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Update on the activity of the IFRS Interpretations Committee

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 The purpose of the presentation is to raise EFRAG FR TEG's and EFRAG CFSS's awareness on the 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 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.

Overview of IFRS IC's current activity

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

Project **(including hyperlinks to the IASB project pages for each item)**	**Related Standards**	**Current status**	**Next milestone**	**Next milestone expected date**
Tentative Agenda Decision Feedback				
Negative low emission vehicle credits	IAS 37	Consultation ended 12 April 2022	Tentative Agenda Decision Feedback	June 2022
Cash received via an electronic transfer system	IFRS 9	Consultation ended 25 November 2021	Tentative Agenda Decision Feedback	June 2022
Transfer of Insurance Coverage under a Group of Annuity Contracts	IFRS 17	Consultation ended 23 May 2022	Tentative Agenda Decision Feedback	June 2022

Project (including hyperlinks to the IASB project pages for each item)	**Related Standards**	**Current status**	**Next milestone**	**Next milestone expected date**
Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity	IAS 32	Consultation ended 23 May 2022	Tentative Agenda Decision Feedback	June 2022
Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition	IAS 32	Consultation ended 23 May 2022	Tentative Agenda Decision Feedback	Q3 2022
Lessor Forgiveness of Lease Payments	IFRS 16 IFRS 9	Consultation ended 23 May 2022	Tentative Agenda Decision Feedback	Q3 2022
Initial consideration				
Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent	IAS 21/IAS 29	Initial consideration	Consultation	Not specified at the time of writing the paper
Multi-currency Groups of Insurance Contracts	IFRS 17/ IAS 21	Initial consideration	Consultation	Not specified at the time of writing the paper

Tentative Agenda Decision Feedback

Negative low emission vehicle credits

What is the issue?

6 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, and negative credits if in that year they have produced or imported vehicles whose average fuel emissions are higher than the target.

7 The measures require an entity that receives negative credits for one year to eliminate those negative credits, either by purchasing positive credits from another entity or by generating positive credits itself in the next year (by producing or importing more low emission vehicles) and using those positive credits to eliminate the negative balance. If the entity fails to eliminate its negative credits in one or other of those two ways, the government can impose sanctions on the entity, for example restrict the entity's access to the market.

8 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.

IFRS IC's tentative agenda decision (February 2022)

9 The IFRS IC concluded that an entity that has produced or imported vehicles with average fuel emissions higher than the government target has a legal obligation that

meets the definition of a liability in IAS 37, unless accepting the sanctions that the government can impose is a realistic alternative to eliminating negative credits for that entity.

10 The IFRS IC considered the position of an entity that:

(a) has produced or imported vehicles with average fuel emissions higher than the government target; but

(b) does not have a legal obligation that meets the definition of a liability in IAS 37, because accepting sanctions is a realistic alternative for that entity, meaning the obligation cannot be enforced by law.

11 The IFRS IC concluded that such an entity nevertheless could have a constructive obligation that meets the definition of a liability in IAS 37.

12 The IFRS IC 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, an entity has an obligation that meets the definition of a liability in IAS 37. Consequently, the IFRS IC tentatively decided not to add a standard-setting project to the work plan.

Comment letter summary

13 The IFRS IC has received 21 comment letters. Most of the respondents agreed or did not disagree with the IFRS IC conclusion and the decision not to add a standard-setting project to the work plan.

14 However, they raised the following comments and issues:

(a) the logic the Committee has applied in reaching its conclusions is (or might appear to be) inconsistent with that applied in other examples that interpret or illustrate the application of IAS 37, especially IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment,* IFRIC 21 *Levies*, and two IAS 37 Illustrative Examples 6 and 11B;

(b) it is not sufficiently clear that accepting government sanctions would be an alternative to settling a liability only if the sanctions do not themselves result in an outflow of resources embodying economic benefits;

(c) without a detailed analysis of a fact pattern in which a constructive obligation arises, the conclusions reached about the possible existence of a constructive obligation might be applied more broadly than intended—for example, to an entity's environmental or social commitments—with a risk of misinterpretation;

(d) it is unclear whether a liability to eliminate negative credits arises:

(i) only at the end of a calendar year (because an entity will receive negative credits only if its average fuel emissions for the year as a whole are above the government target), or

(ii) progressively during the year (by reference to the entity's cumulative production or import activities to date);

(e) more guidance is needed on the circumstances in which accepting government sanctions would be a realistic alternative to eliminating negative credits;

(f) the analysis would be clearer if the agenda decision provides a framework for the assessments an entity would make.

