

# IFRIC Update June 2025

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 [25 June 2025](#) and discussed:

## Committee's tentative agenda decisions

- [Determining and Accounting for Transaction Costs \(IFRS 9 Financial Instruments\)—Agenda Paper 2](#)
- [Embedded Prepayment Option \(IFRS 9 Financial Instruments\)—Agenda Paper 3](#)

## [Draft] Updates to agenda decisions for IFRS 18

- [Disclosure of Revenues and Expenses for Reportable Segments \(IFRS 8 Operating Segments\)—Agenda Paper 5A](#)
- [Demand Deposits with Restrictions on Use arising from a Contract with a Third Party \(IAS 7 Statement of Cash Flows\)—Agenda Paper 5A](#)
- [Subsequent Expenditure on Biological Assets \(IAS 41 Agriculture\)—Agenda Paper 5A](#)
- [Disclosure of Changes in Liabilities Arising from Financing Activities \(IAS 7 Statement of Cash Flows\)—Agenda Paper 5A](#)
- [Physical Settlement of Contracts to Buy or Sell a Non-financial Item \(IFRS 9 Financial Instruments\)—Agenda Paper 5A](#)
- [Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income \(IAS 39 Financial Instruments: Recognition and Measurement and IAS 1 Presentation of Financial Statements\)—Agenda Paper 5A](#)
- [Presentation of payments on non-income taxes \(IAS 1 Presentation of Financial Statements and IAS 12 Income Taxes\)—Agenda Paper 5A](#)
- [Classification of tonnage taxes \(IAS 12 Income Taxes\)—Agenda Paper 5A](#)
- [Normal operating cycle \(IAS 1 Presentation of Financial Statements\)—Agenda Paper 5A](#)
- [Supply Chain Financing Arrangements—Reverse Factoring—Agenda Paper 5B](#)

## Related information

[The work plan](#)

[Supporting consistent application](#)

**Agenda decisions for the IASB's consideration**

- [Assessing Indicators of Hyperinflationary Economies \(IAS 29 Financial Reporting in Hyperinflationary Economies\)—Agenda Paper 4](#)

**Other matters**

- [Business Combinations—Disclosures, Goodwill and Impairment—Agenda Paper 7](#)
- [Work in Progress—Agenda Paper 8](#)

**Addendum to IFRIC *Update*—Committee's agenda decisions**

- [Assessing Indicators of Hyperinflationary Economies \(IAS 29 Financial Reporting in Hyperinflationary Economies\)—Agenda Paper 4](#)

## **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.

### **Determining and Accounting for Transaction Costs (IFRS 9 *Financial Instruments*)— Agenda Paper 2**

*[Open for comment until 6 October 2025]*

The Committee received a request about the application of the definition of transaction costs in IFRS 9 and the requirements in IFRS 9 relating to transaction costs.

#### **Fact pattern**

The request asked how an entity determines whether costs that are directly attributable to the origination or issuance of a financial instrument but are incurred before entering into the contractual arrangement are 'incremental' and, therefore, meet the definition of transaction costs in Appendix A of IFRS 9.

In the fact pattern described in the request, an entity intends to enter into a loan contract with a bank and incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The entity expects to proceed with the contract, but the loan contract has not been signed as of the date the entity's financial statements are authorised for issue.

The request outlined two views:

- a. in one view, costs that are incurred before entering into the contractual arrangement cannot meet the definition of transaction costs set out in Appendix A of IFRS 9;
- b. in the other view, costs that are incurred before entering into the contractual arrangement can meet the definition of transaction costs set out in Appendix A of IFRS 9 even if there is a possibility that the financial instrument might not be originated or issued.

Assuming that the costs are determined to be transaction costs, the request asked how to account for such costs in the period between incurring the costs and entering into the contractual arrangement.

