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Update on the IFRS Interpretations Committee's activities

Objective

1 The objective of this paper is to provide, for information purposes, a summary of the main open issues discussed by the IFRS Interpretations Committee (the 'IFRS IC' or the 'Committee').

2 The paper focuses on the issues that are still 'open' at the date of the summary, that is, matters that have not yet led to a final decision by the IFRS IC.

3 This presentation raises EFRAG FR TEG's and EFRAG CFSS's awareness of issues being discussed at the IFRS IC and possible interactions with EFRAG's commenting activities and future standard setting. The session is not intended, however, to respond to the IFRS IC tentative decisions. Therefore, the paper does not contain the EFRAG Secretariat's initial views on the issues and does not seek EFRAG FR TEG's nor EFRAG CFSS's technical assessment on the matters.

4 If EFRAG FR TEG or EFRAG CFSS express the wish to further discuss any of the presented issues, a session could be organised at a future meeting. EFRAG TEG-CFSS members can also express the need to participate in the IASB´s outreach on the topics listed.

Overview of IFRS IC's current activity

5 Below is an overview of the IFRS IC's current activities.

Project/Topic (including hyperlinks to the IASB project pages for each item)	**Related Standards**	**Current status**	**Next milestone**	**Next milestone expected date**
Finalisation of agenda decision				
Disclosure of Revenues and expenses for reportable segments (IFRS 8)	IFRS 8	Agenda Decision	IASB meeting	July 2024
Initial Consideration				
Classification of Cash Flows related to margin Calls "Collateralised-to-market"	IAS 7	Tentative Agenda Decision	Tentative Agenda Decision feedback	Q4 2024
Input to IASB				
Intangible assets	IAS 38	Initial research	Review Research	Q4 2024
Business combinations-Disclosures, Goodwill and impairment	IFRS 3 & IAS 36	Consultation period till 15 July 2024	Exposure Draft Feedback	Q4 2024
IFRS IC pipeline				
Guarantee contracts issued on behalf of a joint venture (IFRS 9)	IFRS 9	Pipeline topic	Not specified	Not specified

Finalisation of agenda decision

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)

Issue and background

6 In November 2023, the IFRS IC received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 Operating Segments to disclose for each reportable segment specified amounts related to segment profit or loss.

7 The request asked the IFRS IC:

(a) is an entity 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) is an entity 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?

(c) How does an entity determine 'material items' in paragraph 23(f) of IFRS 8? In particular:

(i) are 'material items' only those that are material on a qualitative basis?

(ii) do 'material items' include amounts that are an aggregation of individually quantitatively immaterial items?

(iii) is the materiality assessment performed at an income statement level (from an overall reporting entity perspective) or at a segment level?

8 The submitter did not provide fact patterns on which the questions are based. The submission asked about the principles underlying the requirements, rather than their application in a particular situation.

9 The submitter noted that there is diversity in their jurisdiction as to what the words in the IFRS Standards mean and their application thereof.

IFRS IC tentative decision (November 2023)

10 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.

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

12 The deadline for commenting on the tentative agenda decision was 5 February 2024.

Comment letter analysis and IASB Staff analysis and recommendations

13 The IFRS IC received 27 comment letters.

14 The IASB staff analysed the summary of the comment letters on the tentative agenda decision as follows:

(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 applying paragraph 23(f) of IFRS 8.

Disclosing specified amounts for each reportable segment ('the first part' of the tentative agenda decision)

15 Most respondents that responded to this part of the agenda decision agreed with the tentative decision.

16 One respondent - ABRASCA, a group of preparers – disagreed with this part of the agenda decision due to a perceived conflict.

17 Another respondent – IOSCO - recommended separating, in a final agenda decision, the articulation of the requirement for an entity to disclose specified amounts for each reportable segment into its component parts.

18 **IASB Staff recommendations** - In finalising the agenda decision, the IASB staff recommended incorporating that drafting suggestion by IOSCO into the paragraph in the agenda decision that reflects the Committee's observations about that requirement.

