IFRS Accounting

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Compilation of Agenda Decisions

Volume 7

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Volume 7
(May 2022—October 2022)

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Introduction

Compilation of Agenda Decisions—Volume 7 compiles all agenda decisions published by the IFRS Interpretations Committee (Committee) in the period May 2022 to October 2022. The Committee publishes an agenda decision to explain why a standard-setting project has not been added to the work plan to address a question submitted. For ease of reference, the agenda decisions are sorted by IFRS Accounting Standard.

How the Committee supports consistent application of IFRS Accounting Standards

The Committee works with the International Accounting Standards Board (IASB) in supporting the consistent application of IFRS® Accounting Standards.

The Committee's process

Committee projects typically begin as an application question submitted for consideration. The process is designed to:

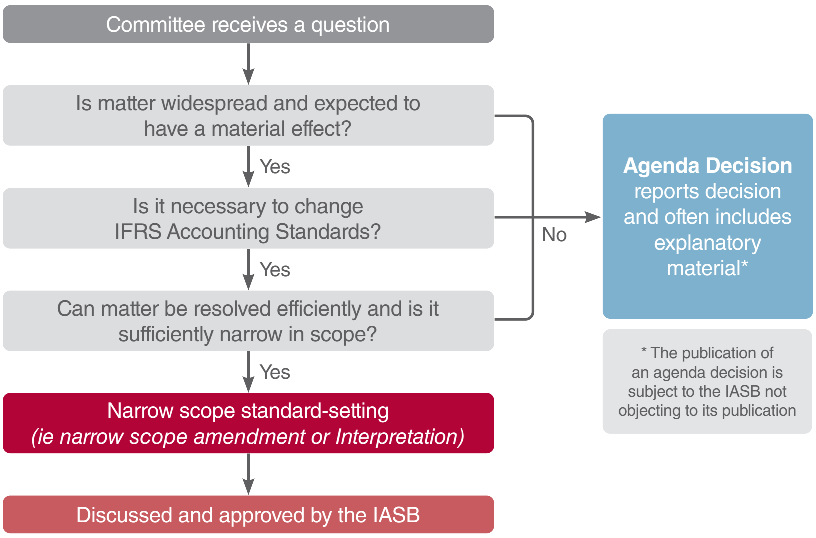
- allow any stakeholder to submit a question for consideration; and
- be transparent—all eligible application questions are considered at a public meeting.

The Committee then decides whether a standard-setting project should be added to the work plan to address the question submitted. The Committee may decide not to do so if it concludes that standard-setting would be:

- unnecessary—typically because, in the Committee's view, IFRS Accounting Standards provide an adequate basis for an entity to determine the required accounting or because there is no evidence that a widespread financial reporting problem exists; or
- not sufficiently narrow in scope—the question could be resolved only as part of a larger IASB project (not a narrow-scope project).

To explain why a standard-setting project is not added, the Committee publishes an agenda decision. Agenda decisions report the Committee's decision and, in many cases, also include explanatory material.

The following diagram summarises the criteria the Committee considers when deciding whether a standard-setting project should be added to the work plan:



Explanatory material in an agenda decision

Agenda decisions often include explanatory material. The objective of including such explanatory material is to improve the consistency of application of IFRS Accounting Standards.

Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Accounting Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the agenda decision.

Explanatory material derives its authority from the Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Accounting Standard(s), reflecting the explanatory material in an agenda decision (subject to it having sufficient time to implement that accounting).

Explanatory material included as part of a tentative agenda decision is subject to comment. The comment period is normally 60 days. After considering comments received, the Committee decides whether to confirm its decision and publish an agenda decision (subject to the IASB not objecting). An agenda decision is published if no more than three IASB members object to its publication. Please visit the project pages on our website if you would like more information about the agenda decisions included in this compilation.

Agenda decisions published by the Committee are available on the 'how the IFRS Interpretations Committee helps support consistent application of IFRS Accounting Standards' page.

Narrow-scope standard-setting

Some questions result in narrow-scope standard-setting that follows the applicable due process. The Committee may decide to:

- develop an IFRIC Interpretation, which adds requirements to IFRS Accounting Standards but does not remove or replace any requirements in the Accounting Standards; or
- recommend that the IASB develop a narrow-scope amendment to an Accounting Standard.

Narrow-scope standard-setting projects recommended by the Committee and approved by the IASB are added to the work plan as maintenance projects.

IFRS 2 *Share-based Payment* and IAS 32 *Financial Instruments: Presentation*

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition

October 2022

The Committee received a request about an entity's acquisition of a special purpose acquisition company (SPAC). The request asked how the entity accounts for warrants on acquiring the SPAC.