#### **Findings**

Evidence gathered by the Committee [to date] indicates no diversity in applying IFRS 9 that could have a material effect on entities' financial statements with regards to determining and accounting for costs incurred before entering into a contractual arrangement. Feedback suggests that:

- a. costs that are directly attributable to the origination or issuance of a financial instrument but are incurred before entering into the contractual arrangement, can be incremental and, accordingly, can meet the definition of transaction costs in IFRS 9; and
- b. transaction costs are recognised in the statement of financial position, often as prepayments or other assets.

## 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.

## Embedded Prepayment Option (IFRS 9 *Financial Instruments*)—Agenda Paper 3

*[Open for comment until 6 October 2025]*

The Committee received a request about the application of the requirements in paragraph B4.3.5 of IFRS 9 to determine whether to separate an embedded prepayment option in a loan contract.

## Fact pattern

The request asked whether, for purposes of applying paragraph B4.3.5(e)(ii) of IFRS 9 to a prepayment option in a financial liability, ‘the entity’ should be read to refer to ‘the lender’ or ‘the reporting entity’ (that is, the borrower).

In the fact pattern described in the request, a reporting entity (the borrower) signed a loan contract that contains an early repayment option (the prepayment option). The request states that views differ in practice with regards to the meaning of ‘the entity’ in paragraph B4.3.5(e)(ii) of IFRS 9:

- a. one view is that ‘the entity’ refers to ‘the lender’ because lost interest should be considered from the lender’s perspective;
- b. the other view is that, similar to references to ‘the entity’ in other IFRS Accounting Standards, ‘the entity’ is ‘the reporting entity’ (that is, the borrower) and lost interest should be considered from the reporting entity’s perspective.

The distinction between ‘the entity’ meaning ‘the lender’ or ‘the reporting entity’ can be significant, because the assessment of whether to separate an embedded derivative from the host contract could differ depending on whether it is assessed from the lender’s or the borrower’s perspective. The effects of accounting for an embedded derivative at fair value through profit or loss and for a host contract at amortised cost differ from the effects of accounting for the entire financial liability at amortised cost.

## Findings

Evidence gathered by the Committee [to date] indicates no diversity in practice that could have a material effect on entities’ financial statements with regards to interpreting the term ‘the entity’ in paragraph B4.3.5(e)(ii) of IFRS 9. Feedback suggests that stakeholders read the requirements as referring to the lender.

## 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.

## **[Draft] Updates to agenda decisions for IFRS 18**

The International Accounting Standards Board (IASB) asked the Committee to review nine agenda decisions that refer to general requirements about presentation, materiality and aggregation of information in the financial statements to consider replacing references to IAS 1 *Presentation of Financial Statements* with references to the new or amended requirements in IFRS 18 *Presentation and Disclosure in Financial Statements*. The nine agenda decisions are:

- *Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments) (July 2024);*
- *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of Cash Flows) (April 2022);*
- *Subsequent Expenditure on Biological Assets (IAS 41 Agriculture) (September 2019);*
- *Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 Statement of Cash Flows) (September 2019);*
- *Physical Settlement of Contracts to Buy or Sell a Non-financial Item (IFRS 9 Financial Instruments) (March 2019);*
- *Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39 Financial Instruments: Recognition and Measurement and IAS 1 Presentation of Financial Statements) (January 2015);*
- *Presentation of payments on non-income taxes (IAS 1 Presentation of Financial Statements and IAS 12 Income Taxes) (July 2012);*
- *Classification of tonnage taxes (IAS 12 Income Taxes) (May 2009);* and
- *Normal operating cycle (IAS 1 Presentation of Financial Statements) (June 2005).*

The IASB also asked the Committee to consider explaining how an entity applies the requirements in IFRS 18 to the fact pattern in the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring (December 2020)*.

The Committee [decided] to propose updating the agenda decisions as requested by the IASB.

The proposed updates to these agenda decisions are listed individually. New text added to the agenda decision are underlined and deleted text is struck through. The Committee is asking for feedback only about the proposed updates and not about other aspects of these agenda decisions.

*[Open for comment until 6 October 2025]*

### **Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)—Agenda Paper 5A**

The Committee received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 to disclose for each reportable segment specified amounts related to segment profit or loss.

The request asked:

...

