
IASB[®] meeting

Date	October 2023
Project	Guarantee over a Derivative Contract (IFRS 9)
Topic	Finalisation of agenda decision
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Purpose of the meeting

1. At its September 2023 meeting, the IFRS Interpretation Committee (Committee) decided not to add a standard-setting project to the work plan in response to a request on IFRS 9 *Financial Instruments*. The Committee instead decided to finalise an agenda decision.
2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation [Due Process Handbook](#).

Background

3. The Committee received a request asking whether, in applying IFRS 9, an entity accounts for a guarantee over a derivative contract as a financial guarantee contract or a derivative. Specifically, the request asked about the accounting for the guarantee by the entity writing the guarantee (the issuer).
4. 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 immediately prior to default.

5. Upon receiving the request, the Committee sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. The responses to the information request indicated that the fact pattern described in the request is not widespread and that there are no material effects on financial statements.
6. Consequently, in March 2023, the Committee decided to publish a [tentative agenda decision](#), having concluded that the matter described in the request do not meet the criteria for adding a standard-setting project to the work plan set out in paragraph 5.16 of the [Due Process Handbook](#). In particular, the matters do not meet the criterion in sub-paragraph 5.16(a) that ‘the matter has widespread effect and has, or is expected to have, a material effect on those affected’.

Feedback on the tentative agenda decision

7. The Committee received six comment letters on its tentative agenda decision by the comment letter deadline, of which two are from large accounting firms and the other four are from national standard-setters.¹ All six respondents agree with the Committee’s decision not to add a standard-setting project onto its work plan for the reasons set out in the tentative agenda decision.

The Committee’s conclusion

8. The Committee considered this feedback at its September 2023 meeting. The Committee confirmed its conclusion that the matters described in the request do not have widespread effect and its decision not to add a standard-setting project to the work plan.

¹ There were no late comment letters as of the date of posting of this paper.

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9. The Committee made some changes to the wording of the tentative agenda decision to clarify its findings and conclusion. The appendix to this paper includes the wording approved by the Committee.
10. All 14 Committee members voted to finalise the agenda decision.

Questions for the IASB

Do you object to the Committee's:

- a. decision not to add a standard-setting project to the work plan?
- b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—the agenda decision

A1. The agenda decision below was approved by the Committee at its September 2023 meeting.

Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)

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 as 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 immediately prior to default.

Conclusion

Evidence gathered by the Committee indicated that the matters described in the request are not widespread, and that when the matters do arise, the amounts involved are not material. On the basis of that evidence, 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.