In the fact pattern the Committee discussed:

a. the entity acquires a SPAC that has raised cash in an initial public offering (IPO), obtaining control of the SPAC. The purpose of the acquisition is for the entity to obtain the cash and the SPAC's listing on a stock exchange. The SPAC does not meet the definition of a business in IFRS 3 *Business Combinations* and, at the time of the acquisition, has no assets other than cash.

b. before the acquisition, the SPAC's ordinary shares are held by its founder shareholders and public investors. The ordinary shares are determined to be equity instruments as defined in IAS 32 *Financial Instruments: Presentation*. In addition to ordinary shares, the SPAC had also issued warrants to both its founder shareholders and public investors (the SPAC warrants):

   i. *founder warrants* were issued at the SPAC's formation as consideration for services the founders provided.

   ii. *public warrants* were issued to public investors with ordinary shares at the time of the IPO.

c. the entity issues new ordinary shares and new warrants to the SPAC's founder shareholders and public investors in exchange for the SPAC's ordinary shares and the legal cancellation of the SPAC warrants. The SPAC becomes a wholly-owned subsidiary of the entity and the entity replaces the SPAC as the entity listed on the stock exchange.

d. the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition.

e. the fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the SPAC's identifiable net assets.

Which IFRS Accounting Standard applies to the SPAC acquisition?

Paragraph 2(b) of IFRS 3 states that IFRS 3 does not apply to 'the acquisition of an asset or a group of assets that does not constitute a business'. In such cases, that paragraph requires the acquirer to 'identify and recognise the individual identifiable assets acquired … and liabilities assumed'.

In the fact pattern discussed, the acquisition of the SPAC is the acquisition of an asset or a group of assets that does not constitute a business. Therefore, the entity identifies and recognises the individual identifiable assets acquired and liabilities assumed as part of the acquisition.

What are the individual identifiable assets acquired and liabilities assumed?

In the fact pattern discussed, the entity acquires the cash held by the SPAC. The entity also considers whether it assumes the SPAC warrants as part of the acquisition and, consequently, whether it assumes a liability if those warrants are classified as financial liabilities.

In assessing whether it assumes the SPAC warrants as part of the acquisition, the entity considers the specific facts and circumstances of the transaction, including the terms and conditions of all agreements associated with the acquisition. For example, the entity considers the legal structure of the transaction and the terms and conditions of the SPAC warrants and the new warrants the entity issues.

The entity might conclude that the facts and circumstances are such that it:

a. *assumes the SPAC warrants as part of the acquisition*—in this case, the entity issues ordinary shares to acquire the SPAC and assumes the SPAC warrants as part of the acquisition. The entity then issues new warrants to replace the SPAC warrants it has assumed.

b. *does not assume the SPAC warrants as part of the acquisition*—in this case, the entity issues both ordinary shares and new warrants to acquire the SPAC and does not assume the SPAC warrants.

Additional considerations applicable when an entity concludes that it assumes the SPAC warrants as part of the acquisition

How does the entity account for SPAC warrants assumed as part of the acquisition?

In the fact pattern discussed, the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition. Instead, the SPAC's founder shareholders and public investors hold the SPAC warrants solely in their capacity as owners of the SPAC. Therefore, the entity applies IAS 32 to determine whether the SPAC warrants are financial liabilities or equity instruments.

How does the entity account for the replacement of the SPAC warrants?

The entity applies IAS 32 and IFRS 9 *Financial Instruments* to account for the replacement of the SPAC warrants with new warrants.

However, because the entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition, it determines whether it accounts for any of the new warrants it issues as part of that acquisition. No IFRS Accounting Standard specifically applies in making this determination. Therefore, the entity applies paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy that results in information that is relevant and reliable.

Does the entity also acquire a stock exchange listing service?

In the fact pattern discussed, the SPAC's stock exchange listing does not meet the definition of an intangible asset because it is not 'identifiable' as described in paragraph 12 of IAS 38 *Intangible Assets*. Accordingly, the stock exchange listing is not an identifiable asset acquired. Nonetheless, the Committee observed that:

a. paragraph 2 of IFRS 2 states that 'an entity shall apply this IFRS in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received … In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this IFRS applies.'

b. paragraph 13A of IFRS 2 states that '… if the identifiable consideration received (if any) by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, typically this situation indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity. The entity shall measure the identifiable goods or services received in accordance with this IFRS. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).'

The fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets acquired. Therefore, the Committee concluded that, in applying paragraphs 2 and 13A of IFRS 2, the entity:

a. receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction; and

b. measures the stock exchange listing service received as the difference between the fair value of the instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired.

Which IFRS Accounting Standard applies to the instruments issued?

Depending on the specific facts and circumstances of the transaction, the entity issues ordinary shares—or ordinary shares and new warrants—in exchange for acquiring cash, for acquiring the stock exchange listing service and for assuming any liability related to the SPAC warrants. The Committee observed that:

a. IAS 32 applies to all financial instruments, with some exceptions. These exceptions include 'financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies …' (paragraph 4 of IAS 32).

b. IFRS 2 applies to 'share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets …' (paragraph 5 of IFRS 2).