- b. whether an entity is required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 *Presentation of Financial Statements* [now paragraph 42 of IFRS 18 *Presentation and Disclosure in Financial Statements*]; and

...

The Committee observed that there are two main aspects to the questions:

...

- b. the meaning of 'material items of income and expense' in the context of paragraph 97 of IAS 1 [now paragraph 42 of IFRS 18] as referenced in paragraph 23(f) of IFRS 8.

### **Disclosure of specified amounts**

...

### **Material items of income and expense**

Paragraph 23(f) of IFRS 8 sets out one of the required 'specified amounts', namely, 'material items of income and expense disclosed in accordance with paragraph 42 of IFRS 18 ~~paragraph 97 of IAS 1~~'. Paragraph 42 of IFRS 18 states that '[a]pplying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material ...' ~~Paragraph 97 of IAS 1 states that 'when items of income or expense are material, an entity shall disclose their nature and amount separately'.~~

#### *Definition of 'material'*

Appendix A of IFRS 18 ~~Paragraph 7 of IAS 1~~ defines 'material information' and states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

Paragraph B2 of IFRS 18 ~~Paragraph 7 of IAS 1~~ also states that 'materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole'.

#### *Aggregation and disaggregation of information*

Paragraphs 41–43 of IFRS 18 ~~Paragraphs 30–31 of IAS 1~~ ~~provides provide~~ requirements about how an entity aggregates and disaggregates information in the financial statements, which include the notes. Paragraph 41(d)–(e) of IFRS 18 states that an entity shall 'aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information' and 'ensure that aggregation and disaggregation in the financial statements do not obscure material information ...' ~~Paragraph 30A of IAS 1 states that 'an entity shall not reduce the~~

~~understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions’.~~

#### *Applying paragraph 23(f) of IFRS 8—material items of income and expense*

The Committee observed that when IFRS 18 ~~IAS 1~~ refers to materiality, it is in the context of ‘information’ being material. An entity applies judgement in considering whether disclosing, or not disclosing, information in the financial statements could reasonably be expected to influence decisions users of financial statements make on the basis of those financial statements.

The Committee observed that, in applying paragraph 23(f) of IFRS 8 by disclosing, for each reportable segment, material items of income and expense disclosed in accordance with paragraph 42 of IFRS 18 ~~paragraph 97 of IAS 1~~, an entity:

- a. applies the definition of ‘material information’ in Appendix A and paragraph B2 of IFRS 18 ~~paragraph 7 of IAS 1~~ and assesses whether information about an item of income and expense is material in the context of its financial statements taken as a whole;
- b. applies the requirements in paragraphs 41–43 of IFRS 18 ~~paragraphs 30–31 of IAS 1~~ in considering how to aggregate and disaggregate information in its financial statements;
- c. considers the nature or magnitude of information—in other words, qualitative or quantitative factors—or both, in assessing whether information about an item of income and expense is material; and
- d. considers circumstances including, but not limited to, those in paragraph B79 of IFRS 18 ~~paragraph 98 of IAS 1~~.

#### **Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of Cash Flows)—Agenda Paper 5A**

The Committee received a request about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. In the fact pattern described in the request, the entity:

- a. holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it (that is, were the entity to request any amount from the deposit, it would receive that amount on demand).
- b. has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.

#### **Cash and cash equivalents in the statement of cash flows**

...

IAS 7 and IFRS 18 Presentation and Disclosure in Financial Statements ~~IAS 1 Presentation of Financial Statements~~ indicate that amounts included in cash and cash equivalents may be subject to restrictions, namely:

- a. paragraph 48 of IAS 7 requires an entity to disclose information about ‘significant cash and cash equivalent balances held by the entity that are not available for use by the group’; and

- b. ~~paragraph 99(d) of IFRS 18 paragraph 66(d) of IAS 1~~ requires an entity to classify as current an asset that is 'cash or a cash equivalent (as defined in IAS 7), unless the asset is restricted from being exchanged or used to settle a liability for at least 12 ~~twelve~~ months after the reporting period'.

