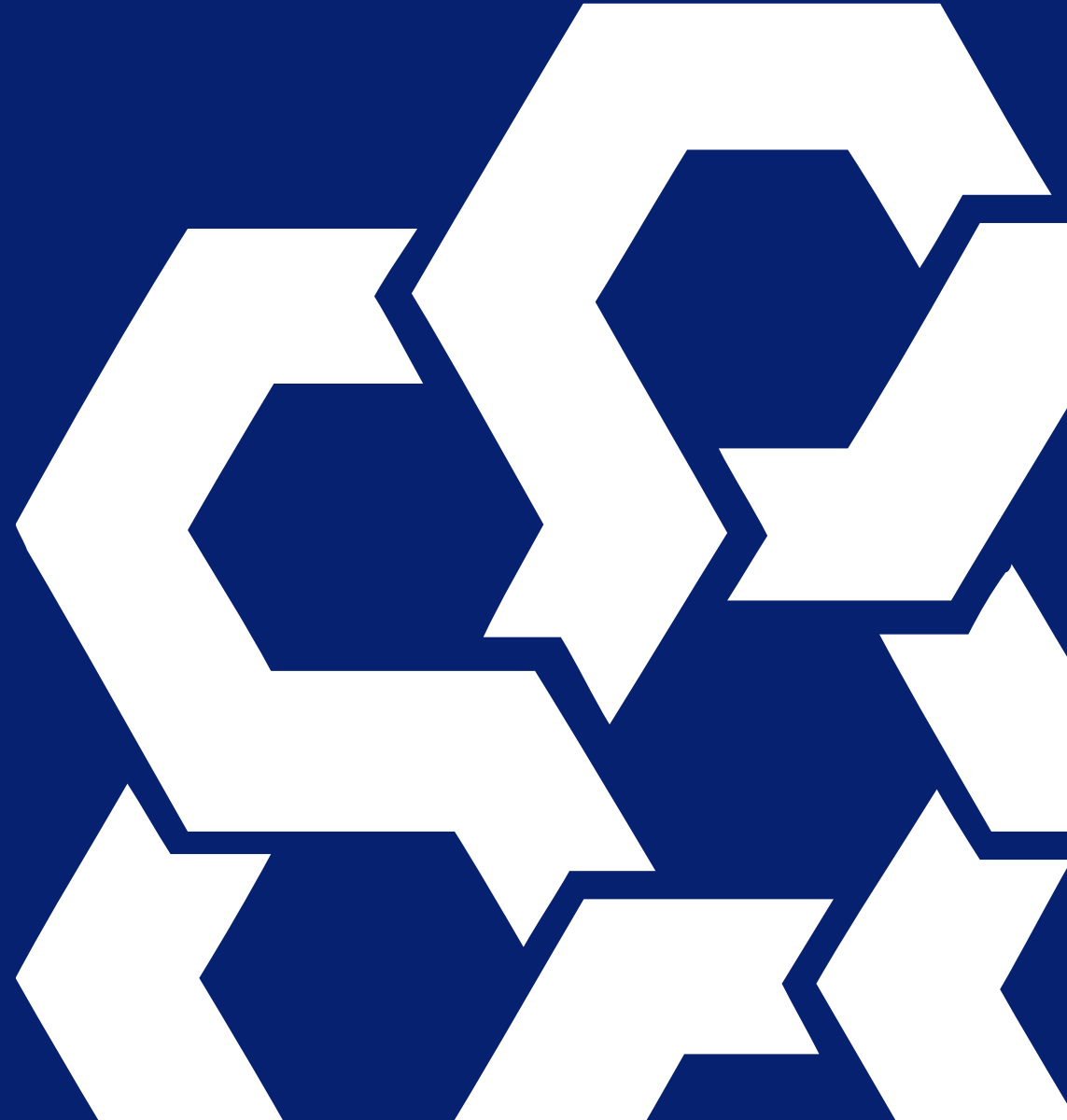
# The Interpretations Committee's process



\* The publication of an agenda decision is subject to the IASB not objecting to its publication

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# Status and implementation of agenda decisions



# Polling question 1

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Are agenda decisions approved by the IASB before they are finalised?

A. Yes

B. No



# Involvement of the IASB

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## The IASB's involvement in an agenda decision

Before it is finalised, the IASB is asked whether it **objects to an agenda decision**

### Objective of the IASB's involvement

The objective is not for the IASB to redo the Committee's work, but to confirm that:

- a) The agenda decision does **not add or change requirements** in IFRS Accounting Standards
- b) A **standard-setting project should not be added** to the work plan

### Objecting to an agenda decision

- If **four or more** Board members object, the agenda decision is not published
- The IASB then decides how to proceed

# Polling question 2

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What is the status of agenda decisions?

A. Non-mandatory

B. Non-mandatory, but highly encouraged

C. Mandatory

# Status of agenda decisions

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## What is the status of agenda decisions?

Agenda decisions with explanatory material:

- explain how **applicable requirements in IFRS Accounting Standards** apply to the transaction or fact pattern described—they **cannot add to or change** these requirements
- derive their authority from **IFRS Accounting Standards** and the IASB is involved in their finalisation

### Conclusion

Accounting practices not aligned with agenda decisions are **not compliant with IFRS Accounting Standards**

## Polling question 3

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How much time do entities have to implement any change that results from an agenda decision after it is published?

- A. By the end of the current interim reporting period
- B. By the end of the current annual reporting period
- C. By the end of the next annual reporting period
- D. It depends on facts and circumstances

# Implementing agenda decisions

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## Sufficient time to implement an agenda decision

- Agenda Decisions may provide **additional insights** that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards
- An entity might therefore determine that it needs to **change an accounting policy** as a result of an agenda decision
- Determining how much time is sufficient to make an accounting policy change is a **matter of judgement** that depends on **particular facts and circumstances**

## Paragraph 8.6 of the *Due Process Handbook*

*'It is expected that an **entity would be entitled to sufficient time** to make that determination and implement any necessary accounting policy change (for example, an entity may need to **obtain new information or adapt its systems to implement a change**)'*