Therefore, the Committee concluded that the entity applies:

a. IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service; and

b. IAS 32 in accounting for instruments issued to acquire cash and assume any liability related to the SPAC warrants—these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

Additional considerations applicable if the entity concludes that it does not assume the SPAC warrants as part of the acquisition

Which types of instrument were issued for the SPAC's net assets and which were issued for the service?

If the entity concludes that the facts and circumstances are such that it does not assume the SPAC warrants as part of the acquisition, the entity issues both ordinary shares and new warrants to acquire cash and a stock exchange listing service. In this case, the entity determines to what extent it issued each type of instrument to acquire (i) the cash, and (ii) the stock exchange listing service. No IFRS Accounting Standard specifically applies to this determination. Therefore, the entity applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy that results in information that is relevant and reliable.

The Committee observed that:

a. an entity could allocate the shares and new warrants to the acquisition of cash and the stock exchange listing service on the basis of the relative fair values of the instruments issued (that is, in the same proportion as the fair value of each type of instrument to the total fair value of all issued instruments). For example, if 80% of the total fair value of the instruments issued comprises ordinary shares, the entity could conclude that 80% of the fair value of instruments issued to acquire cash also comprises ordinary shares.

b. an entity could use other allocation methods if they meet the requirements in paragraphs 10–11 of IAS 8. However, an accounting policy that results in the entity allocating all the new warrants issued to the acquisition of the stock exchange listing service solely to avoid the new warrants being classified as financial liabilities applying IAS 32 would not meet these requirements.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern the Committee discussed. Consequently, the Committee decided not to add a standard-setting project to the work plan.

IFRS 9 *Financial Instruments* and IFRS 16 *Leases*

Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

October 2022

The Committee received a request about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession. The rent concession is one for which the only change to the lease contract is the lessor's forgiveness of lease payments due from the lessee under that contract.

The fact pattern

The request described a rent concession agreed by a lessor and a lessee on the date the rent concession is granted. The rent concession changes the original terms and conditions of a lease contract classified by the lessor—applying IFRS 16—as an operating lease. The lessor legally releases the lessee from its obligation to make specifically identified lease payments:

a. some of these lease payments are amounts contractually due but not paid. Paragraph AG9 of IAS 32 states that 'a lessor does not regard an operating lease as a financial instrument, except as regards individual payments currently due and payable by the lessee'. Therefore, the lessor has recognised these amounts as an operating lease receivable. Applying paragraph 81 of IFRS 16, the lessor has also recognised the amounts as income.

b. some of these lease payments are not yet contractually due.

No other changes are made to the lease contract, nor are there any other negotiations between the lessor and the lessee that might affect the accounting for the rent concession. Before the date the rent concession is granted, the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable.

The question

The request asked:

a. how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable before the rent concession is granted if it expects to forgive payments due from the lessee under the lease contract; and

b. whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

Applying the expected credit loss model in IFRS 9 to the operating lease receivable

Paragraph 2.1(b)(i) of IFRS 9 states that 'operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements' in IFRS 9. Therefore, a lessor is required to apply the impairment requirements in IFRS 9 to the gross carrying amount of an operating lease receivable from the date on which it recognises that receivable, taking into account applicable derecognition requirements in IFRS 9.

IFRS 9 defines credit loss as ‘the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls)…’. Paragraph 5.5.17 of IFRS 9 states that ‘an entity shall measure expected credit losses … in a way that reflects (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions’.

Consequently, in the fact pattern described in the request, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable. The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect ‘all cash shortfalls’. These shortfalls are the difference between:

a. all contractual cash flows due to the lessor in accordance with the lease contract (and included in the gross carrying amount of the operating lease receivable); and

b. all the cash flows the lessor expects to receive, determined using ‘reasonable and supportable information’ about ‘past events, current conditions and forecasts of future economic conditions’.

Therefore, the Committee concluded that, before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects ‘an unbiased and probability-weighted amount …’, ‘the time value of money’, and ‘reasonable and supportable information …’ (as required by paragraph 5.5.17 of IFRS 9). This measurement of expected credit losses includes the lessor considering its expectations of forgiving lease payments recognised as part of that receivable.

Accounting for the rent concession—IFRS 9 and IFRS 16

Applying the derecognition requirements in IFRS 9 to the operating lease receivable

Paragraph 2.1(b)(i) of IFRS 9 states that operating lease receivables recognised by a lessor are subject to the derecognition requirements in IFRS 9. Consequently, on granting the rent concession, the lessor considers whether the requirements for derecognition in paragraph 3.2.3 of IFRS 9 are met.