...

## Presentation in the statement of financial position

Paragraph ~~103(k) of IFRS 18 54(i) of IAS 1~~ requires an entity to include a line item in its statement of financial position that presents the amount of 'cash and cash equivalents'. ~~Paragraphs 23–24 of IFRS 18 require an entity to present additional line items and subtotals, and permit an entity to not present separately a required line item, if such presentations are necessary for a primary financial statement to provide a useful structured summary. Paragraph 55 of IAS 1 states 'an entity shall present additional line items (including by disaggregating the line items listed in paragraph 54) ... in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position'.~~

Therefore, the Committee concluded that, in the fact pattern described in the request, the entity presents the demand deposit as cash and cash equivalents in a way that provides a useful structured summary of its statement of financial position. When necessary to provide a useful structured summary of the statement of financial position, the entity would present the demand deposit in an additional line item separately from other cash and cash equivalents. When relevant to an understanding of its financial position, the entity would disaggregate the 'cash and cash equivalents' line item and present the demand deposit separately in an additional line item.

An entity that presents assets as current or non-current would classify the demand deposit as current applying ~~paragraph 99(d) of IFRS 18 paragraph 66(d) of IAS 1~~, unless the demand deposit is 'restricted from being exchanged or used to settle a liability for at least 12 ~~twelve~~ months after the reporting period'.

## Disclosures

Paragraph 45 of IAS 7 states that 'an entity shall disclose the components of cash and cash equivalents...'. Applying this requirement, in the fact pattern described in the request, the entity discloses the demand deposit as a component of cash and cash equivalents. The entity also considers whether to disclose additional information:

- a. in the context of the requirements in IFRS 7 *Financial Instruments: Disclosures* about liquidity risk arising from financial instruments and how an entity manages that risk; and
- b. if the information it provides in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient to enable users of financial statements to understand the effect ~~impact~~ of the restrictions on the entity's financial position (paragraph 20 of IFRS 18~~paragraph 34 of IAS 4~~).

## Subsequent Expenditure on Biological Assets (IAS 41 Agriculture)—Agenda Paper 5A

The Committee received a request about the accounting for costs related to the biological transformation (subsequent expenditure) of biological assets measured at fair value less costs to sell applying IAS 41. The request asked whether an entity capitalises subsequent expenditure (ie

adds it to the carrying amount of the asset) or, instead, recognises subsequent expenditure as an expense when incurred.

...

Accordingly, the Committee concluded that, applying IAS 41, an entity either capitalises subsequent expenditure or recognises it as an expense when incurred. The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss. In assessing how to present such subsequent expenditure in the statement of profit or loss, an entity would apply the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* paragraphs 81–105 of IAS 1 *Presentation of Financial Statements*. In particular, the Committee observed that the entity would:

- a. the entity would—applying paragraphs 23–24 of IFRS 18—present additional line items and subtotals, or not present separately a required line item, if such presentations are necessary for a primary financial statement to provide a useful structured summary applying paragraph 85, ‘present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance; and
- b. if the expenses are classified in the operating category of the statement of profit or loss, the entity would—applying paragraph 78 of IFRS 18—classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of the nature of expenses or the function of the expenses within the entity applying paragraph 99, present in the statement(s) presenting profit or loss and other comprehensive income or in the notes an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

Applying paragraph 13 of IAS 8 *Basis of Preparation of Financial Statements* ~~IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors~~, an entity would apply its accounting policy for subsequent expenditure consistently to each group of biological assets. An entity would also disclose the selected accounting policy applying paragraphs 27A–27I of IAS 8 ~~paragraphs 117–124 of IAS 1~~ if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance.

### **Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 *Statement of Cash Flows*)—Agenda Paper 5A**

The Committee received a request from users of financial statements (investors) about the disclosure requirements in IAS 7 that relate to changes in liabilities arising from financing activities. Specifically, investors asked whether the disclosure requirements in paragraphs 44B–44E of IAS 7 are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7.

...

### **Reconciling between the opening and closing balances of liabilities arising from financing activities**

...