# Q&A

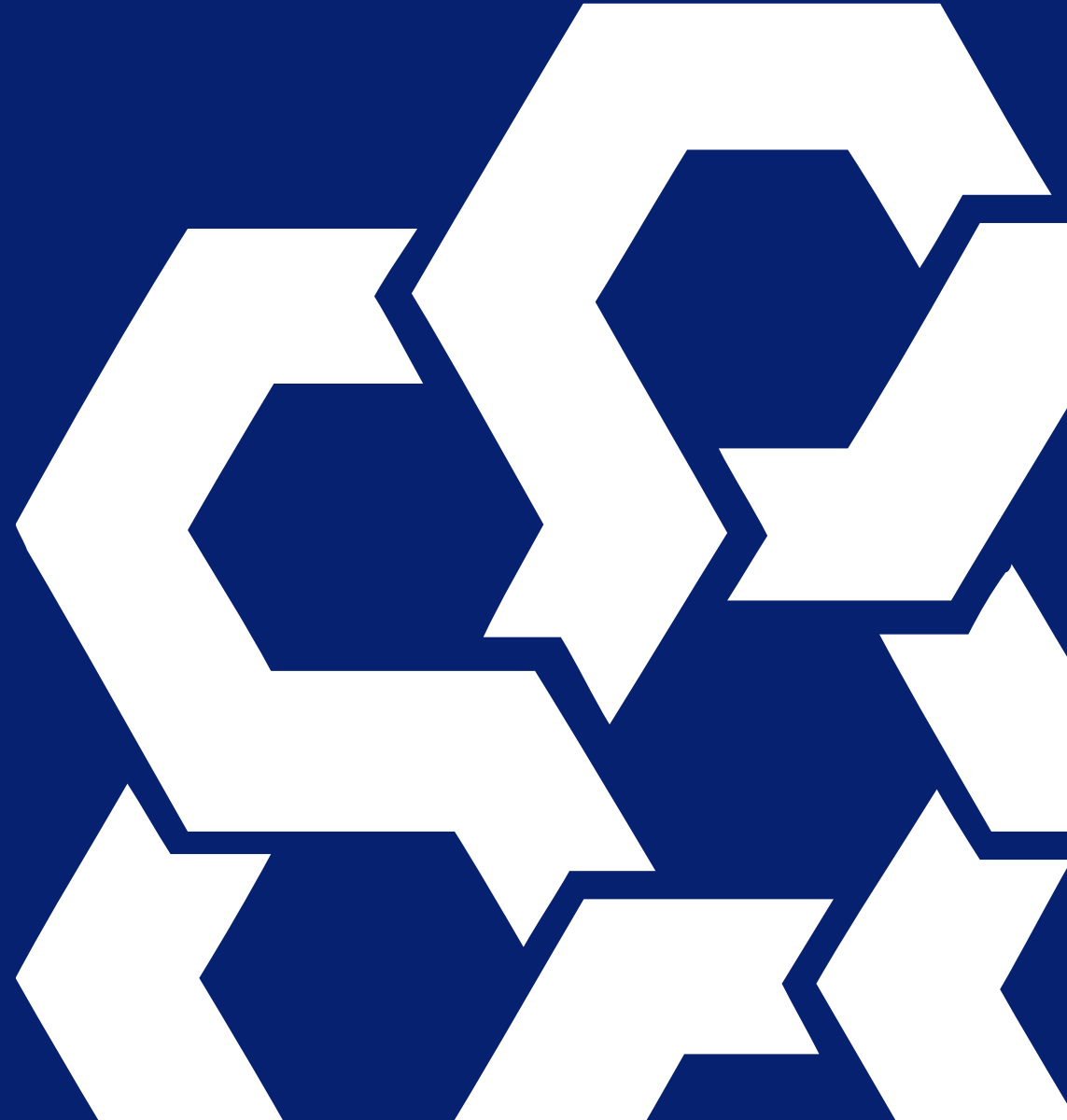
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- The IFRS Interpretations Committee's process
- Status and implementation of agenda decisions

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## Recent agenda decisions and other Committee work



# Recent agenda decisions and other Committee work

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We will cover the following topics:

1

Agenda Decision: Configuration or Customisation Costs in a Cloud Computing Arrangement  
*March 2021*

2

Agenda Decision: Demand Deposits with Restrictions on Use arising from a Third Party Contract  
*April 2022*

3

Agenda Decision: Negative Low Emission Vehicle Credits  
*July 2022*

4

Cash Received via Electronic Transfer as Settlement for a Financial Asset

5

Lessor forgiveness of lease payments (IFRS 16 and IFRS 9)\*

\* The IASB will be asked whether it objects to this agenda decision at a future meeting.



# 1 Cloud Computing (IAS 38)

How a customer accounts for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement?



Access to the software is a **service** the customer receives over the contract term



Customer incurs **costs** of configuring or customising the supplier's application software:

**Configuration**

Setting of 'flags' or 'switches' or defining values or parameters

**Customisation**

Modifying the software code or writing additional code

# 1 Cloud Computing (IAS 38)

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**Question 1: Does the customer recognise an intangible asset in relation to configuration or customisation?**

## Requirements in IFRS Accounting Standards

‘An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits’

*Paragraph 13 of IAS 38*

## Conclusion

Depends on the **nature** and **output** of the configuration or customisation performed



Often **not** result in an **intangible asset**

# 1 Cloud Computing (IAS 38)

**Question 2: If an intangible asset is not recognised, how does the customer account for the configuration or customisation costs?**

## Requirements in IFRS Accounting Standards

‘...the entity recognises the expenditure as an expense when it receives the service’

*Paragraph 69 of IAS 38*



‘services are received when they **are performed by a supplier** in accordance with a contract to deliver them to the entity...’

*Paragraph 69A of IAS 38*

## Conclusion

When does the entity recognise the expense

**Distinct service**

When software is configured and customised

**Not distinct**

When access to the software is provided (over the contract term)

## 2 Demand Deposits with Restrictions (IAS 7)

### Can a demand deposit subject to restrictions on use be classified as cash and cash equivalents?



An entity holds a **demand deposit** whose terms and conditions do **not prevent** the entity from accessing it on demand



The entity has a **contractual obligation with a third party** to use the cash in the demand deposit only for **specified purposes**

#### Analysis

- IAS 7 defines cash by stating that it ‘comprises cash on hand and demand deposits’ and **includes no other requirements** on whether an item qualifies as cash
- Requirements in IAS 7 and IAS 1 indicate cash and cash equivalents **may be subject to restrictions**

#### Conclusion

The restrictions **do not change the nature** of the deposit. The entity can access the cash in the deposit on demand. The deposit is therefore classified as **cash**. Disclosure and presentation requirements in IAS 1, IAS 7 and IFRS 7 apply.

### 3 Negative Low Emission Credits (IAS 37)

Do measures to encourage reductions in emissions give rise to obligations that meet the definition of a liability in IAS 37?



**Government measures** require entities to produce or import vehicles with average fuel emissions lower than a government target. Entities receive **positive** or **negative** credits depending on whether they meet the targets



An entity that receives **negative credits** must **eliminate them** by purchasing or generating positive credits. The government may **impose sanctions** on entities that fail to do so

#### Analysis

Paragraph 10 of IAS 37 defines:

- a **liability** as ‘a present obligation of the entity arising from **past events**, the settlement of which is expected to result in an **outflow from the entity of resources embodying economic benefits**’
- obligating event as ‘an event that creates a legal or constructive obligation that results in an entity having **no realistic alternative to settling that obligation**’

### 3 Negative Low Emission Credits (IAS 37)

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#### Conclusion

The Committee concluded:

- the settlement of an obligation to eliminate negative credits would result in an **outflow of resources embodying economic benefits**
- the activity that gives **rise to a present obligation** is the **production or import of vehicles** whose average fuel emissions are higher than the government target
- an entity **would have a legal obligation** that is enforceable by law **unless accepting the possible sanctions** for non-settlement is a **realistic alternative** for that entity

## 4 Electronic Transfer (IFRS 9)

Can an entity recognise cash received on the date an electronic transfer is initiated (ie before the transfer is settled)?