In the rent concession described in the request, the lessor legally releases the lessee from its obligation to make specifically identified lease payments, some of which the lessor has recognised as an operating lease receivable. Accordingly, on granting the rent concession, the lessor concludes that the requirements in paragraph 3.2.3(a) of IFRS 9 have been met —that is, its contractual rights to the cash flows from the operating lease receivable expire—because it has agreed to legally release the lessee from its obligation and thus has given up its contractual rights to those specifically identified cash flows. Therefore, on the date the rent concession is granted, the lessor remeasures expected credit losses on the operating lease receivable (and recognises any change to the expected credit loss allowance in profit or loss) and derecognises the operating lease receivable (and associated expected credit loss allowance).

Applying the lease modification requirements in IFRS 16 to future lease payments under the lease

The rent concession described in the request meets the definition of a lease modification in IFRS 16. The rent concession is 'a change in … the consideration for a lease … that was not part of the original terms and conditions of the lease'. Therefore, the lessor applies paragraph 87 of IFRS 16 and accounts for the modified lease as a new lease from the date the rent concession is granted.

Paragraph 87 of IFRS 16 requires a lessor to consider any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. The Committee observed that lease payments contractually due from the lessee that the lessor has recognised as an operating lease receivable (to which the derecognition and impairment requirements in IFRS 9 apply) are not accrued lease payments. Consequently, neither those lease payments nor their forgiveness are considered—applying paragraph 87 of IFRS 16—as part of the lease payments for the new lease.

In accounting for the modified lease as a new lease, a lessor applies paragraph 81 of IFRS 16 and recognises the lease payments (including any prepaid or accrued lease payments relating to the original lease) as income on either a straight-line basis or another systematic basis.

The Committee concluded that the lessor accounts for the rent concession described in the request on the date it is granted by applying: (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor has recognised as an operating lease receivable; and (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor has not recognised as an operating lease receivable.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable and account for the rent concession described in the request. Consequently, the Committee decided not to add a standard-setting project to the work plan.

IFRS 15 *Revenue from Contracts with Customers*

Principal versus Agent: Software Reseller (IFRS 15)

May 2022

The Committee received a request asking whether, in applying IFRS 15, a reseller of software licences is a principal or agent. In the fact pattern described in the request:

a. the reseller has a distribution agreement with a software manufacturer that:

    i. gives the reseller the right to grant (sell) the manufacturer's standard software licences to customers;

    ii. requires the reseller to provide pre-sales advice to each customer—before the sale of the software licences—to identify the type and number of software licences that would meet the customer's needs; and

    iii. provides the reseller with discretion in pricing the software licences for sale to customers.

b. if the customer decides:

    i. to buy no software licences, it pays nothing. The reseller and the customer do not enter into an agreement.

    ii. to buy a specified type and number of software licences, the reseller negotiates the selling price with the customer, places an order with the software manufacturer on behalf of the customer (and pays the manufacturer), and invoices the customer for the agreed price.

c. the software manufacturer provides the customer with the software licences ordered—issued in the customer's name—via a software portal and with the key necessary for activation. The software manufacturer and the customer enter into an agreement specifying the customer's right to use the software, a warranty covering the software's functionality and the term of the licence.

d. if the reseller advises the customer to order an incorrect type or number of software licences (that fails to meet the customer's needs), the customer may not accept the licences. The reseller is unable to return unaccepted licences to the software manufacturer or sell them to another customer.

Applicable requirements in IFRS 15—Principal versus agent considerations

Paragraphs B34–B38 set out a framework to determine whether an entity is a principal or agent. When another party is involved in providing goods or services to a customer, an entity determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (the entity is a principal) or to arrange for those goods or services to be provided by the other party (the entity is an agent).

Paragraph B34A states that determining the nature of its promise requires an entity to:

a. identify the specified goods or services to be provided to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (paragraph B34); and

b. assess whether it controls each specified good or service before that good or service is transferred to the customer.

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer (paragraph B35). An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer (paragraph B36).

Identifying the specified goods or services to be provided to the customer

The first step in identifying the specified goods or services to be provided to the customer is to assess the goods or services promised in the contract with the customer. A contract with a customer generally explicitly states the goods or services that an entity promises to provide to a customer. However, the contract may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer (paragraph 24).

Having assessed the goods or services promised in the contract with the customer, an entity then identifies—applying paragraphs 27–30—each distinct good or service (or distinct bundle of goods or services) to be provided to the customer.

Assessing whether an entity controls each specified good or service before that good or service is transferred to the customer

When another party is involved in providing goods or services to a customer, paragraph B35A sets out the circumstances in which an entity is a principal—one of which is when the entity obtains control of a good or another asset from the other party that it then transfers to the customer. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset; control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset (paragraph 33).

Paragraph B37 sets out indicators to help an entity determine whether it is a principal or agent. Such indicators include, but are not limited to: (a) primary responsibility for fulfilling the promise to provide the specified good or service; (b) inventory risk before the specified good or service has been transferred to the customer or after transfer of control to the customer; and (c) discretion in establishing the price for the specified good or service. The indicators may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract, and different indicators may provide more persuasive evidence in different contracts (paragraph B37A).

