

IFRIC *Update* November 2023

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 [28–29 November 2023](#) and discussed:

Committee’s tentative agenda decisions

- [Climate-related Commitments \(IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*\)—Agenda Paper 2](#)
- [Disclosure of Revenues and Expenses for Reportable Segments \(IFRS 8 *Operating Segments*\)—Agenda Paper 4](#)

Agenda decisions for the IASB’s consideration

- [Merger between a Parent and Its Subsidiary in Separate Financial Statements \(IAS 27 *Separate Financial Statements*\)—Agenda Paper 5](#)

Other matters

- [Climate-related and Other Uncertainties in the Financial Statements—Agenda Paper 3](#)
- [Provisions—Targeted Improvements—Agenda Paper 6](#)
- [Power Purchase Agreements—Agenda Paper 7](#)
- [Work in Progress—Agenda Paper 8](#)

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

- [Merger between a Parent and Its Subsidiary in Separate Financial Statements \(IAS 27 *Separate Financial Statements*\)—Agenda Paper 5](#)

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.

Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)—Agenda Paper 2

Open for comment until 5 February 2024

The Committee received a request asking it to clarify:

- a. whether an entity’s commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity;
- b. whether a constructive obligation created by such a commitment meets the criteria in IAS 37 for recognising a provision; and
- c. if a provision is recognised, whether the expenditure required to settle it is recognised as an expense or as an asset when the provision is recognised.

The Committee considered this request by reference to the following fact pattern.

Fact pattern

In 20X0 an entity, a manufacturer of household products, publicly states its commitment:

- a. *to reduce its current greenhouse gas emissions by at least 60% by 20X9; and*
- b. *to offset its remaining emissions in 20X9 and thereafter, by buying carbon credits and retiring them from the carbon market.*

With its statement, the entity publishes a detailed plan setting out how it will gradually modify its manufacturing methods between 20X1 and 20X9 to achieve the 60% reduction in emissions by 20X9. The modifications will involve investing in more energy-efficient processes, buying energy from renewable sources and replacing existing petroleum-based product ingredients and packaging materials with lower-carbon alternatives. Management is confident that the entity can make all these modifications and continue to sell its products at a profit.

Does the entity have a constructive obligation?

Paragraph 10 of IAS 37 defines a constructive obligation as an obligation that derives from an entity’s actions where:

- a. by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- b. as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The Committee observed that a constructive obligation to reduce or offset greenhouse gas emissions, if one exists, would be owed to all people adversely affected by the emissions so would extend to the public at large. The Committee further observed that whether an entity's statement of its commitment to reduce or offset its emissions creates a valid expectation that it will fulfil its commitment—and hence creates a constructive obligation—depends on the facts of the commitment and the circumstances surrounding it. Management would apply judgement to reach a conclusion considering those facts and circumstances.

If the entity's statement has not created a constructive obligation, the entity does not recognise a provision. If the entity's statement has created a constructive obligation, the next question to consider is whether that obligation satisfies the criteria for recognising a provision.

Does the constructive obligation satisfy the criteria for recognising a provision?

Paragraph 14 of IAS 37 requires an entity to recognise a provision when:

- a. the entity has a present obligation (legal or constructive) as a result of a past event;
- b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- c. a reliable estimate can be made of the amount of the obligation.

An entity recognises a provision only if all three of these criteria are met.

Present obligation as a result of a past event

The first criterion for recognising a provision is that the entity has a present obligation as a result of a past event.

The Committee observed that, just as an entity has a present legal obligation only when it has taken the action to which a law applies, it has a present constructive obligation only when it has taken the action to which its published policy or statement applies. For example, as illustrated in Illustrative Example 2B accompanying IAS 37, an entity with a widely published policy of cleaning up land it contaminates incurs a present obligation only when it contaminates land—publishing the policy is necessary but not sufficient.

In explaining the requirement for a present obligation, paragraph 18 of IAS 37 states that 'no provision is recognised for costs that need to be incurred to operate in the future' and paragraph 19 of IAS 37 states that 'it is only those obligations arising from past events existing independently of the entity's future actions (ie the future conduct of its business) that are recognised as provisions'.