IASB Staff recommendation

15 The IASB Staff recommended to keep the same conclusion, i.e., not to add a standard-setting project to the work plan.

16 In its project Provisions—Targeted Improvements, the IASB plans to develop proposals to align the definition of a liability in IAS 37 with the new definition and supporting concepts in the Conceptual Framework. In developing recommendations for proposed amendments, insights gained from this submission will be considered.

Cash received via an electronic transfer system

17 There are diverse views on when to recognise cash received via electronic transfer as settlement for a financial asset, where the electronic transfer system has a formal automated settlement process which takes more than one day to complete.

Fact pattern

18 Entity A's year-end is 31 December 20X0. In November 20X0, Entity A sells goods to Entity B and recognises a trade receivable of CU100. On 31 December 20X0, Entity B notifies Entity A that it has initiated the payment of CU100 by the UK BACS payment system to settle the amount due. On 2 January 20X1, Entity A receives CU100 into its bank account as cleared funds.

19 The question raised is: Is it acceptable for Entity A to recognise cash of CU100 (and derecognise the trade receivable) on 31 December 20X0?

IFRS IC's tentative agenda decision (September 2021)

20 In the fact pattern described in the request, the IFRS IC concluded that, applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:

(a) derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and

(b) recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date.

21 The IFRS IC concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable. Consequently, the IFRS IC tentatively decided not to add a standard-setting project to the work plan.

Comment letter summary

22 27 comment letters were received. Almost all respondents agreed (or did not disagree) with the Committee's analysis and conclusions in the tentative agenda decision. Nonetheless, many respondents commented on the outcomes of finalising the agenda, e.g., it would cause undue disruption to long-standing accounting practices, be costly and complex to apply (adapting systems/processes and legal analysis to determine when rights to cash flows expire across different payment methods and jurisdiction). Therefore, they suggested not to finalise the agenda decision or to be addressed as part of the PIR of IFRS 9 or another standard-setting project.

IASB Staff conclusion

23 The IASB Staff continue to agree with the Committee's technical analysis and conclusions in the tentative agenda decision. That is, they agree with the Committee's:

(a) analysis that, in the submitted fact pattern, the entity applies paragraph 3.2.3(a) of IFRS 9 to determine the date on which to derecognise the trade receivable and paragraph 3.1.1 of IFRS 9 to determine the date on which to recognise the cash as a financial asset; and

(b) conclusion that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable

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

24 The IFRS IC received a submission about the recognition of profit applying IFRS 17 Insurance Contracts. The submission asks how to determine the services provided under a group of immediate annuity contracts in each period and, more specifically, how to determine the quantity of benefits provided under each contract in the group. The submission refers to UK annuity contracts and the only service is insurance coverage for survival, i.e., the policyholder is entitled to a constant annual benefit starting from inception of the contract for as long as the policyholder survives.

25 The submission sets out two approaches and asks whether both approaches meet the principle in IFRS 17 of reflecting the insurance contract services provided under a group of insurance contracts. The quantity of the benefits provided in each period as being reflected by:

(a) Approach A - the constant annual benefit, that is, the contractual service margin ('CSM') allocation is determined based on the periodic benefit payable in each period that services are provided; and

(b) Approach B - the present value of the current and future benefits, that is, the CSM allocation is determined based on the value to the policyholder of surviving to the end of the period which includes both the annuity payment in the period as well as the continued access to receive a continuous stream of payments for as long as the policyholder survives.

IFRS IC's tentative agenda decision (March 2022)

26 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 for which the entity has an obligation to investigate and pay valid claims for the insured event (survival of the policyholder); and

(ii) aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim in each 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 for which the entity has no obligation to investigate and pay valid claims for the insured event (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.

Comment letter summary

27 28 comment letters were received.

28 *Technical analysis* - Some respondents supported the technical analysis and conclusions in the tentative agenda decision. Many respondents disagreed with aspects of the Committee's technical analysis and conclusions in the tentative agenda decision - the explanatory material go beyond the requirements in IFRS 17.