The Committee observed that an entity applies judgement in determining the extent to which it disaggregates and explains the changes in liabilities arising from financing activities included in the reconciliation to meet the objective in paragraph 44A. In this respect, the Committee noted the following:

- a. in disaggregating liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraphs 41–43 of IFRS 18 *Presentation and Disclosure in Financial Statements* ~~paragraph 30A of IAS 1 *Presentation of Financial Statements*~~. Paragraph 41(e) states that an entity shall ‘ensure that aggregation and disaggregation in the financial statements do not obscure material information.’ ~~Paragraph 30A of IAS 1 states that an entity ‘shall not reduce the understandability of its financial statements...by aggregating material items that have different natures or functions’.~~ Accordingly, an entity discloses any individually material items separately in the reconciliation. Such items include material classes of liability (or asset) arising from financing activities and material reconciling items (ie cash or non-cash changes).
- b. in explaining liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraph 113(c) of IFRS 18 ~~paragraph 112(c) of IAS 1~~. Paragraph 113(c) of IFRS 18 ~~Paragraph 112(c) of IAS 1~~ requires an entity to disclose ‘other information that is not presented ~~elsewhere~~ in the primary financial statements, but is necessary for relevant to an understanding of any of them’. Accordingly, applying paragraphs 44A–44E, an entity determines the appropriate structure for its reconciliation including the appropriate level of disaggregation. Thereafter, the entity determines whether additional explanation is needed to meet the disclosure objective in paragraph 44A. An entity would explain each class of liability (or asset) arising from financing activities included in the reconciliation and each reconciling item in a way that (i) provides information about its sources of finance, (ii) enables investors to check their understanding of the entity’s cash flows, and (iii) enables investors to link items to the statement of financial position and the statement of cash flows, or related notes.

Accordingly, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to disclose information about changes in liabilities arising from financing activities that enables investors to evaluate those changes. Accordingly, the Committee concluded that the disclosure requirements in paragraphs 44B–44E of IAS 7, together with requirements in IFRS 18 ~~IAS 1~~, are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

### **Physical Settlement of Contracts to Buy or Sell a Non-financial Item (IFRS 9 *Financial Instruments*)—Agenda Paper 5A**

...

Consequently, the Committee concluded that IFRS 9 neither permits nor requires an entity to make the additional journal entry described in the request. However, the Committee observed that an entity is required to present gains and losses on the derivative, and disclose information about those amounts, applying applicable IFRS Standards, such as IFRS 18 *Presentation and Disclosure in Financial Statements* ~~IAS 1 *Presentation of Financial Statements*~~ and IFRS 9 *Financial Instruments: Disclosures*. In determining what line items to present in profit or loss, the requirements in IFRS 18 ~~IAS 1~~ (including those related to aggregation) are applicable. Paragraphs

B70–B76 of IFRS 18 set out requirements for classification of gains and losses on derivatives and designated hedging instruments in categories in the statement of profit or loss. IAS 1 does not specify requirements for the presentation of amounts related to the remeasurement of derivatives. Paragraph 20(a)(i) of IFRS 7 specifies disclosure requirements for net gains or net losses on financial assets or financial liabilities that are mandatorily measured at FVPL applying IFRS 9. For these purposes, in the fact patterns described in the request, there is no gain or loss on the derivative caused by settlement.

**Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 1 *Presentation of Financial Statements*)—Agenda Paper 5A**

The Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income.

The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 *Revenue* [IAS 18 has been withdrawn. Paragraph 4.2 of the *Conceptual Framework for Financial Reporting* contains a definition of income], because it reflects a gross outflow, instead of a gross inflow, of economic benefits. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue, but in an appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 24 and 113(c) of IFRS 18 *Presentation and Disclosure in Financial Statements* ~~paragraphs 85 and 112(e) of IAS 1 *Presentation of Financial Statements*~~, the entity presents 'additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary', and discloses in the notes 'other information that is not presented in the primary financial statements, but is necessary for an understanding of any of them' ~~is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item.~~

**Presentation of payments on non-income taxes (IAS 1 *Presentation of Financial Statements* and IAS 12 *Income Taxes*)—Agenda Paper 5A**

...

