

IFRIC *Update* June 2022

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings. Past *Updates* can be found in the [IFRIC *Update* archive](#).

The Committee met on [14–15 June 2022](#), and discussed:

Committee’s tentative agenda decisions

- [Multi-currency Groups of Insurance Contracts \(IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*\)—Agenda Paper 6](#)

Agenda decisions for the IASB’s consideration

- [Cash Received via Electronic Transfer as Settlement for a Financial Asset \(IFRS 9 *Financial Instruments*\)—Agenda Paper 3](#)
- [Negative Low Emission Vehicle Credits \(IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*\)—Agenda Paper 4](#)
- [Special Purpose Acquisition Companies \(SPAC\): Classification of Public Shares as Financial Liabilities or Equity \(IAS 32 *Financial Instruments: Presentation*\)—Agenda Paper 5](#)
- [Transfer of Insurance Coverage under a Group of Annuity Contracts \(IFRS 17 *Insurance Contracts*\)—Agenda Paper 7](#)

Other matters

- [Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent \(IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*\)—Agenda Paper 2](#)
- [Work in Progress—Agenda Paper 8](#)

Related information

[The work plan](#)

[Supporting consistent application](#)

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add standard-setting projects to the work plan. The Committee will reconsider these tentative decisions, including the reasons for not adding standard-setting projects, at a future meeting. The Committee invites comments on the tentative agenda decisions. Interested parties may submit comments on the [open for comment](#) page. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing up to and including the closing date; comments received after that date will not be analysed in agenda papers considered by the Committee.

Multi-currency Groups of Insurance Contracts (IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates)—Agenda Paper 6

The Committee received a request about how to account for insurance contracts that generate cash flows in more than one currency.

The request asked:

- a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and
- b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

IFRS 17 requires an entity to recognise and measure groups of insurance contracts. The first step in establishing groups of insurance contracts is to identify portfolios of insurance contracts. Paragraph 14 of IFRS 17 states that 'a portfolio comprises contracts subject to similar risks and managed together'. The request asks whether currency exchange rate risks are among the risks an entity considers when assessing whether insurance contracts are 'subject to similar risks'.

IFRS 17 defines financial risk and insurance risk (a non-financial risk). Financial risk is defined to include 'the risk of a possible future change in ... [a] currency exchange rate'. When IFRS 17 requires an entity to consider or reflect only particular risks (for example, only non-financial risk), it explicitly refers to the risks to be considered or reflected. Consequently, the Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' do not mean 'identical risks'. An entity could therefore identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

An entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Paragraph 30 of IFRS 17 states that 'when applying IAS 21 ... to a

group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the contractual service margin, as a monetary item’.

Paragraph 8 of IAS 21 defines monetary items as ‘units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency’ and paragraph 20 describes a foreign currency transaction as ‘a transaction that is denominated or requires settlement in a foreign currency’. Paragraphs 21–24 of IAS 21 require an entity:

- a. to recognise on initial recognition a foreign currency transaction in the functional currency at the spot exchange rate at the date of the transaction;
- b. to determine the carrying amount of a monetary item in conjunction with other relevant Accounting Standards; and
- c. to translate at the end of the reporting period foreign currency monetary items into the functional currency using the closing rate.

The requirements in both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency.

Therefore, the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

- a. applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.
- b. applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—at the closing rate (or rates).
- c. develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated. The entity uses its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group. The accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group. The entity cannot simply deem the contractual service margin for the group to be denominated in the functional currency because simply deeming such a denomination would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Accordingly, if an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

- a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency; and
- b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

In the light of its analysis, the Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Agenda decisions for the IASB’s consideration

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 *Financial Instruments*)—Agenda Paper 3

The Committee considered feedback on the [tentative agenda decision](#) published in the September 2021 IFRIC *Update* about the recognition of cash received via an electronic transfer system as settlement for a financial asset.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s [Due Process Handbook](#), the IASB will consider this agenda decision at a future meeting. If the IASB does not object to the agenda decision, it will be published in an addendum to this IFRIC *Update*.

Negative Low Emission Vehicle Credits (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)—Agenda Paper 4

The Committee considered feedback on the [tentative agenda decision](#) published in the February 2022 IFRIC *Update* about whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s [Due Process Handbook](#), the IASB will consider this agenda decision at its July 2022 meeting. If the IASB does not object to the agenda decision, it will be published in July 2022 in an addendum to this IFRIC *Update*.

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)—Agenda Paper 5

The Committee considered feedback on the [tentative agenda decision](#) published in the March 2022 IFRIC *Update* about whether a special purpose acquisition company that applies IAS 32 classifies public shares it issues as financial liabilities or equity instruments.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s [Due Process Handbook](#), the IASB will consider this agenda decision at its July 2022 meeting. If the IASB does not object to the agenda decision, it will be published in July 2022 in an addendum to this IFRIC *Update*.

Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)—Agenda Paper 7

The Committee considered feedback on the [tentative agenda decision](#) published in the March 2022 IFRIC *Update* about a group of annuity contracts—specifically, how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s [Due Process Handbook](#), the IASB will consider this agenda decision

at its July 2022 meeting. If the IASB does not object to the agenda decision, it will be published in July 2022 in an addendum to this IFRIC *Update*.

Other matters

Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*)—Agenda Paper 2

The Committee discussed a request about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy.

The Committee concluded that, applying the requirements in IAS 21 and IAS 29 to the submitted fact pattern, the parent could restate or not restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period.

Next step

The Committee will decide whether to add a standard-setting project to the work plan at a future meeting after considering information to be obtained from further research and outreach on the topic.

Work in Progress—Agenda Paper 8

The Committee received an update on the status of open matters not discussed at its meeting in June 2022.