Islamic Finance Consultative Group meeting

Date 1–2 November 2022

Project IFRS Interpretations Committee Update

Topic Process

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This paper has been prepared for discussion at a public meeting of the Islamic Finance Consultative Group (IFCG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB Update.
Why we support consistent application

Objective in supporting IFRS Accounting Standards

We…
help stakeholders obtain a common understanding of the requirements - ie what they are aiming for

In order to…
support consistent application of IFRS Accounting Standards

Because it…
protects IFRS Accounting Standards as a single set of global Standards for the benefit of investors
IFRS Interpretations Committee process
The Interpretations Committee’s process

1. Committee receives a question

2. Is the matter widespread/expected to have a material effect?
   - Yes
   - No

3. Is it necessary to change IFRS Accounting Standards?
   - Yes
   - No

4. Can the matter be resolved efficiently and is it sufficiently narrow in scope?
   - Yes
   - No

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

   Discussed and approved by the IASB

   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
The Committee receives a question

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

Committee receives a question

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

Is it necessary to change IFRS Accounting Standards? Yes

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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

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)

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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

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

Negative Low Emissions Vehicle Credits (IAS 37)
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 (i.e., 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.
Is the matter sufficiently narrow in scope?

<table>
<thead>
<tr>
<th>How the Committee assesses whether a matter is narrow in scope?</th>
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</thead>
<tbody>
<tr>
<td>• Topics discussed by the Committee should be <strong>narrow in scope</strong></td>
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<tr>
<td>• The Committee may add a standard-setting project to the work plan if both:</td>
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<tr>
<td>• the matter <strong>can be resolved efficiently</strong> within the confines of existing IFRS Accounting Standards and the <em>Conceptual Framework</em></td>
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<td>• the matter is <strong>sufficiently narrow</strong> in scope to be addressed in an efficient manner</td>
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<tr>
<td>• If the Committee concludes IFRS Accounting Standards do not provide an adequate basis but the matter is not sufficiently narrow in scope, <strong>a project is not added to the work plan</strong></td>
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</tbody>
</table>

**Recent Example**

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

The Committee may report the matter to the IASB
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

Agenda decision
Reports decision and often includes explanatory material*

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Status and implementation of agenda decisions

Changes to the Due Process Handbook in 2020
Involvement of the IASB

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
Status of agenda decisions

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
Implementing agenda decisions

**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.

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**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).’
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?  
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Narrow-scope standard-setting

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

<table>
<thead>
<tr>
<th>Amendment</th>
<th>Date</th>
</tr>
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<tbody>
<tr>
<td>ED Supplier Finance Arrangements (IAS 7 and IFRS 7)</td>
<td>November 2021</td>
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<tr>
<td>ED Lack of Exchangeability (IAS 21)</td>
<td>April 2021</td>
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<tr>
<td>Definition of Accounting Estimates (IAS 8)</td>
<td>February 2021</td>
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<tr>
<td>Onerous Contracts—Cost of Fulfilling a Contract (IAS 37)</td>
<td>May 2020</td>
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<tr>
<td>ED Non-current Liabilities with Covenants (IAS 1)</td>
<td>November 2021</td>
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<tr>
<td>Lease Liability in a Sale and Leaseback (IFRS 16)</td>
<td>September 2022</td>
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<tr>
<td>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (IAS 12)</td>
<td>May 2021</td>
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<tr>
<td>Property, Plant and Equipment: Proceeds before Intended Use (IAS 16)</td>
<td>May 2020</td>
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Q&A

- The IFRS Interpretations Committee process
- Status and implementation of agenda decisions
- Narrow-scope standard-setting
Thank you