The Committee observed that the line item of 'income tax expense or income' ~~'tax expense'~~ that is required by paragraph 75(a)(iv) of IFRS 18 *Presentation and Disclosure in Financial Statements* ~~requires paragraph 82(d) of IAS 1 *Presentation of Financial Statements*~~ is intended to require an entity to present taxes that meet the definition of income taxes under IAS 12. The Committee also noted that it is the basis of calculation determined by the relevant tax rules that determines whether a tax meets the definition of an income tax. Neither the manner of settlement of a tax liability nor the factors relating to recipients of the tax is a determinant of whether an item meets that definition. The Committee further noted that the production-based royalty payments should not be treated differently from other expenses that are outside the scope of IAS 12, all of which may reduce income tax payable. Accordingly, the Committee observed that it is inappropriate to consider the royalty payments to be prepayment of the income tax payables. Because the production-based royalties are not income taxes, the royalty payments should not be presented as an income tax expense in the statement of comprehensive income. The Committee considered that, in the light of its analysis of the existing requirements of IFRS 18 ~~IAS 1~~ and IAS 12, an interpretation was not necessary and consequently decided not to add this issue to its agenda.

## **Classification of tonnage taxes (IAS 12 *Income Taxes*)—Agenda Paper 5A**

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The IFRIC has previously noted that IAS 12 applies to income taxes, which are defined as taxes that are based on taxable profit, and that the term ‘taxable profit’ implies a notion of a net rather than a gross amount. Taxes either on tonnage transported or tonnage capacity are based on gross rather than net amounts. Taxes on a notional income derived from tonnage capacity are not based on the entity’s actual income and expenses. Consequently, the IFRIC noted that such taxes would not be considered income taxes in accordance with IAS 12 and would not be presented as part of tax expense in the statement of comprehensive income. However, the IFRIC also noted that, in accordance with paragraph 24 of IFRS 18 *Presentation and Disclosure in Financial Statements*, an entity presents additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary ~~paragraph 85 of IAS 1 *Presentation of Financial Statements*, an entity subject to tonnage tax would present additional subtotals in that statement if that presentation is relevant to an understanding of its financial performance~~. Given the requirements of IAS 12, the IFRIC decided not to add the issue to its agenda.

## **Normal operating cycle (IAS 1 *Presentation of Financial Statements*)—Agenda Paper 5A**

The IFRIC considered an issue regarding the classification of current and non-current assets by reference to an entity’s normal operating cycle. It was asked whether the guidance in IAS 1.57(a) [now paragraph 99(a) of IFRS 18] was applicable only if an entity had a predominant operating cycle. This is particularly relevant to the inventories of conglomerates which, on a narrow reading of the wording, might always have to refer to the ~~twelve-month~~ criterion in IAS 1.57(c) [now paragraph 99(c) of IFRS 18], rather than the operating cycle criterion.

...Furthermore, if inventories of different cycles were held, IFRS 18 requires an entity to consider the roles of the primary financial statements and the notes (paragraphs 15–22 of IFRS 18) to determine whether and what additional information to present or disclose and it was material to readers’ understanding of an entity’s financial position, then the general requirement in IAS 1.71 already required disclosure of further information.

## **Supply Chain Financing Arrangements—Reverse Factoring—Agenda Paper 5B**

The Committee received a request about reverse factoring arrangements. Specifically, the request asked:

- a. how an entity presents liabilities to pay for goods or services received when the related invoices are part of a reverse factoring arrangement; and
- b. what information about reverse factoring arrangements an entity is required to disclose in its financial statements.

In a reverse factoring arrangement, a financial institution agrees to pay amounts an entity owes to the entity’s suppliers and the entity agrees to pay the financial institution at the same date as, or a date later than, suppliers are paid.

