IFRIC *Update* June 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 6–7 June 2023 and discussed:

Committee's tentative agenda decisions

- Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 *Separate Financial Statements*)—Agenda Paper 3

Other matters

- Application of the 'Own Use' Exception in the Light of Current Market and Geopolitical Questions (IFRS 9 *Financial Instruments*)—Agenda Paper 2
- Climate-related Risks in the Financial Statements—Agenda Paper 4
- 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 Hyperinflationary Economies*)—Agenda Paper 5
- Business Combinations under Common Control—Agenda Paper 6
- Work in Progress—Agenda Paper 7

Related information

The work plan

Supporting consistent application

Committee's tentative agenda decisions

The Committee discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project at a future meeting. The Committee invites comments on the tentative agenda decision. 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.

Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 *Separate Financial Statements*)—Agenda Paper 3

The Committee received a request about how a parent entity that prepares separate financial statements applying IAS 27 accounts for a merger with its subsidiary in its separate financial statements.

Fact pattern

In the fact pattern described in the request:

a. a parent entity prepares separate financial statements applying IAS 27 and recognises an investment in a subsidiary applying paragraph 10 of IAS 27;
b. the subsidiary contains a business (as defined by IFRS 3 *Business Combinations*); and
c. the parent entity merges with the subsidiary, resulting in the subsidiary's business becoming part of the parent entity (merger transaction).

The request asked how the parent entity should account for the merger transaction in its separate financial statements. In particular, the request asked whether, in the context of the parent entity's separate financial statements, the merger transaction:

a. constitutes a business combination as defined in IFRS 3 and consequently, whether an entity should apply all the requirements in IFRS 3 that apply to the accounting for a business combination; or
b. the merger should not be accounted for as a business combination. Applying this view, the parent entity—in its separate financial statements—recognises the subsidiary's assets and liabilities at previous carrying amounts.

Findings

Evidence gathered by the Committee [to date] indicates little, if any, diversity in accounting for the merger transaction described in the request. In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the requirements in IFRS 3 that apply to the accounting for a business combination.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Other matters

Application of the 'Own Use' Exception in the Light of Current Market and Geopolitical Questions (IFRS 9 *Financial Instruments)*—Agenda Paper 2

The Committee discussed a request about applying paragraph 2.4 of IFRS 9 to physical delivery contracts to buy energy. The Committee observed that the purchase of renewable energy such as solar and wind via long term energy contracts with physical delivery is widespread and is increasing as renewable energy generation also increases. The request states that entities are experiencing application challenges and questions when applying the requirements in IFRS 9 particularly due to the unique characteristics of the renewable energy market and the related features of the long-term physical delivery contracts.

The Committee recommended the International Accounting Standards Board (IASB) consider undertaking a narrow-scope standard-setting project that addresses the application of paragraph 2.4 of IFRS 9 to some physical power purchase agreements to buy energy. Such a project could for example focus on contracts for the purchase of a non-financial item that are capable of being settled net in cash, where the underlying non-financial item cannot be stored and has to either be consumed or sold within a short time in accordance with the market structure in which the item is bought and sold.

The IASB will discuss the Committee's recommendation at a future IASB meeting.

Climate-related Risks in the Financial Statements—Agenda Paper 4

The Committee discussed the IASB's Climate-related Risks in the Financial Statements project. Committee members provided their views on the nature and cause of concerns about the reporting of climate-related risks in the financial statements, the possible courses of action and the scope of the project.

The IASB will consider feedback from the Committee and other stakeholders at a future IASB meeting when discussing possible actions.

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 5

At its June 2022 meeting, the Committee discussed a request about applying IAS 21 and IAS 29 to the consolidation of a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy, by a parent, whose functional and presentation currency is the currency of a hyperinflationary economy. The Committee concluded at that meeting that 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.

After further research and outreach, the Committee decided to refer the matter to the IASB by recommending the IASB develop a narrow-scope amendment that addresses:

a. the fact pattern described in the request; and
b. a related matter of an entity whose functional currency is the currency of a non-hyperinflationary economy but presents its financial statements in the currency of a hyperinflationary economy.

Committee members also provided their views on the possible narrow-scope amendment.

The IASB will discuss the Committee's recommendation at a future IASB meeting.

Business Combinations under Common Control—Agenda Paper 6

The Committee discussed the IASB's Business Combinations under Common Control (BCUCC) project. The Committee discussed problems caused by the lack of specific requirements in IFRS Accounting Standards for reporting BCUCCs and members provided their views on project direction.

The IASB will consider feedback from the Committee and other stakeholders at a future IASB meeting when discussing project direction.

Work in Progress—Agenda Paper 7

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