An entity receives cash **as settlement for a trade receivable** via electronic transfer



The **electronic transfer system** has an automated settlement process that **takes three working days** to settle a cash transfer

### Analysis

- Paragraph 3.1.2 of IFRS 9—which specifies requirements for regular way purchase or sale of a financial asset—is **not applicable**
- The **general recognition and derecognition requirements** in paragraph 3.1.1 and 3.2.3(a) of IFRS 9 apply

### Conclusion

The entity determines when to derecognise the trade receivable and recognise cash applying the general recognition and derecognition requirements in IFRS 9

## 5 Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

How does a lessor account for forgiven lease payments in a rent concession?



Lessor agrees to provide a **rent concession** on an **operating lease**



Lessor **legally releases** the lessee from its obligation to make **specified lease payments**. No other changes are made

### Questions

1. How the lessor applies the **expected credit loss** model to the lease receivable before the rent concession?
2. Does the lessor apply the **derecognition requirements in IFRS 9** or the **lease modification requirements in IFRS 16**?



## 5 Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

### Question 1—Applying the ECL model

#### Analysis

- Operating lease receivables recognised by a lessor are subject to the **impairment requirements** in IFRS 9 (*paragraph 2.1(b) of IFRS 9*)
- IFRS 9 defines credit loss as ‘the difference between **all contractual cash flows** that are due to an entity in accordance with the contract and **all the cash flows that the entity expects to receive (ie all cash shortfalls)...**’
- ECL reflects (a) an unbiased and probability-weighted amount that is determined by evaluating a **range of possible outcomes** and (b) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions (*paragraph 5.5.17 of IFRS 9*)

#### Conclusion

The lessor considers its expectations of forgiving lease payments recognised as part of a lease receivable when measuring the ECL for that receivable.

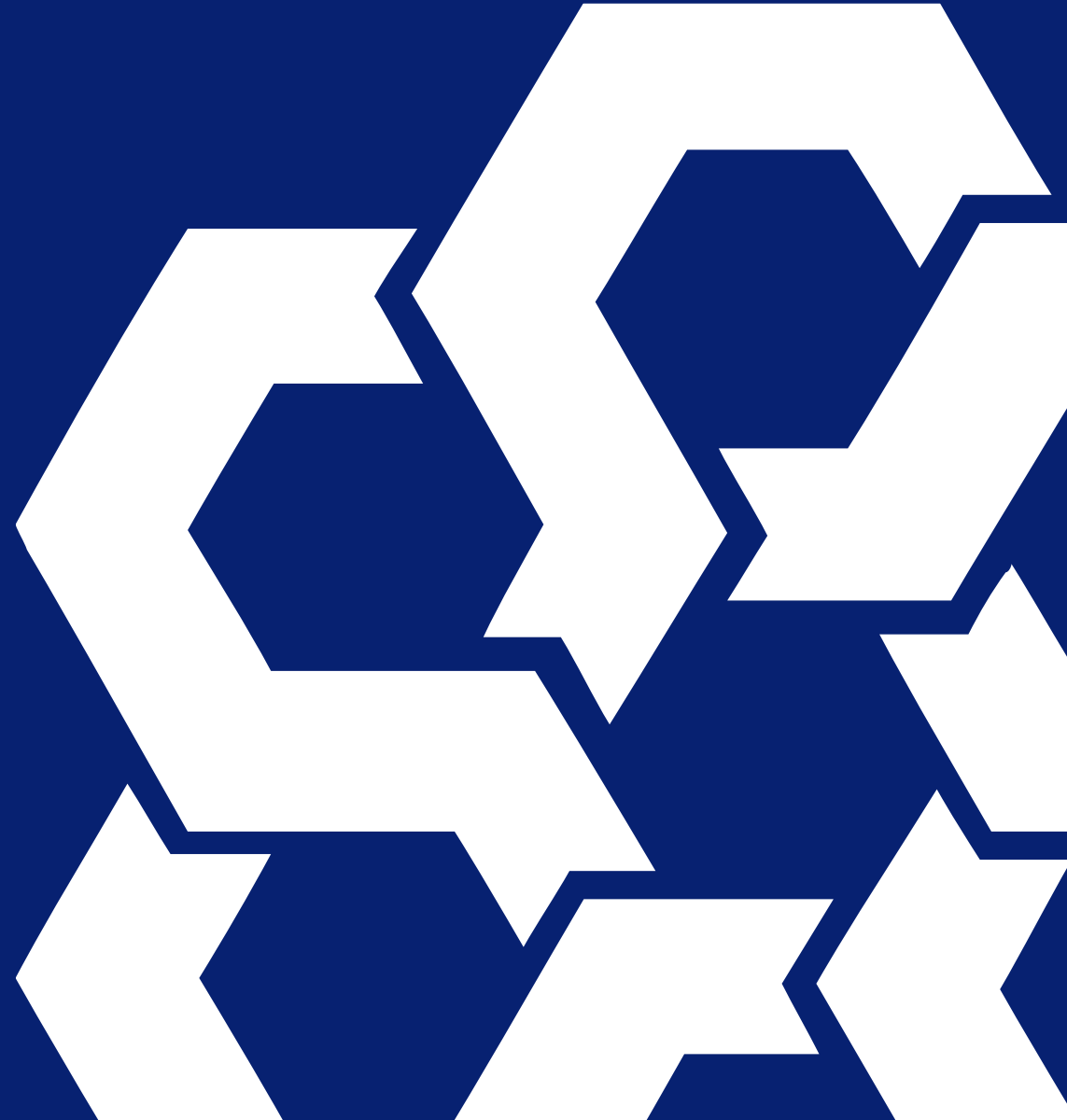
## 5 Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

### Question 2—Accounting for the rent concession

	IFRS 9	IFRS 16
Analysis	<ul style="list-style-type: none"><li>Operating lease receivables recognised by a lessor are subject to the <b>derecognition requirements</b> in IFRS 9 (p.2.1(b))</li><li>An entity derecognises a financial asset when ‘the <b>contractual rights to the cash flows</b> from the financial asset <b>expire</b>’ (p. 3.2.3(a))</li></ul>	<ul style="list-style-type: none"><li>The rent concession meets the definition of a <b>lease modification</b> in IFRS 16—lessor accounts for the <b>modified lease as a new lease</b> (p. 87)</li><li>Lease payments recognised as lease receivable <b>are not accrued lease payments</b>, and therefore not considered as payments for the new lease.</li></ul>
Conclusion	<ul style="list-style-type: none"><li>IFRS 9 applies to forgiven lease payments included in the lease receivable.</li><li>IFRS 16 applies to forgiven lease payments not included in the lease receivable.</li></ul>	

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# Narrow-scope standard-setting



# The Interpretations Committee's process

Committee receives a question

Is the matter widespread/expected to have a material effect?

Yes

Is it necessary to change IFRS Accounting Standards?

Yes

Can the matter be resolved efficiently and is it sufficiently narrow in scope?