## **Presentation in the statement of financial position**

IFRS 18 *Presentation and Disclosure in Financial Statements* specifies how an entity is required to present line items of liabilities in the statement of financial position. To determine which line items to present, an entity considers:

- a. the roles of the primary financial statements and the notes; and
- b. the principles of aggregation and disaggregation.

The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to investors (referred to as 'a useful structured summary'). The role of the notes is to provide material information. Paragraph 22 establishes the structure of the statement of financial position. Paragraph 96 states an entity is required to present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position (except when a presentation based on liquidity provides a more useful structured summary). Additionally, paragraph 103 of IFRS 18 requires an entity to present in its statement of financial position line items for trade and other payables and financial liabilities other than trade and other payables and provisions. However, an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary.

To determine whether it needs to present additional line items in its statement of financial position an entity applies its judgement based on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) of IFRS 18 assist an entity in identifying the nature or function of assets and liabilities.

An entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:

- a. aggregated within a line item that includes only trade and other payables;
- b. aggregated within a line item that includes financial liabilities other than trade and other payables; or
- c. disaggregated as a separate line item.

To identify the nature or function of these liabilities, the entity might consider their characteristics, such as:

- a. *duration and timing of settlement*—the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.
- b. *liquidity*—the extent to which the entity has concentrated with finance providers a portion of its financial liabilities originally owed to suppliers, and whether additional security is provided as part of the arrangement that would not be provided without the arrangement.
- c. *type*—assessed using these requirements:
  - i. paragraph 59 of IFRS 18 which requires an entity to distinguish between: (a) liabilities that arise from transactions that involve only the raising of finance; and (b) liabilities that arise from transactions that do not involve only the raising of finance. Paragraph B51(b) lists as an example of liabilities in (a) a liability under a supplier finance arrangement when the payable for goods or services is derecognised. Paragraph B53(a) lists as an example of liabilities in (b) payables for goods or services that will be settled in cash.
  - ii. paragraph B96 of IFRS 18 explains that '[s]ome current liabilities, such as trade payables ...are part of the working capital used in an entity's normal operating cycle'.

- iii. paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that ‘trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier’.
- d. *tax effects*—whether liabilities that are part of a reverse factoring arrangement might have a different tax base to trade and other payables.
- e. *restrictions on the transferability of a liability*—whether the reverse factoring arrangement might restrict the transfer of the associated liabilities.

The Committee observed that:

- a. an entity presents a financial liability as a trade payable only if it:
  - i. represents a liability to pay for goods or services;
  - ii. is invoiced or formally agreed with the supplier; and
  - iii. is part of the working capital used in the entity’s normal operating cycle.
- b. an entity presents other payables together with trade payables only if those other payables share at least one similar characteristic with trade payables other than meeting the definition of liabilities—for example, if the other payables are part of the working capital used in the entity’s normal operating cycle.
- c. an entity presents the liabilities that are part of a reverse factoring arrangement separately if these liabilities have sufficiently dissimilar characteristics from other liabilities that such presentation in the statement of financial position is necessary for the statement of financial position to provide a useful structured summary.
- d. paragraph B111 of IFRS 18 states that trade payables disaggregated in accordance with IAS 7 *Statement of Cash Flows* might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information.

~~IAS 1 *Presentation of Financial Statements* specifies how an entity is required to present its liabilities in the statement of financial position. Paragraph 54 of IAS 1 requires an entity to present ‘trade and other payables’ separately from other financial liabilities. ‘Trade and other payables’ are sufficiently different in nature or function from other financial liabilities to warrant separate presentation (paragraph 57 of IAS 1). Paragraph 55 of IAS 1 requires an entity to present additional line items (including by disaggregating the line items listed in paragraph 54) when such presentation is relevant to an understanding of the entity’s financial position. Consequently, an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:~~

- ~~a. within trade and other payables;~~
- ~~b. within other financial liabilities; or~~
- ~~c. as a line item separate from other items in its statement of financial position.~~

~~Paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that ‘trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier’. Paragraph 70 of IAS 1 explains that ‘some current liabilities, such as trade payables... are part of the working capital used in the entity’s normal operating cycle’. The Committee therefore concluded that an entity presents a financial liability as a trade payable only when it:~~