Applying those paragraphs, the Committee concluded that if the commitment described in the fact pattern creates a constructive obligation for the entity:

- a. that obligation is not a present obligation as a result of a past event when the entity publicly states its commitment in 20X0. At that time, the entity has not taken the actions to which the statement applies. The costs that the entity will need to incur to modify its manufacturing methods and to offset the greenhouse gases that it emits in 20X9 onwards are costs that it will need to incur to operate in the future—the obligations for those costs do not exist independently of the entity's future actions.
- b. the entity will never have a present obligation for future modifications to its manufacturing methods because the costs of those modifications will always be costs incurred to operate in the future. The entity will at some point have to pay for resources it purchases to modify its methods—for example, to pay for new plant or equipment—but only when it receives those resources.
- c. only when the entity has emitted the greenhouse gases that it has committed to offset will it have a present obligation to retire the carbon credits required to offset those greenhouse gases. The entity will have a present obligation to retire carbon credits only if and when it emits greenhouse gases in 20X9 and later years.

Probable outflow of resources

The second criterion for recognising a provision is that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The Committee concluded that if the commitment described in the fact pattern creates a constructive obligation for the entity:

- a. settling the obligation to reduce the entity's greenhouse gas emissions will not require an outflow of resources embodying economic benefits. Although the entity will incur expenditure to modify its manufacturing methods, it will receive other resources—for example, property, plant, equipment, energy, product ingredients or packaging materials—in exchange for that expenditure, and will be able to use these resources to manufacture products it can sell at a profit.
- b. settling the obligation to offset the entity's remaining greenhouse gas emissions will require an outflow of resources. The entity will be required to retire carbon credits without receiving any resources in exchange.

Reliable estimate

The final criterion for recognising a provision is that a reliable estimate can be made of the amount of the obligation.

Paragraph 25 of IAS 37 states that 'except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision'.

The Committee concluded that in the fact pattern described, it is likely that the entity would be able to make a reliable estimate of the amount of a constructive obligation that satisfies the other recognition criteria.

Conclusion on whether a provision is recognised

The Committee concluded that in the fact pattern described:

- a. whether the entity's statement of its commitment to reduce and offset its greenhouse gas emissions creates a constructive obligation will depend on the facts of the statement and the circumstances surrounding it.
- b. if the statement creates a constructive obligation:
 - i. the entity does not recognise a provision when it makes the statement. At that time, the constructive obligation is not a present obligation as a result of a past event.
 - ii. as the entity emits greenhouse gases in 20X9 and thereafter, it will incur a present obligation to retire the carbon credits required to offset its past emissions. Assuming it has not already retired the carbon credits needed to offset its past emissions and that a reliable estimate can be made of the amount of the obligation, the entity recognises a provision.

If a provision is recognised, is the expenditure required to settle it recognised as an expense or as an asset when the provision is recognised?

The Committee observed that expenditure is recognised as an expense, rather than as an asset, unless it gives rise to—or forms part of the cost of—an item that qualifies for recognition as an asset in accordance with an IFRS Accounting Standard.

Other accounting implications

The Committee observed that, irrespective of whether an entity's commitment to reduce or offset its greenhouse gas emissions results in the recognition of a provision, the actions the entity plans to take to fulfil that commitment could affect the amounts at which it measures its other assets and liabilities and the information it discloses about them, as required by various IFRS Accounting Standards.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine:

- a. the circumstances in which an entity recognises a provision for the costs of fulfilling a commitment to reduce or offset its greenhouse gas emissions; and
- b. if a provision is recognised, whether the costs are recognised as an expense or as an asset when the provision is recognised.

Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)—Agenda Paper 4

Open for comment until 5 February 2024

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:

- a. whether an entity is required to disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment if those amounts are not reviewed separately by the chief operating decision maker (CODM);
- 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*; and
- c. how an entity determines ‘material items’ in paragraph 23(f) of IFRS 8. In particular:
 - i. whether ‘material items’ are only those that are material on a qualitative basis;
 - ii. whether ‘material items’ include amounts that are an aggregation of individually quantitatively immaterial items; and
 - iii. whether the materiality assessment is performed at an income statement level (from an overall reporting entity perspective) or at a segment level.