Yes

**Narrow scope standard-setting**  
*(ie narrow scope amendment or IFRIC Interpretation)*

Discussed and approved by the IASB

No

**Agenda decision**  
Reports decision and often includes explanatory material\*

\* The publication of an agenda decision is subject to the IASB not objecting to its publication

# Narrow-scope standard-setting

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The following is a list of recent proposed and finalised narrow-scope amendments that started as application questions to the Committee:



ED Supplier Finance Arrangements  
(IAS 7 and IFRS 7)  
*November 2021*



ED Non-current Liabilities with Covenants  
(IAS 1)  
*November 2021*



ED Lack of Exchangeability (IAS 21)  
*April 2021*



Lease Liability in a Sale and Leaseback  
(IFRS 16)  
*September 2022*



Definition of Accounting Estimates (IAS 8)  
*February 2021*



Deferred Tax related to Assets and Liabilities  
arising from a Single Transaction (IAS 12)  
*May 2021*



Onerous Contracts—Cost of Fulfilling a  
Contract (IAS 37)  
*May 2020*



Property, Plant and Equipment: Proceeds  
before Intended Use (IAS 16)  
*May 2020*

# Q&A

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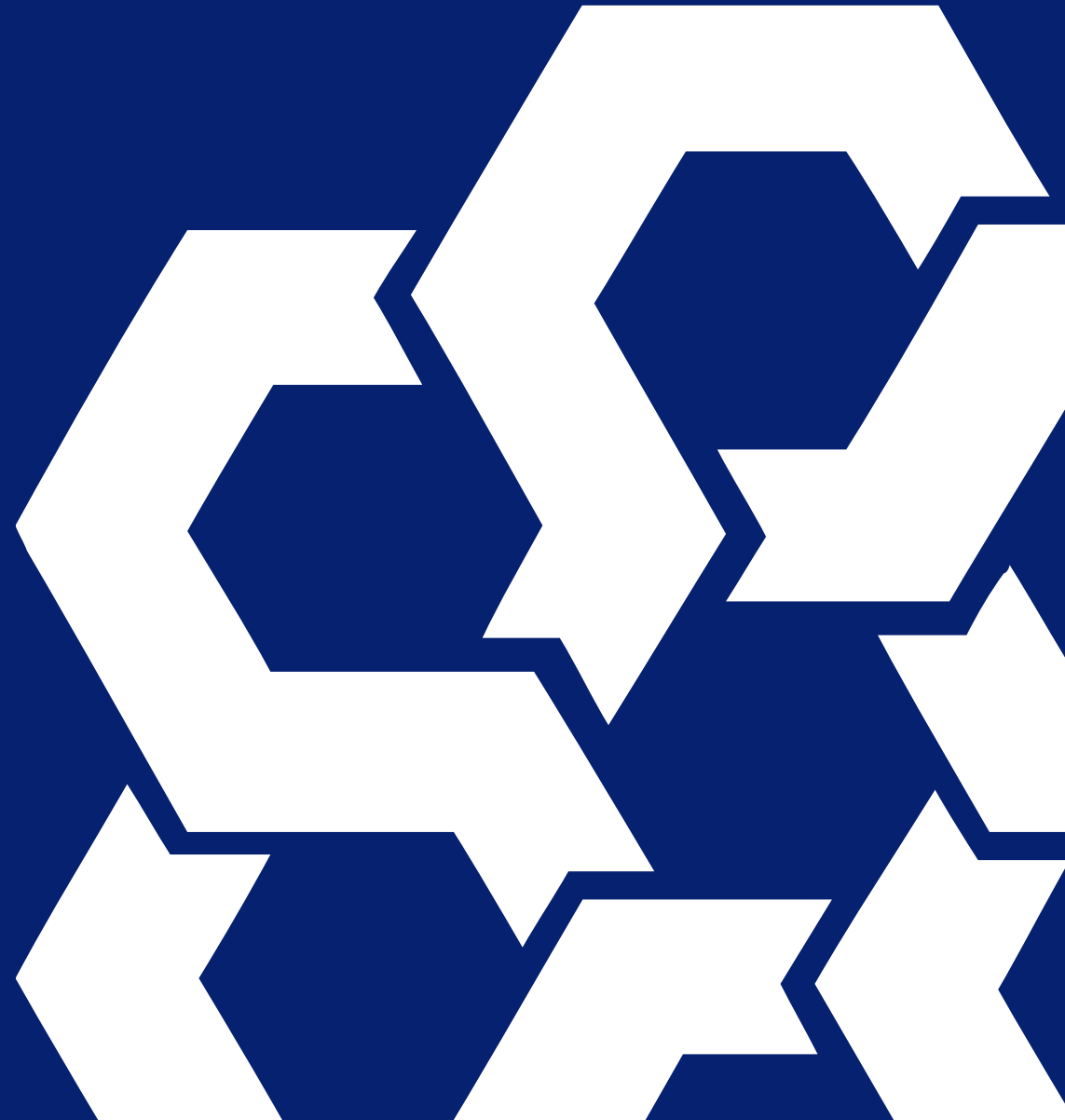


- Recent agenda decisions and other Committee work
- Narrow-scope standard-setting

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# Appendix

Resources



# Agenda Decisions – where to find them

## 1. The Annotated IFRS® Standards

Include extensive cross-references that guide readers through each Standard and:

- other related Standards;
- accompanying Illustrative Examples and Implementation Guidance; and
- its Basis for Conclusions.

In addition, **agenda decisions** published up to 31 December 2021 have been included as annotations.

