IFRIC *Update* March 2023

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

The Committee met on 14–15 March 2023 and discussed:

Committee's tentative agenda decisions

- Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)—Agenda Paper 3
- Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)—Agenda Paper 4
- Homes and Home Loans Provided to Employees—Agenda Paper 5

Agenda decisions for the IASB's consideration

- Definition of a Lease—Substitution Rights (IFRS 16 *Leases*)—Agenda Paper 2

Matters recommended for the IASB's annual improvements

- Lessee accounting for lease payments forgiven (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)—Agenda Paper 6A
- Disclosure of deferred difference between fair value and transaction price—Guidance on implementing IFRS 7 (IFRS 7 *Financial Instruments: Disclosures*)—Agenda Paper 6B

Other matters

- Business Combinations—Disclosures, Goodwill and Impairment—Agenda Paper 7
- 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.

Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)—Agenda Paper 3

The Committee received a request about whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative.

The request described a guarantee written over a derivative contract between two third parties. Such a guarantee would reimburse the holder of the guarantee for the actual loss incurred—up to the close-out amount—in the event of default by the other party. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative prior to default.

Findings

Evidence gathered by the Committee [to date] indicated that the matters described in the request are not widespread, and that when the matters do arise, the amounts involved are not material.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effects and it does not have (and nor is it expected to have) a material effect on those affected. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)—Agenda Paper 4

The Committee received requests about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary.

In the fact pattern described in the request, an intermediary acts as a link between an insurer and a policyholder to arrange an insurance contract between them. The policyholder has paid in cash the premiums to the intermediary, but the insurer has not yet received in cash the premiums from the intermediary. The agreement between the insurer and the intermediary allows the intermediary to collect the premiums to the insurer at a later date.

When the policyholder paid the premiums to the intermediary, the policyholder discharged its obligation under the insurance contract and the insurer is obliged to provide insurance contract services to the policyholder. If the intermediary fails to pay the premiums to the insurer, the insurer does not have the right to recover the premiums from the policyholder, or to cancel the insurance contract.

The requests asked whether, in the submitted fact pattern, the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 or are a separate financial asset applying IFRS 9. The requests set out two views.

Under the first view (View 1), the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. Applying View 1, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, include them in the measurement of the group of insurance contracts until recovered in cash; and
b. for a group of contracts to which the premium allocation approach does apply, the insurer does not increase the liability for remaining coverage—it does so only when it recovers the premiums in cash from the intermediary.

Under the second view (View 2), because the payment by the policyholder discharges its obligation under the insurance contract, the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary. The insurer therefore determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but, instead, a separate financial asset. Applying View 2, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer removes the premiums from the measurement of the group of insurance contracts and, applying IFRS 9, recognises a separate financial asset; and
b. for a group of contracts to which the premium allocation approach does apply, the insurer increases the liability for remaining coverage and, applying IFRS 9, recognises a separate financial asset.

Applying the requirements in IFRS Accounting Standards

The Committee observed that IFRS 17 is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract. The Committee considered:

a. which cash flows are within the boundary of an insurance contract applying IFRS 17;
b. when cash flows are removed from the measurement of a group of insurance contracts; and
c. what information is being provided about credit risk.

Cash flows within the boundary of an insurance contract applying IFRS 17

Paragraph 33 of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts an estimate of all the future cash flows within the boundary of each contract in the group. Paragraph B65 explains that cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including premiums from a policyholder.

The Committee observed that paragraph B65 of IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and premiums to be collected through an intermediary. In applying IFRS 17, premiums from a policyholder collected through an intermediary is therefore included in the measurement of a group of insurance contracts.

The Committee next considered when the premiums that are already included in the measurement of a group of insurance contracts are removed from that measurement.

Removing cash flows from the measurement of a group of insurance contracts

Paragraph 34 of IFRS 17 specifies that cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services.

In the fact pattern described in the requests, the insurer has not recovered the premiums in cash. The Committee observed that IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash.

Therefore, the Committee observed that, in accounting for premiums receivable from an intermediary when payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer can apply either View 1 or View 2. Given this, the Committee next considered the implications of both views for information about credit risk.

Information about credit risk

IFRS 17 and IFRS 9 deal differently with the measurement, presentation and disclosure of expected credit losses from an intermediary. The Committee considered that, depending on which view (View 1 or View 2) an insurer applies, it is required to apply all the measurement and disclosure requirements in the applicable IFRS Accounting Standards. Therefore, an insurer applies either IFRS 17 (including paragraph 131 that requires disclosure of information about the credit risk that arises from contracts within the scope of IFRS 17) or IFRS 9 (and the requirements in IFRS 7 *Financial Instruments: Disclosures*) to the premiums receivable from an intermediary.

Conclusion

The Committee concluded that, because IFRS 17 is silent on when future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts, in the fact pattern described in the requests, an insurer could account for premiums paid by a policyholder and receivable from an intermediary applying either IFRS 17 or IFRS 9.