Meaning of material items of income and expense

19 More than half of respondents (eighteen) disagreed with the second part of the tentative agenda decision. These respondents included almost all the accounting practitioners, some national accounting standard-setters, some groups of preparers and some accountancy professional bodies.

20 **The respondents that disagreed** were not convinced that there is diversity in the application of paragraph 23(f) of IFRS 8. They recommended that the IFRS IC not proceed to publish a final agenda decision that includes a technical analysis of the requirements of paragraph 23(f) of IFRS 8. This is explained in paragraph 27 of the IASB agenda paper.

21 A few respondents noted that diversity could exist – for example EY stated "as we and others highlighted previously in response to the Staff's request for information prior to the IFRS IC November meeting, established practice suggests that different interpretations of IFRS 8.23(f) are acceptable".

22 Many of the eighteen respondents that disagreed with the second part of the tentative agenda decision stated that paragraph 97 of IAS 1 is applied in the context of paragraph 98 of IAS 1, and the tentative agenda decision omits to explain this interaction. These respondents indicated that paragraph 98 of IAS 1 provides examples of when an item is a 'material item' in paragraph 97 of IAS 1. Some of these respondents also said that, in the context of those examples in paragraph 98, the reference to 'material items' in paragraph 23(f) of IFRS 8 should be read as 'unusual items' or items that are not normal in day-to-day operations.

23 Furthermore, some of the respondents that disagreed with the agenda decision said that the US GAAP equivalent paragraph to paragraph 23(f) of IFRS 8 refers to 'unusual items' rather than 'material items', and this wording difference is not mentioned in paragraph BC60. The two standards are largely converged and equivalent standards.

24 However, a few respondents stated that they focussed on the words of paragraph 23(f) of IFRS 8 as written, which says 'material items', not 'unusual items'.

25 Some respondents noted the level of information to be provided at segment level - segment-level statement of profit or loss.

IASB staff recommendations

26 The IASB staff recommend some limited drafting suggestions to the final agenda decision – see paragraph 38 of the IASB agenda paper.

27 The IASB staff also recommended adding wording to the agenda decision to state the Committee's observation that paragraph 23(f) of IFRS 8 does not require an entity to disaggregate by reportable segment each item of income and expense presented in its statement of profit or loss. In their view, this addition to the agenda decision would address respondents' concerns while maintaining consistency with the requirements of paragraph 23 of IFRS 8 and of IAS 1.

28 Overall, the IASB staff recommended to clarity the agenda decision while maintaining its consistency with the requirements of paragraph 23 of IFRS 8 and IAS 1.

IFRS IC tentative agenda decision (June 2024)

29 The IFRS IC considered feedback on the tentative agenda decision and concluded its discussions. The IASB will consider the agenda decision at its July 2024 meeting.

Initial consideration

Classification of Cash Flows related to Margin Calls on 'Collateralised-to-Market' Contracts (IAS 7)

Issue and background

30 The IFRS IC received a submission about how an entity presents, in the statement of cash flows, cash payments and receipts related to variation margin calls on contracts to purchase or sell commodities at a predetermined price in the future. The contract is centrally cleared. During the life of the contract, the counterparties make or receive daily payments based on the fluctuations of the fair value of the contract (variation margin call payments). The contract may be settled physically or net in cash. The contract may be used to receive commodities in accordance with its expected usage requirements; to hedge against fluctuations in the prices of commodities or to use the contract for trading purposes. The submission only considers 'collateralised-to-market' contracts.

IASB Staff analysis and recommendations

31 The IASB staff noted that outreach to standard setters had shown that the issue was rare, and there was no or little diversity in how entities classify the cash flows. However, it was also noted by a security regulator and an accounting firm noted that such transactions were common and could potentially result in significantly different outcomes and volatility in

cash flow indicators. The cash flows are generally classified as cash flows from operating activities. It was noted that the root cause of diversity related to: different reasons for entering into such contracts; and diverse interpretations of the requirements in the IFRS Accounting Standards.