Available at <https://shop.ifrs.org>



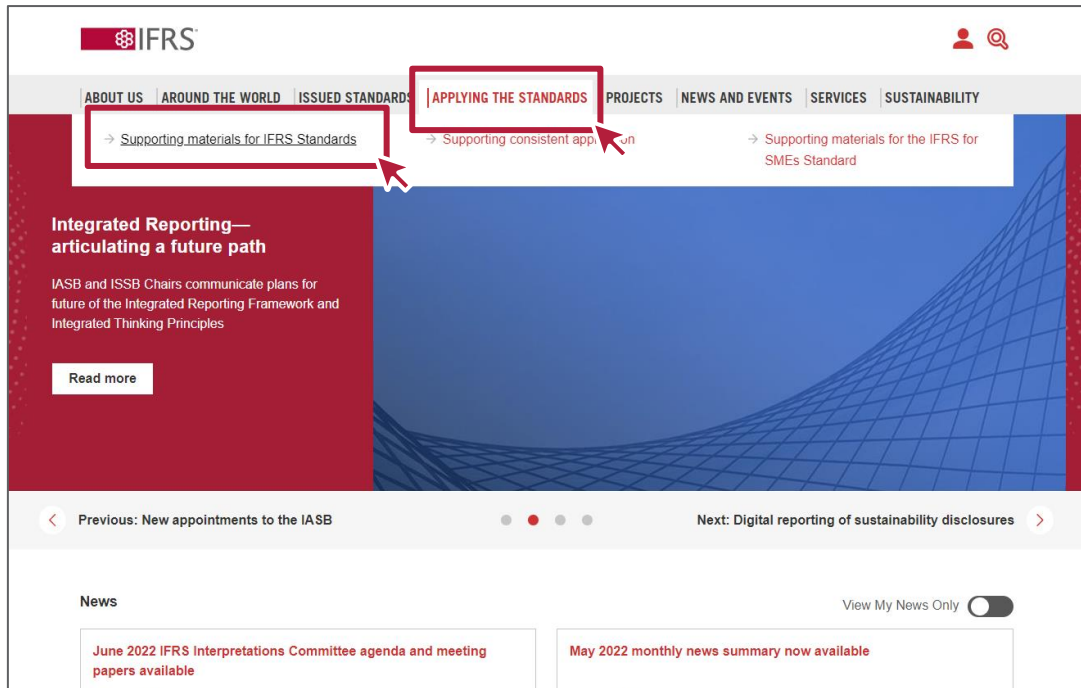
The Annotated IFRS® Standards



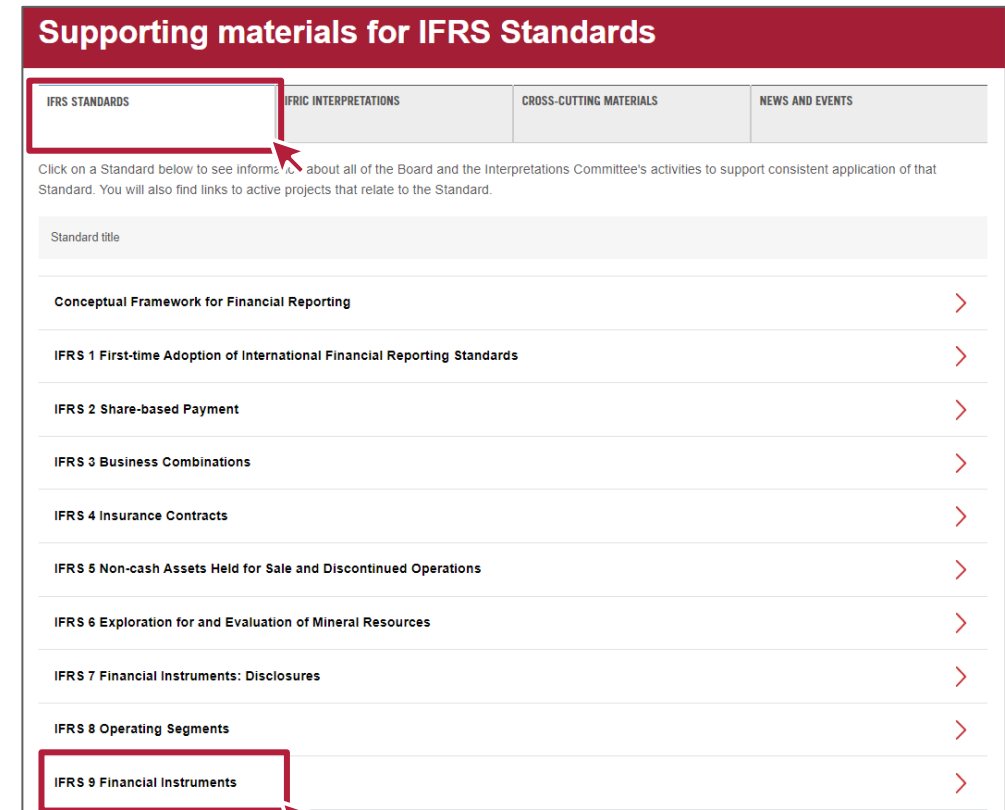
# Agenda decisions – where to find them

## 2. IFRS foundation website (ifrs.org)

### A. Agenda decisions by IFRS Accounting Standard



1. Access the 'Supporting materials for IFRS Accounting Standards'.

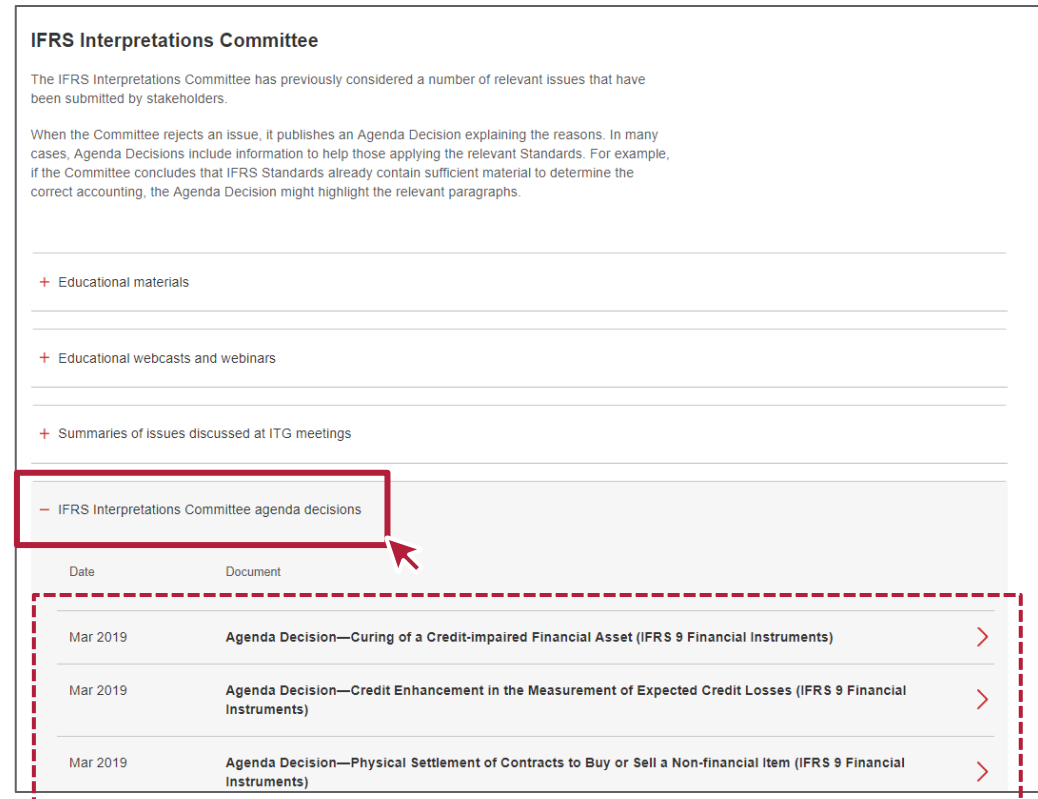


2. Click on 'IFRS Accounting Standards' and then choose the Standard (e.g. IFRS 9).

# Agenda decisions – where to find them

## 2. IFRS foundation website (ifrs.org)

### A. Agenda decisions by Standard



**IFRS Interpretations Committee**

The IFRS Interpretations Committee has previously considered a number of relevant issues that have been submitted by stakeholders.

When the Committee rejects an issue, it publishes an Agenda Decision explaining the reasons. In many cases, Agenda Decisions include information to help those applying the relevant Standards. For example, if the Committee concludes that IFRS Standards already contain sufficient material to determine the correct accounting, the Agenda Decision might highlight the relevant paragraphs.