In light of its analysis, the Committee considered whether to add a standard-setting project on the interaction between IFRS 17 and IFRS 9 to the work plan. The Committee noted that any such project would involve assessing whether changes to the Standards would have unintended consequences. This assessment may take considerable time and effort to complete because it would involve, among other steps, analysing a broad range of contracts (not only those set out in the fact pattern described in the requests). The Committee observed that the application of either View 1 or View 2 when accounting for premiums paid by a policyholder and receivable from an intermediary would provide users of financial statements with useful information based on the requirements in IFRS 17 or IFRS 9.

Consequently, the Committee concluded that a project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. The Committee therefore [decided] not to add a standard-setting project to the work plan.

Homes and Home Loans Provided to Employees—Agenda Paper 5

The Committee received a request about how an entity accounts for employee home ownership plans and employee home loans.

Fact pattern 1: employee home ownership plans

An entity provides its employee with a house that the entity constructed and owns. In return, the employee has a proportion of his or her base salary deducted every month until the agreed price of the house has been fully repaid.

If the employee leaves employment *within* the first five years of the arrangement, the employee forfeits his or her rights to the house and recovers the salary deductions to date. If the employee leaves employment *after* that five-year period, the employee may choose either:

a. to forfeit his or her rights to the house and recover the salary deductions to date; or
b. to keep the house and immediately repay the outstanding balance.

Legal title to the house transfers to the employee only when he or she has paid in full the agreed price for the house.

The request asked how the entity should account for this arrangement—in particular, when it should recognise the transfer of the house to the employee, and the accounting before and after the transfer.

Fact pattern 2: employee home loans

An entity provides its employee with a loan to buy a house, which the employee chooses and purchases and the entity does not own. The entity provides the loan at a below-market rate of interest; the loan is typically interest-free. The employee repays the loan through salary deductions. If the employee leaves employment for any reason at any point, the outstanding balance of the loan becomes repayable.

The request asked how the entity should account for this arrangement—in particular, whether the loan is:

a. a prepaid employee benefit within the scope of IAS 19 *Employee Benefits*; or
b. a financial asset within the scope of IFRS 9 *Financial Instruments*, with the below-market element of the loan accounted for as a prepaid employee benefit by applying IAS 19.

Findings

Evidence gathered by the Committee [to date] indicated that the matters described in the request are not widespread, and that when the matters do arise, the amounts involved are not material.

Conclusion

Based on its findings, the Committee concluded that the matters described in the request do not have widespread effect and they do not have (and nor are they expected to have) a material effect on those affected. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Agenda decisions for the IASB's consideration

Definition of a Lease—Substitution Rights (IFRS 16 *Leases*)—Agenda Paper 2

The Committee considered feedback on the tentative agenda decision published in the November 2022 IFRIC *Update* about how to assess whether a contract contains a lease.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the International Accounting Standards Board (IASB) will consider this agenda decision at its April 2023 meeting. If the IASB does not object to the agenda decision, it will be published in April 2023 in an addendum to this IFRIC *Update*.

Matters recommended for the IASB's annual improvements

Some proposed amendments to IFRS Accounting Standards that are sufficiently minor or narrow in scope can be packaged together and exposed in one document even though the amendments are unrelated—these are called 'annual improvements'. Such amendments are limited to changes that either clarify the wording in an IFRS Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements in the Standards. Annual improvements follow the same due process as other amendments to IFRS Accounting Standards, except that annual improvements consist of unrelated amendments that are exposed together, rather than separately.

The Committee discussed matters that have been raised as possible amendments in the next annual improvements cycle, and provided advice to be presented to the IASB together with the recommendations for proposed amendments.

Lessee accounting for lease payments forgiven (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)—Agenda Paper 6A

In March 2022 the Committee discussed a request about the application of IFRS 9 and IFRS 16 in accounting for a rent concession in which the only change to a lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract.

The Committee recommended that the IASB consider undertaking a narrow-scope standard-setting project—potentially as an annual improvement—to address a lessee's accounting for such a rent concession.

At this meeting, the Committee provided advice on the recommendation:

a. to amend the definition of 'lease modification' in Appendix A to IFRS 16; and
b. to amend paragraph 2.1(b)(ii) of IFRS 9 to add a cross-reference to paragraph 3.3.3 of IFRS 9.

Disclosure of deferred difference between fair value and transaction price—Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*—Agenda Paper 6B

The Committee was informed of potential confusion arising from an inconsistency between paragraph 28 of IFRS 7 and paragraph IG14 of its accompanying illustrative guidance in the Guidance on implementing IFRS 7.

The Committee provided advice on the recommendation to amend paragraph IG14 of IFRS 7 to improve its consistency with paragraph 28 of IFRS 7.

Other matters

Business Combinations—Disclosures, Goodwill and Impairment—Agenda Paper 7

The Committee discussed the IASB's Business Combinations—Disclosures, Goodwill and Impairment project. Committee members provided their views on possible changes to the requirements in IAS 36 *Impairment of Assets* relating to the impairment test for cash-generating units containing goodwill.

The IASB will consider this feedback, along with feedback from other stakeholders, when discussing the possible changes to the requirements in IAS 36.

Work in Progress—Agenda Paper 8

The Committee received an update on the status of open matters not discussed at its March 2023 meeting.