32 Based on the responses, the IASB staff assessed that the matter did not have widespread effect and nor was expected to have, a material effect on those affected. In making that conclusion, the IASB staff noted that two of the world's largest central counterparties—the Chicago Mercantile Exchange (CME) and London Clearing House (LCH)1 — had amended their rules, such that variation margin payments are now legally considered settlement payments, rather than transfers of collaterals.

IFRS IC tentative agenda decision (June 2024)

33 Evidence gathered by the Committee [to date] did not indicate that the matter described in the request is widespread. On the basis of that evidence, 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.

Input to IASB

Intangible Assets

Issue and background

34 A research project on Intangible Assets was added to the International Accounting Standard Board's (IASB) research project pipeline following its Third Agenda Consultation. The IASB started work on the project in April 2024. In the initial research phase of the project, the IASB needs to define the problem the IASB is trying to solve, the scope of the project and how best to stage work to deliver timely improvements. The IASB is consulting with its advisory bodies and other stakeholders to help inform these decisions. The IASB staff was therefore asking the IFRS Interpretations Committee for input on: the problem that needs to be solved; the scope of the project; and the approach to staging the work.

IASB Staff analysis and recommendations

35 The IASB staff was consulting on what problem the IASB should seek to solve, what are the most important topics to be solved and whether the project should be carried out by applying: an all-in-one project approach, an approach where the most important topics will be addressed; or a phased project approach.

Business Combinations—Disclosures, Goodwill and Impairment

Issue and background

36 The IASB staff is seeking IFRS IC members' views on the following aspects of the IASB's proposals included in the Exposure Draft *Business Combinations— Disclosures, Goodwill and Impairment* published in March 2024:

(a) Identifying strategic business combinations;

(b) Exemption; and

(c) Impairment test.

IASB Staff analysis and recommendations

37 The objective was to gather views on the main proposals in the ED.

IFRS IC pipeline topic

Accounting for corporate guarantee contracts issued by the Investor entity in relation to obligations of its joint venture in its separate financial statements (IFRS 9)

Introduction and summary of the issue

38 The IFRS IC received a request about whether a corporate guarantee contract ('FGC') issued by an investor entity in relation to obligations of its joint venture entity ('JV') should be accounted for as a financial guarantee contract or not in the separate financial statements of the investor entity.

39 The request outlined three fact patterns involving different types of guarantees provided by an investor entity on behalf of its JV.

40 The request asked the IFRS IC to clarify if the corporate guarantee contracts issued by an investor entity concerning its JV's obligations should be treated as FGCs under IFRS 9 in the separate financial statements of the investor. If not, how should these guarantees be accounted for? Additionally, does it matter if the investor's payment to the customer is not contingent on the JV's failure to pay y, i.e., the investor may pay the penalty to the customer on the due date and then claim it from the JV entity?

Current practice

41 The below accounting treatments reflect current diversity in practice:

42 **View 1:** These guarantees are not FGCs under IFRS 9. Some suggest accounting for them as contingent liabilities under IAS 37 (no present obligation as it is dependent on happening of an uncertain future event, i.e. failure of performance and failure to pay penalty by JV entity), while others propose treating some of the fact patterns as insurance contracts under IFRS 17.

43 **View 2:** These guarantees should be accounted for as FGCs under IFRS 9, arguing that the initial arrangement between the holder of the guarantee and the JV is akin to a debt instrument because it is the failure to pay the specified amounts by the JV that invokes the guarantee. The underlying risk is financial risk, hence, the corporate guarantee meets the definition of FGC.

44 For detailed information on each case and the arguments for each view, please refer to the IASB website.

Next steps

45 The EFRAG Secretariat will continue to monitor the IFRS IC's discussions.