Applying IFRS 15 to the fact pattern described in the request

Identifying the specified goods or services to be provided to the customer

In the fact pattern described in the request, the reseller's contract with the customer includes an explicit promise to provide a specified type and number of standard software licences to the customer.

The Committee observed that the pre-sales advice the reseller provides—under the distribution agreement between the software manufacturer and the reseller—is not an implicit promise in the contract with the customer. At the time of entering into the contract with the customer, the reseller has already provided the advice. There is no further advice to be provided by the reseller and the advice already provided will not be transferred to the customer after contract inception. Consequently, at the time of entering into the contract with the customer, there is no valid expectation of the customer that the reseller will transfer a good or service to the customer other than the standard software licences.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the promised goods in the reseller's contract with the customer are the standard software licences. Because the standard software licences are the only promised goods in the contract with the customer, they are distinct goods to be provided to the customer. Those licences are therefore the specified goods to be provided to the customer as described in paragraph B34A(a).

Assessing whether the reseller controls the standard software licences before they are transferred to the customer

In the fact pattern described in the request, the reseller assesses whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. That assessment of control requires consideration of the specific facts and circumstances, which include the terms and conditions of the contracts between the reseller and the customer, the reseller and the software manufacturer, and the software manufacturer and the customer.

If—after applying the principles and requirements on control in IFRS 15—it is unclear whether the reseller is a principal or agent, the reseller considers the indicators in paragraph B37 in assessing whether it obtains control of the standard software licences from the software manufacturer before they are transferred to the customer. In the fact pattern described in the request, the Committee observed that:

a. the software licences provided to the customer exist only after the reseller places an order with the software manufacturer and the software manufacturer issues the software licences in the customer's name. The software manufacturer is responsible for the software's functionality, as well as for issuing and activating the licences. The software manufacturer is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).

b. the reseller is the party that engages with the customer before and after the software licences are provided to the customer, taking responsibility for the unaccepted licences. The reseller is therefore responsible in those respects for fulfilling the promise to provide the licences to the customer (paragraph B37(a)).

c. the reseller does not obtain a pool of software licences before entering into the contract with the customer and cannot, for example, direct the software licences to another customer. The reseller therefore has no inventory risk before the licences are provided to the customer but then has inventory risk until the customer accepts the licences (paragraph B37(b)).

d. the reseller has discretion in establishing the price for the software licences (paragraph B37(c)). Pricing discretion may be less relevant to the assessment of control if, for example, the market for the software licences is such that the reseller, in effect, has limited flexibility in establishing the price.

The Committee observed that the conclusion as to whether the reseller is a principal or agent depends on the specific facts and circumstances, including the terms and conditions of the relevant contracts. The reseller would apply judgement in making its overall assessment of whether it is a principal or agent—including considering the relevance of the indicators to the assessment of control and the degree to which they provide evidence of control of the standard software licences before they are transferred to the customer—within the context of the framework and requirements set out in paragraphs B34–B38 of IFRS 15.

The Committee also observed that the reseller would disclose (a) material accounting policy information in accordance with IAS 1 *Presentation of Financial Statements*, and (b) information required by IFRS 15, including about its performance obligations (paragraph 119) and the judgements made in applying IFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers (paragraph 123).

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a reseller to determine whether—in the fact pattern described in the request—it is a principal or agent for the standard software licences provided to a customer. Consequently, the Committee decided not to add a standard-setting project to the work plan.

IFRS 17 *Insurance Contracts*

Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

July 2022

The Committee received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

Fact pattern

The request described a group of annuity contracts under which the policyholder of each contract:

a. pays the premium up front and has no right to cancel the contract or seek a refund;

b. receives a periodic payment from the start of the annuity period for as long as the policyholder survives (for example, a fixed amount of CU100 for each year that the policyholder survives); and

c. receives no other services under the contract (for example, no other types of insurance coverage or investment-return service).

The fact pattern referred to groups of contracts for which the annuity period starts immediately after contract inception ('immediate annuity') and also those for which the annuity period starts on a specified date after contract inception ('deferred annuity')—for example, a contract entered into in 2022 for which the annuity period starts in 2042.

Applicable requirements in IFRS 17

Paragraph 44(e) of IFRS 17 requires an entity to adjust the carrying amount of the contractual service margin for the amount recognised as insurance revenue because of the transfer of insurance contract services in the period. The entity determines this amount by allocating the contractual service margin over the current and remaining coverage period applying paragraph B119 of IFRS 17.

Paragraph B119 of IFRS 17 states that an entity recognises in profit or loss in each period an amount of the contractual service margin to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

a. identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.

b. allocating the contractual service margin at the end of the period equally to each coverage unit provided in the current period and expected to be provided in the future.

c. recognising in profit or loss the amount allocated to coverage units provided in the period.