- ~~a. represents a liability to pay for goods or services;~~
- ~~b. is invoiced or formally agreed with the supplier; and~~
- ~~c. is part of the working capital used in the entity’s normal operating cycle.~~

~~Paragraph 29 of IAS 1 requires an entity to ‘present separately items of a dissimilar nature or function unless they are immaterial’. Paragraph 57 specifies that line items are included in the statement of financial position when the size, nature or function of an item (or aggregation of similar items) is such that separate presentation is relevant to an understanding of the entity’s financial position. Accordingly, the Committee concluded that, applying IAS 1, an entity presents liabilities that are part of a reverse factoring arrangement:~~

- ~~a. as part of ‘trade and other payables’ only when those liabilities have a similar nature and function to trade payables—for example, when those liabilities are part of the working capital used in the entity’s normal operating cycle.~~
- ~~b. separately when the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity’s financial position. In assessing whether it is required to present such liabilities separately (including whether to disaggregate trade and other payables), an entity considers the amounts, nature and timing of those liabilities (paragraphs 55 and 58 of IAS 1).~~

~~The Committee observed that an entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example:~~

- ~~a. whether additional security is provided as part of the arrangement that would not be provided without the arrangement.~~
- ~~b. the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity’s trade payables that are not part of the arrangement.~~

## **Derecognition of a financial liability**

An entity assesses whether and when to derecognise a liability that is (or becomes) part of a reverse factoring arrangement applying the derecognition requirements in IFRS 9 *Financial Instruments*.

An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies IFRS 18 IAS 4 in determining how to present that new liability in its statement of financial position (see ‘Presentation in the statement of financial position’).

## **Presentation in the statement of cash flows**

...

## **Notes to the financial statements**

...

An entity applies judgement in determining whether to provide additional disclosures in the notes about the effect of reverse factoring arrangements on its financial position, financial performance and cash flows. The Committee observed that:

- a. assessing how to present liabilities and cash flows related to reverse factoring arrangements may involve judgement. An entity discloses the judgements that management has made in this respect if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements (paragraph 27G of IAS 8 *Basis of Preparation of Financial Statements* paragraph 122 of IAS 4).

- b. reverse factoring arrangements may have a material effect on an entity's financial statements. An entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements (paragraph 113 of IFRS 18~~paragraph 112 of IAS 4~~). The Committee noted that making materiality judgements involves both quantitative and qualitative considerations.

Paragraph 44A of IAS 7 requires an entity to provide 'disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes'. The Committee noted that such disclosure is required for liabilities that are part of a reverse factoring arrangement if the cash flows for those liabilities were, or future cash flows will be, classified as cash flows from financing activities.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of liabilities that are part of reverse factoring arrangements, the presentation of the related cash flows, and the information to disclose in the notes about, for example, liquidity risks that arise in such arrangements. Consequently, the Committee decided not to add a standard-setting project on these matters to the work plan.

## **Agenda decisions for the IASB’s consideration**

### **Assessing Indicators of Hyperinflationary Economies (IAS 29 *Financial Reporting in Hyperinflationary Economies*)—Agenda Paper 4**

The Committee considered feedback on the **tentative agenda decision** published in the November 2024 IFRIC *Update* about applying IAS 29 *Financial Reporting in Hyperinflationary Economies* to identify when an economy becomes hyperinflationary.

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 2025 meeting. If the IASB does not object to the agenda decision, it will be published in July 2025 in an addendum to this IFRIC *Update*.

## **Other matters**

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

The Committee discussed the IASB’s Business Combinations—Disclosures, Goodwill and Impairment project. The Committee provided views on a possible rebuttable presumption approach to identify business combinations and the proposed operating profit threshold.

The IASB will consider input from Committee members and other stakeholders.

### **Work in Progress—Agenda Paper 8**

The Committee received an update on the status of open matters not discussed at its June 2025 meeting.