- + Educational materials
- + Educational webcasts and webinars
- + Summaries of Issues discussed at ITG meetings
- IFRS Interpretations Committee agenda decisions

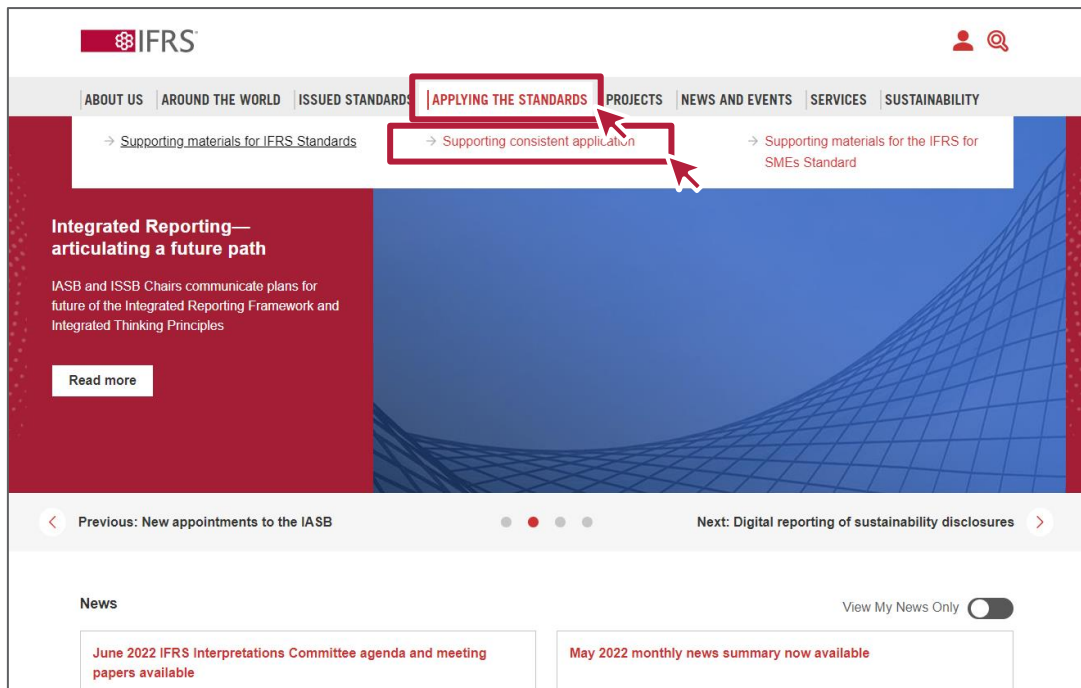
Date	Document	
Mar 2019	<a href="#">Agenda Decision—Curing of a Credit-impaired Financial Asset (IFRS 9 Financial Instruments)</a>	>
Mar 2019	<a href="#">Agenda Decision—Credit Enhancement in the Measurement of Expected Credit Losses (IFRS 9 Financial Instruments)</a>	>
Mar 2019	<a href="#">Agenda Decision—Physical Settlement of Contracts to Buy or Sell a Non-financial Item (IFRS 9 Financial Instruments)</a>	>

3. Scroll down the screen and click on 'IFRS Interpretations Committee agenda decisions'. Agenda decisions will be listed.