The definition of insurance contract services in Appendix A to IFRS 17 describes insurance coverage as 'coverage for an insured event'. An insured event is defined as 'an uncertain future event covered by an insurance contract that creates insurance risk'.

Methods for applying the requirements to the fact pattern

The request sets out two methods of determining, for each contract in the group, the quantity of the benefits of insurance coverage provided in the current period and expected to be provided in the future.

Method 1

Current period	**Expected to be provided in the future**
Determined based on the annuity payment the policyholder is able to validly claim in the current period.	Determined based on the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).

Method 2

Current period	**Expected to be provided in the future**
Determined based on the total of: (i) the annuity payment the policyholder is able to validly claim in the current period, and (ii) the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).	Determined based on the present value of the balances of the expected future annuity payments as at the beginning of each future period, until the end of the coverage period.

Applying paragraph B119 of IFRS 17

Applying paragraph B119(a) of IFRS 17, an entity:

a. identifies the insurance contract services to be provided under the group of contracts. In the fact pattern described in the request, insurance coverage for survival is the only insurance contract service provided under the group of contracts.

b. considers the expected coverage period for each contract in the group. In the fact pattern described in the request, the expected coverage period would reflect the entity's expectations of how long the policyholder will survive.

c. considers the quantity of the benefits provided under each contract in the group.

IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. In selecting a method that meets that principle, an entity considers (a) the benefits provided to the policyholder under a contract with respect to the insurance contract services provided, and (b) when those benefits are provided. Different methods may achieve the principle depending on the facts and circumstances.

In the fact pattern described in the request, the terms of the annuity contract provide the policyholder with the right to claim a periodic amount (CU100 in the example) from the start of the annuity period for as long as the policyholder survives. Consequently, the Committee observed that:

a. the benefits provided to the policyholder under the contract with respect to the insurance coverage for survival are the policyholder's right to claim a periodic amount for as long as they survive. The policyholder also benefits from transferring to the entity the risk related to the uncertainty about how long they will survive. However, IFRS 17 requires an entity to account for that insurance risk in the risk adjustment for non-financial risk, separately from the contractual service margin.

b. the benefits of being able to claim a periodic amount are provided to the policyholder in each year of the policyholder's survival from the start of the annuity period:

    i. the policyholder has no right to claim an amount for surviving in periods before the start of the annuity period. The entity accepts insurance risk from inception of the contract but provides no benefits to the policyholder in the form of amounts that can be claimed until the annuity period starts. Paragraphs BC140–BC141 of the Basis for Conclusions on IFRS 17 explain that an entity can accept insurance risk before it is obliged to perform an insurance coverage service.

    ii. survival in one year does not provide the policyholder with the right to claim amounts that compensate the policyholder for surviving in future years; that is, the policyholder's right to claim amounts in future years is contingent on the policyholder surviving in those future years.

The Committee's conclusion

The Committee concluded that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on:

a. the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by:

    i. assigning a quantity of the benefits only to periods in which an insured event (survival of the policyholder) can occur, resulting in a policyholder having a right to make a valid claim; and

ii. aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim if an insured event occurs in that period.

b. the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would:

i. assign a quantity of the benefits to periods in which no insured event occurs (for example, to the deferral period of a deferred annuity contract); and

ii. misrepresent the quantity of the benefits provided in a period by considering amounts the policyholder is able to claim and benefit from only in future periods.

The request asked only about the recognition of the contractual service margin in profit or loss. For the annuity contracts described in the request, the entity accepts insurance risk related to the uncertainty about how long the policyholder will survive. The Committee noted that the entity would apply other requirements in IFRS 17 to recognise in profit or loss—separately from the contractual service margin—the risk adjustment for non-financial risk. The risk adjustment for non-financial risk represents the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The Committee did not discuss these other requirements.

Under a group of annuity contracts, an entity could provide other insurance contract services to policyholders in addition to insurance coverage for survival—for example, insurance coverage for death in a deferral period or an investment-return service. The conclusion in this agenda decision applies to insurance coverage for survival, regardless of other services provided. If the contracts provide other insurance contract services, the entity would also need to consider the pattern of transfer of these services to the policyholder.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. Consequently, the Committee decided not to add a standard-setting project to the work plan.

IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)

October 2022

The Committee received a request about how an entity accounts for insurance contracts with cash flows in more than one currency.

The request asked:

a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and

b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts with cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

IFRS 17 requires an entity to recognise and measure groups of insurance contracts. The first step in establishing groups of insurance contracts is to identify portfolios of insurance contracts. Paragraph 14 of IFRS 17 states that 'a portfolio comprises contracts subject to similar risks and managed together'. The request asks whether currency exchange rate risks are among the risks an entity considers when assessing whether insurance contracts are 'subject to similar risks'.