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

- a. the requirements of paragraph 23 of IFRS 8 to disclose, for each reportable segment, specified amounts included in segment profit or loss reviewed by the CODM; and
- b. the meaning of ‘material items of income and expense’ in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8.

Disclosure of specified amounts

Paragraph 23 of IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment and to disclose specified amounts for each reportable segment. Paragraph 23 sets out specified amounts that an entity is required to disclose for each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM, or are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

The Committee observed that paragraph 23 of IFRS 8 requires an entity to disclose the specified amounts for each reportable segment when those amounts are included in the measure of segment profit or loss reviewed by the CODM, even if they are not separately reviewed by the CODM, or when those amounts are regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.

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 97 of IAS 1’. 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’

Paragraph 7 of IAS 1 defines ‘material’ 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 7 of IAS 1 also states ‘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 of information

Paragraphs 30–31 of IAS 1 provide requirements for how an entity aggregates information in the financial statements, including in the notes. 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 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 of users of those financial statements.

The Committee observed that, in applying paragraph 23(f) of IFRS 8, an entity:

- a. applies paragraph 7 of IAS 1 and assesses whether the disclosure of information is material in the context of its financial statements taken as a whole;
- b. applies the requirements in paragraphs 30–31 of IAS 1 in considering how to aggregate information in the financial statements;
- c. considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing whether an item of income and expense is material; and
- d. considers an item of income and expense for disclosure without regard to whether that item is presented or disclosed applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8.

Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Agenda decisions for the IASB’s consideration

Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 Separate Financial Statements)—Agenda Paper 5

The Committee considered feedback on the **tentative agenda decision** published in the June 2023 IFRIC *Update* 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.

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 January 2024 meeting. If the IASB does not object to the agenda decision, it will be published in January 2024 in an addendum to this IFRIC *Update*.

Other matters

Climate-related and Other Uncertainties in the Financial Statements—Agenda Paper 3

The Committee discussed the IASB’s project on Climate-related and Other Uncertainties in the Financial Statements. Committee members provided input on:

- a. how entities reflect the potential for high variability in future cash flows over an extended time horizon when calculating the value in use of an asset; and
- b. whether there is diversity in how entities understand and apply the requirements in IAS 36 *Impairment of Assets* in reflecting such variability in value in use calculations.

The IASB will consider this input at a future IASB meeting.

Provisions—Targeted Improvements—Agenda Paper 6

The Committee discussed the IASB’s Provisions—Targeted Improvements project. Committee members provided input on:

- a. initial suggestions for possible amendments to the requirements and illustrative examples supporting the ‘present obligation’ recognition criterion in IAS 37; and
- b. whether to add thresholds to IAS 37 application requirements specifying when an entity has a present obligation for costs payable if a measure of its activity—for example, its revenue or carbon emissions—exceeds a specified threshold.

The IASB will consider input from the Committee and other stakeholders at a future IASB meeting.

Power Purchase Agreements—Agenda Paper 7

The Committee discussed the IASB’s project on Power Purchase Agreements. Committee members provided their views on the scope of, and approaches to, potential narrow-scope amendments to IFRS 9.

The IASB will consider input from the Committee and other stakeholders at a future IASB meeting.

Work in Progress—Agenda Paper 8

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

Addendum to IFRIC Update—Committee’s agenda decisions

Agenda decisions, in many cases, include explanatory material. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. 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). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Accounting Standards.

The Committee discussed the following matters and decided not to add standard-setting projects to the work plan.

Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 Separate Financial Statements)—Agenda Paper 5

Published in January 2024¹

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 the acquisition method (and related requirements) in IFRS 3; or
- b. 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.

¹ In accordance with paragraph 8.7 of the *Due Process Handbook*, at its January 2024 meeting, the IASB discussed, and did not object to, this agenda decision.

Findings

Evidence gathered by the Committee indicates little, if any, diversity in determining whether to apply the acquisition method (and related requirements) in IFRS 3 to 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 acquisition method (and related requirements) in IFRS 3.

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.