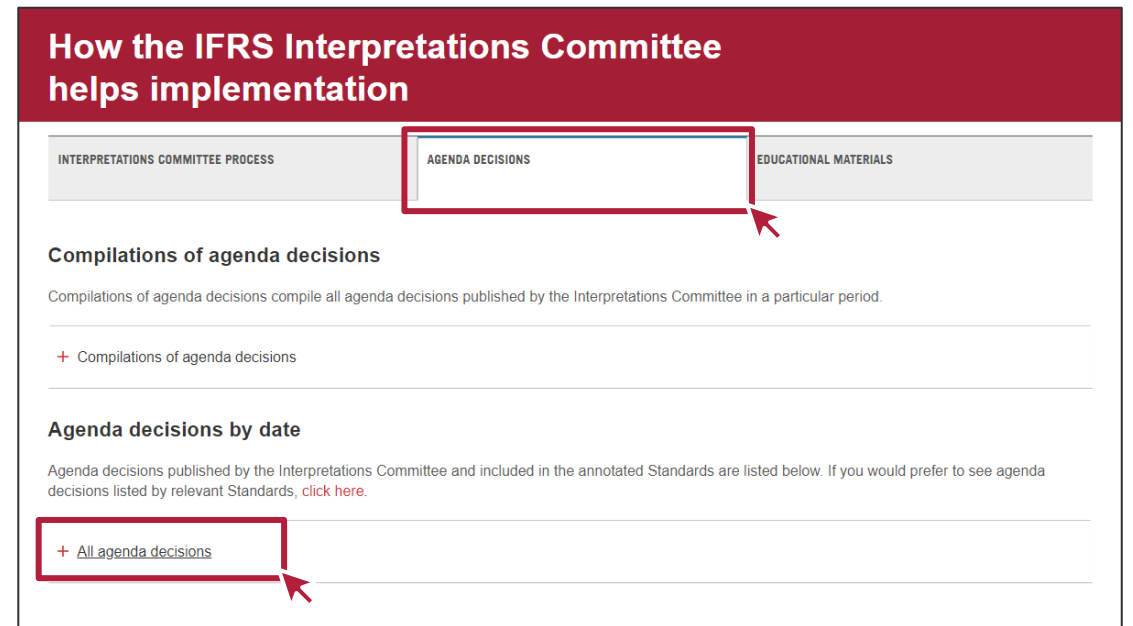
# Agenda decisions – where to find them

## 2. IFRS foundation website (ifrs.org)

### B. List of all agenda decisions



1. Access 'Supporting consistent application'.

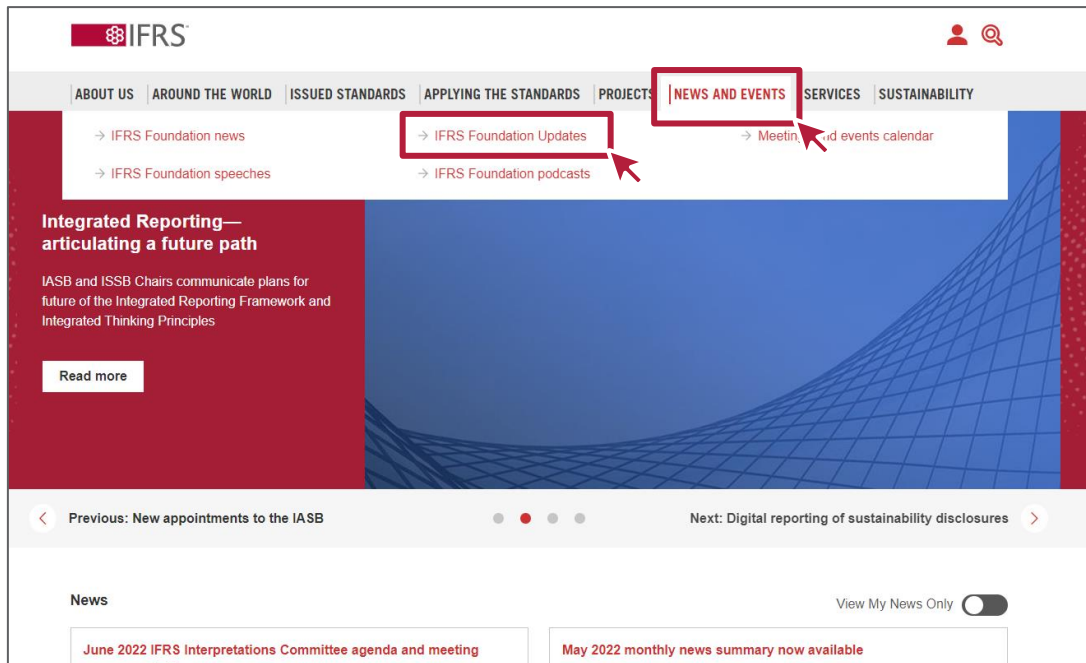


2. Click on the 'Agenda Decisions' tab, and then on 'All agenda decisions'. Agenda decisions will be listed.

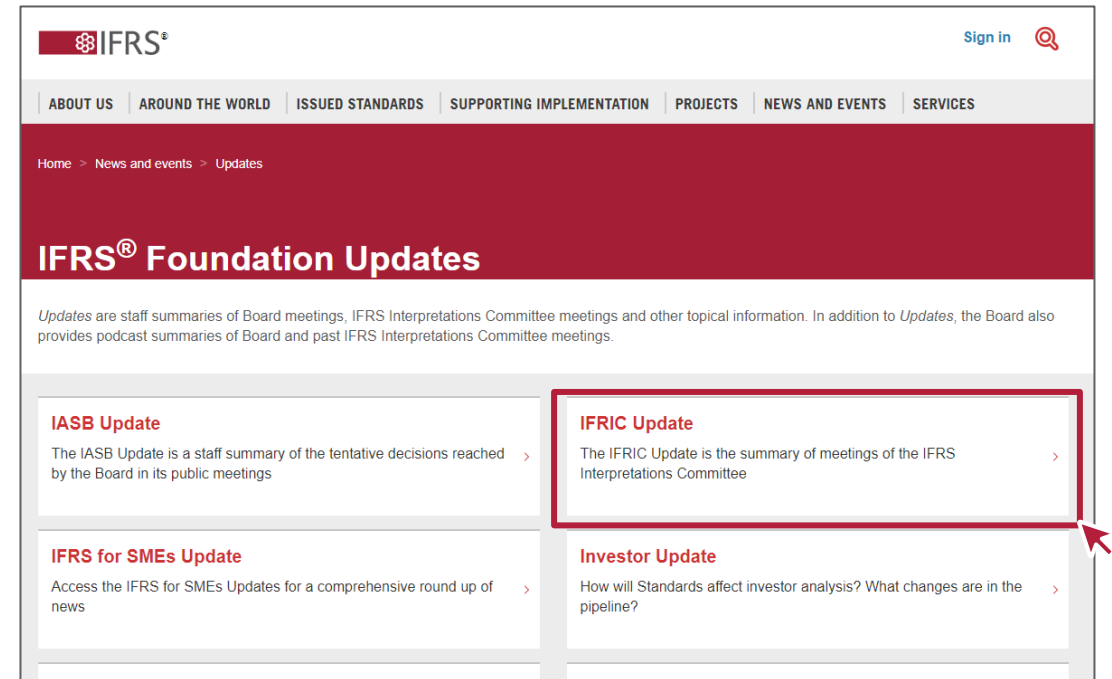
# Agenda decisions – where to find them

## 2. IFRS foundation website (ifrs.org)

### C. IFRIC Update



1. Access the 'IFRS Foundation Updates'.

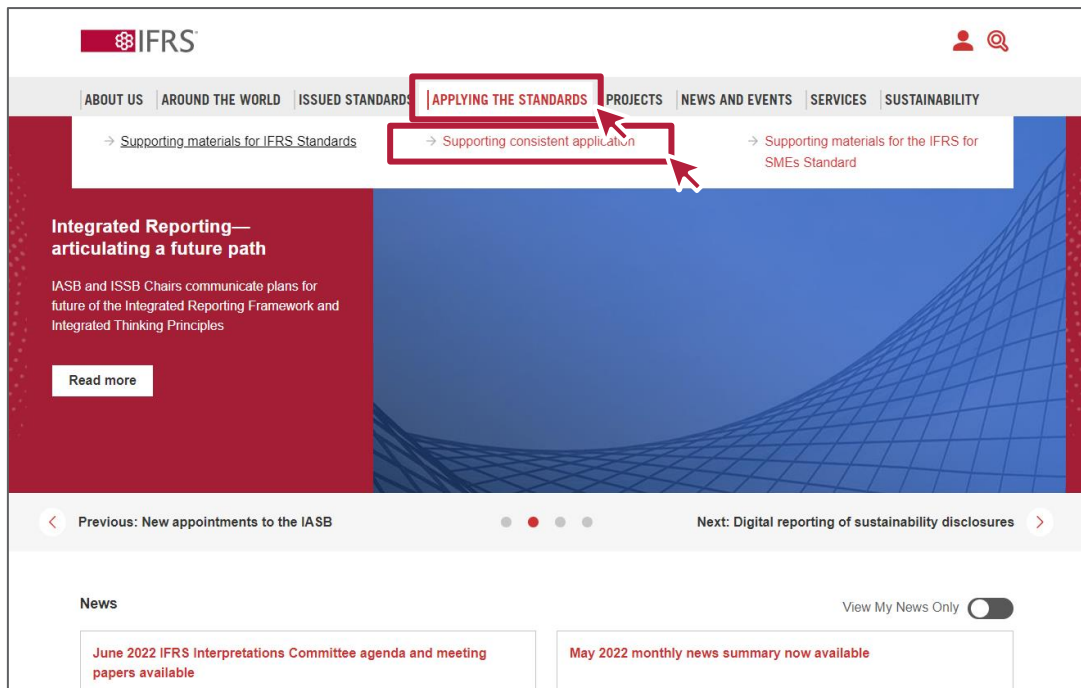


2. Click on 'IFRIC Update'. All IFRIC updates will be listed.

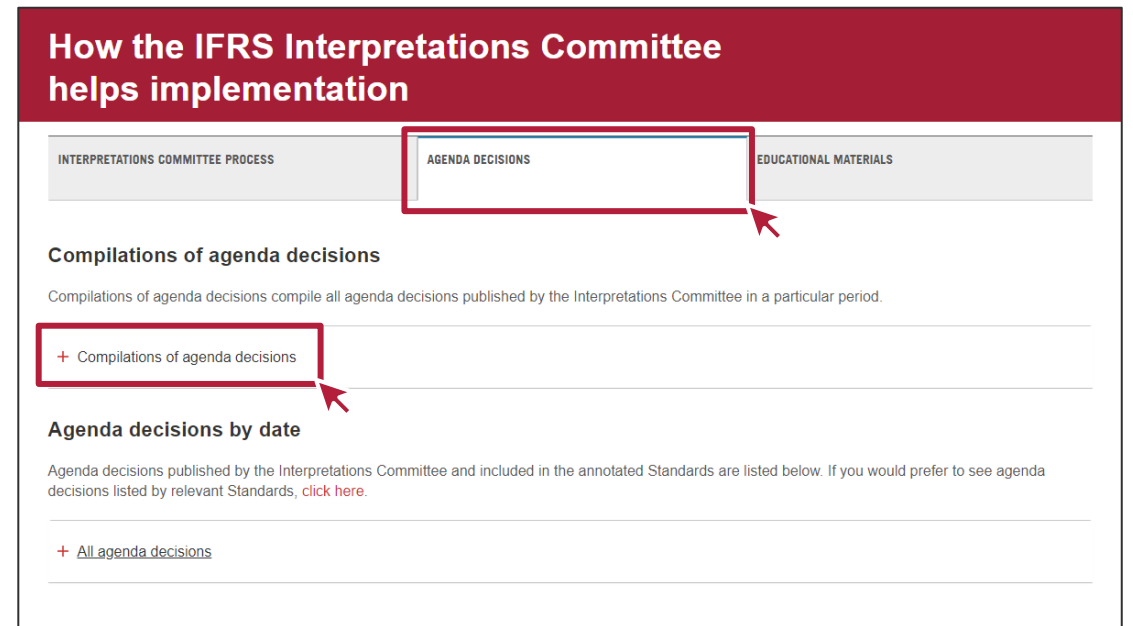
# Agenda decisions – where to find them

## 2. IFRS foundation website (ifrs.org)

### D. Compilations of agenda decisions



1. Access 'Supporting consistent application'.