IFRS 17 defines financial risk and insurance risk (a non-financial risk). Financial risk is defined to include 'the risk of a possible future change in … [a] currency exchange rate'. When IFRS 17 requires an entity to consider or reflect only particular types of risk (for example, only non-financial risk), it explicitly refers to the risks to be considered or reflected.

Therefore, the Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' does not mean 'identical risks'. Therefore, an entity could identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

An entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Paragraph 30 of IFRS 17 states that 'when applying IAS 21 … to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the contractual service margin, as a monetary item'.

Paragraph 8 of IAS 21 defines monetary items as 'units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency' and paragraph 20 describes a foreign currency transaction as 'a transaction that is denominated or requires settlement in a foreign currency'. Paragraphs 21–24 of IAS 21 require an entity:

a. to recognise on initial recognition a foreign currency transaction in the functional currency at the spot exchange rate at the date of the transaction;

b. to determine the carrying amount of a monetary item in conjunction with other relevant IFRS Accounting Standards; and

c. to translate at the end of the reporting period foreign currency monetary items into the functional currency using the closing rate.

The requirements in both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items with cash flows in more than one currency.

Therefore, the Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

a. applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.

b. applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—into the entity's functional currency at the closing rate (or rates).

c. uses its judgement to develop and apply an accounting policy that determines on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated (currency denomination). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group.

The entity develops an accounting policy on currency denomination that results in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and is applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The accounting policy is developed based on the entity's specific circumstances and the terms of the contracts in the group. The entity cannot simply presume that the contractual service margin for the group is denominated in the functional currency. Such a presumption would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

Single-currency denomination versus multi-currency denomination

The entity's accounting policy on currency denomination determines which effects of changes in exchange rates are changes in financial risk accounted for applying IFRS 17 and which of these effects are exchange differences accounted for applying IAS 21.

A single-currency denomination treats:

a. changes in exchange rates between the currency of the cash flows and the currency of the group of contracts as changes in financial risk that an entity accounts for applying IFRS 17; and

b. changes in exchange rates between the currency of the group of contracts and the functional currency as exchange differences that an entity accounts for applying IAS 21.

A multi-currency denomination treats all changes in exchange rates as exchange differences that an entity accounts for applying IAS 21.

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Appendix A to IFRS 17 defines the contractual service margin as representing 'the unearned profit the entity will recognise as it provides insurance contract services under the insurance contracts in the group.' Accordingly, under a multi-currency denomination, the entity would:

a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount.

b. prevent the carrying amount of the contractual service margin being negative by, when necessary to do so, recognising a loss.

c. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future to the amounts denominated in the multiple currencies. This would result in the entity allocating each of the currency amounts of the contractual service margin translated into the functional currency equally to each coverage unit.

Conclusion

In the light of its analysis, the Committee considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee decided not to add a standard-setting project to the work plan.

IAS 32 *Financial Instruments: Presentation*

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)

July 2022

The Committee received a request about whether a special purpose acquisition company (SPAC), in applying IAS 32, classifies public shares it issues as financial liabilities or equity instruments. A SPAC is a listed entity that is established to acquire a yet-to-be-identified target entity.

The request described a SPAC that issues two classes of shares: founder shares (Class A) and public shares (Class B). The Class B shareholders:

a. individually have the contractual right to demand a reimbursement of their shares if the SPAC's shareholders approve the acquisition of a target entity.

b. are reimbursed if the SPAC is liquidated. The SPAC is liquidated if no target entity is acquired within a specified period.

c. along with the Class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired.

The request asked about the effect of the shareholders' contractual right to extend the SPAC's life indefinitely on the classification of the Class B shares—in particular, whether the shareholders' decision to extend the SPAC's life is considered to be within the control of the SPAC. This assessment is needed to determine whether the SPAC has the unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.

The Committee observed that IAS 32 includes no requirements on how to assess whether a decision of shareholders is treated as a decision of the entity. The Committee acknowledged that similar questions about shareholder decisions arise in other circumstances. Assessing whether a decision of shareholders is treated as a decision of the entity has been identified as one of the practice issues the International Accounting Standards Board (IASB) will consider in its Financial Instruments with Characteristics of Equity (FICE) project. The Committee concluded that the matter described in the request is, in isolation, too narrow for the IASB or the Committee to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee decided not to add a standard-setting project to the work plan. The Committee nonetheless noted the importance of the SPAC disclosing information in the notes to its financial statements about the classification of its public shares.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Negative Low Emission Vehicle Credits (IAS 37)

July 2022

The Committee received a request asking whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37.

The request

The request described government measures that apply to entities that produce or import passenger vehicles for sale in a specified market. Under the measures, entities receive positive credits if, in a calendar year, they have produced or imported vehicles whose average fuel emissions are lower than a government target. Entities receive negative credits if, in that year, they have produced or imported vehicles whose average fuel emissions are higher than the target.