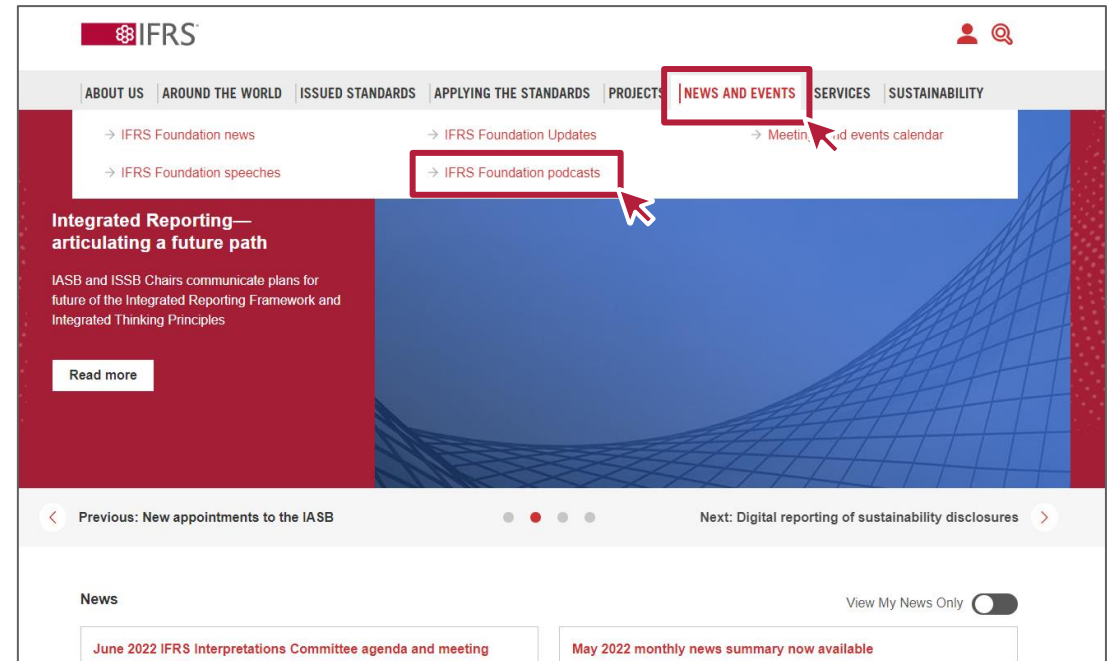


2. Click on the 'Agenda Decisions' tab, and then on 'Compilations of agenda decisions'. The Compilations will be listed.

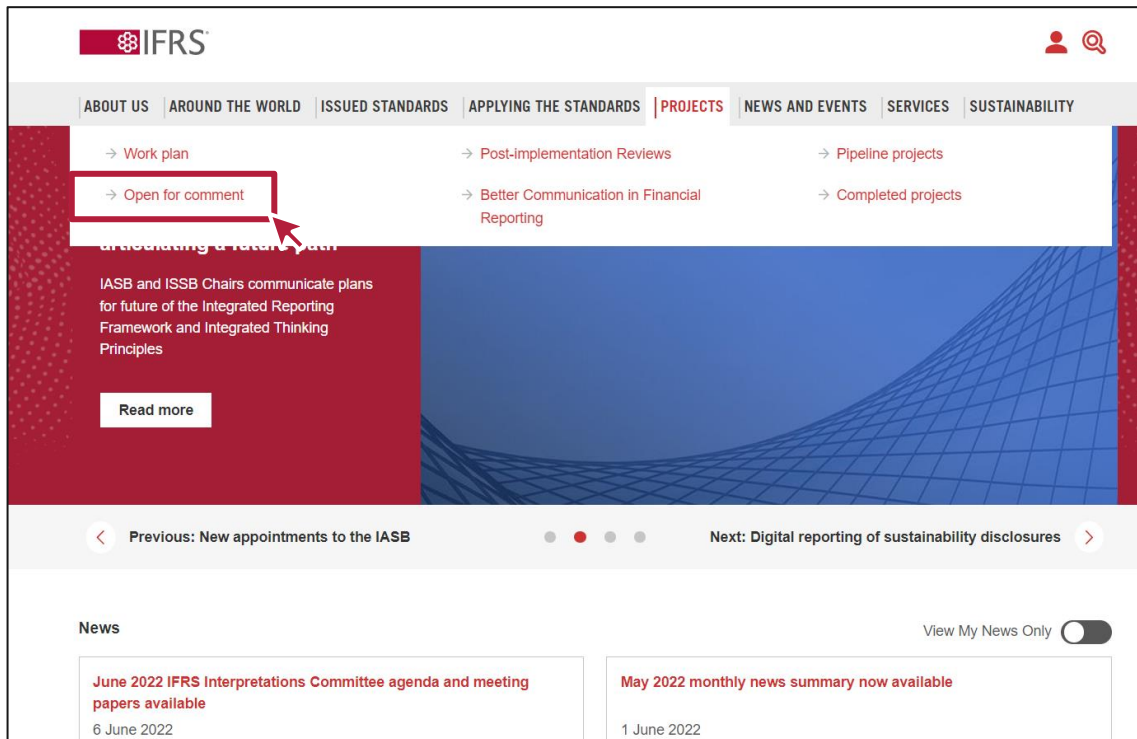
# Committee Podcast

## Listen to the Committee podcast

- Every quarter, the IFRS Foundation produces a podcast that reports on discussions at meetings of the Committee and provide an overview of other relevant activities in the period.
- They feature Bruce Mackenzie, IASB member and chair of the Interpretations Committee, in discussion with a technical staff member.



# Committee's work – get involved



## Get involved in the Committee's work

- All tentative agenda decisions are open for comment for 60 days.

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