The measures require an entity that receives negative credits for one year to eliminate these negative credits by obtaining and surrendering positive credits. The entity can obtain positive credits either by purchasing them from another entity or by generating them itself in the next year (by producing or importing more low-emission vehicles). If the entity fails to eliminate its negative credits, the government can impose sanctions on the entity. These sanctions would not require payment of fines or penalties, or any other outflow of resources embodying economic benefits, but could deny the entity opportunities in the future, for example by restricting the entity's access to the market.

The request considered the position of an entity that has produced or imported vehicles with average fuel emissions higher than the government target, and asked whether such an entity has a present obligation that meets the definition of a liability in IAS 37.

Applicable requirements

Paragraph 10 of IAS 37:

a. defines a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits';

b. distinguishes legal obligations (which derive from a contract, legislation or other operation of law) from constructive obligations (which derive from an entity's actions); and

c. defines an obligating event as 'an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation'.

An entity has no realistic alternative to settling an obligation only where settlement can be enforced by law or, in the case of a constructive obligation, where the entity's actions have created valid expectations in other parties that the entity will discharge the obligation (paragraph 17 of IAS 37).

The Committee observed that, in determining whether it has a liability, the entity described in the request would consider:

a. whether settling an obligation to eliminate negative credits would result in an outflow of resources embodying economic benefits;

b. which event creates a present obligation to eliminate negative credits; and

c. whether the entity has no realistic alternative to settling the obligation.

The Committee's conclusions

Outflow of resources embodying economic benefits

An entity can settle an obligation to eliminate negative credits either by purchasing credits from another entity or by generating positive credits itself in the next year. The Committee concluded that either method of settling the obligation would result in an outflow of resources embodying economic benefits. These resources are the positive credits the entity would surrender to eliminate the negative balance. The entity could otherwise have used self-generated positive credits for other purposes—for example, to sell to other entities with negative credits.

The event that creates a present obligation

The definition of a liability in IAS 37 requires an entity to have a 'present obligation … arising from past events'. Paragraph 19 of IAS 37 adds that it is only those obligations arising from past events existing independently of an entity's future actions that meet the definition of a liability. Two IFRIC Interpretations of IAS 37 provide further relevant requirements—they address specific types of government-imposed charges and specify which events give rise to a present obligation for these types of charges:

a. IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* addresses a charge for the cost of waste management. Legislation links the charge to an entity's participation in a specified market in a specified period. The consensus in IFRIC 6 is that an obligation arises when an entity conducts the activity to which the charge is linked.

b. IFRIC 21 *Levies* addresses levies imposed by governments. The consensus in IFRIC 21 is that the event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified in the applicable legislation.

In the fact pattern described in the request, the activity that triggers a requirement to eliminate negative credits (or in other words, the activity to which the measures link that requirement) is the production or import of vehicles with average fuel emissions higher than the government target. If in a calendar year an entity has produced or imported vehicles with average fuel emissions higher than the government target, an obligation:

a. has arisen from past events.

b. exists independently of the entity's future actions (the future conduct of its business). The entity's future actions will determine only the means by which the entity settles its present obligation—whether it purchases positive credits from another entity or generates positive credits itself by producing or importing more low-emission vehicles.

Therefore, the Committee concluded that, in the fact pattern described in the request, the activity that gives rise to a present obligation is the production or import of vehicles whose fuel emissions, averaged for all the vehicles produced or imported in that calendar year, are higher than the government target.

The Committee observed that a present obligation could arise at any date within a calendar year (on the basis of the entity's production or import activities to that date), not only at the end of the calendar year.

No realistic alternative to settling an obligation

The Committee concluded that the measures described in the request could give rise to a legal obligation:

a. obligations that arise under the measures derive from an operation of law; and

b. the sanctions the government can impose under the measures would be the mechanism by which settlement may be enforceable by law.

An entity would have a legal obligation that is enforceable by law if accepting the possible sanctions for non-settlement is not a realistic alternative for that entity.

The Committee observed that determining whether accepting sanctions is a realistic alternative for an entity requires judgement—the conclusion will depend on the nature of the sanctions and the entity's specific circumstances.

The possibility of a constructive obligation

The Committee concluded that, if an entity determines that it has no legal obligation to eliminate its negative credits, it would then need to consider whether it has a constructive obligation to do so. It would have a constructive obligation if it has both:

a. in a calendar year, produced or imported vehicles with average fuel emissions higher than the government target; and

b. b. taken an action that creates valid expectations in other parties that it will eliminate the resulting negative credits—for example, made a sufficiently specific current statement that it will do so.

Other IAS 37 requirements

The request asked only whether the government measures give rise to obligations that meet the definition of a liability in IAS 37. The Committee observed that, having identified such an obligation, an entity would apply other requirements in IAS 37 to determine how to measure the liability. The Committee did not discuss these other requirements.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether, in the fact pattern described in the request, it has an obligation that meets the definition of a liability in IAS 37. Consequently, the Committee decided not to add a standard-setting project to the work plan.

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