29 *Consequences of finalising the agenda decision* – Almost all respondents commented on the possible consequences of publishing an agenda decision less

than a year before IFRS 17 is in effect. Respondents said that, if the agenda decision is finalised, it may cause operational and financial reporting complexity and take time to implement any change.

IASB Staff recommendation

30 The IASB Staff continue to agree with the Committee's technical analysis and conclusions in the tentative agenda decision. The IASB Staff recommend finalising the agenda decision with some changes to the text but the conclusion remains the same.

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

31 The submission asks about the impact on the classification of the Class B shares of the SPAC due to a right to demand reimbursement of the shares as well as the limited life of the SPAC and the related right to extend its life. The fact pattern are as follows:

(a) The SPAC, a listed entity established solely to acquire a target to be identified in the future, issues founder shares (Class A) and public shares (Class B);

(b) The decision to acquire an identified target is approved either by the shareholders or the management of the SPAC (per its statutes).

(c) On identification and approval of a target, the Class B shareholders individually may require the reimbursement of their shares (sometimes, only shareholders opposing the acquisition have this right).

(d) If there is no acquisition within a specified period of time, the SPAC is liquidated unless the statutes allow an extension of its life, and the shareholders approve.

(e) Upon liquidation, the net proceeds of the SPAC's IPO are distributed first to the Class B shareholders and the remainder to the Class A shareholders. In some cases, the Class B shareholders will also receive a minimum guaranteed return on the IPO proceeds.

(f) The decision to extend the SPAC's life is either approved by:

(i) ⅔ of the shareholders in a shareholders meeting; or

(ii) ⅔ of the Class A and B shareholders independently.

32 The submitter asks whether the condition in paragraph 16(a)(i) of IAS 32—which requires the instrument to include no contractual obligation to deliver cash or another financial asset—is met. The submitter therefore seeks to clarity on whether, and under what circumstances, a SPAC classifies the Class B shares as financial liabilities or equity instruments considering

(a) the effect of the Class B shareholders' right to demand a reimbursement of their shares (in the event of the acquisition of a company) and

(b) the effect of the terms and conditions of the SPAC's liquidation after a specified period of time (without an acquisition) on the classification of the Class B shares.

IFRS IC's tentative agenda decision (March 2022)

33 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 tentatively 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.

Comment letter summary and IASB Staff recommendation

34 The Committee received nine comment letters with seven agreeing with the tentative decision. Two respondents agreed (or did not disagree) with the Committee's decision not to add a standard-setting project to the work plan but they provided additional comments on how IAS 32 should be applied to classify the Class B shares issued by the SPAC.

35 The IASB Staff recommended some minor changes to the wording of the tentative agenda decision.

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

36 The IFRS IC received a request about the acquisition of a special purpose acquisition company (SPAC) by an operating company. The request asked how the operating entity accounts for warrants (right, but not the obligation, to buy or sell equity at a certain price before expiration) on acquiring the SPAC.

37 The fact pattern described in the submission is:

(a) The SPAC was created to raise cash in an initial public offering (IPO). At the time of the acquisition, SPAC has no assets other than cash;

(b) The SPAC does not meet the definition of a business in accordance with IFRS 3 *Business Combinations*;

(c) Before the acquisition, the SPAC's ordinary shares were held by its founder shareholders and public investors;

(d) Before the acquisition, the SPAC issued warrants to both its founder shareholders and public investors;

(e) To carry out the acquisition, the operating entity sets up a new parent company (NewCo);

(f) The NewCo acquires the SPAC by issuing new ordinary shares and warrants to the SPAC's founder shareholders and public investors in exchange for the SPAC's ordinary shares and the cancellation of the SPAC's warrants;

(g) The fair value of the instruments the NewCo issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC.

(h) The SPAC becomes a wholly-owned subsidiary of the NewCo.

(i) The NewCo replaces the SPAC as the entity listed in the stock exchange.

38 The submitter asks whether, in the fact pattern described in the submission, the warrants NewCo issues to SPAC shareholders:

(a) are in the scope of IFRS 2 or represent a liability assumed by the entity as part of the acquisition; and

(b) if the warrants are in the scope of IFRS 2, whether they remain so after the acquisition date.

IASB Staff analysis and recommendation

39 In the fact pattern discussed, the IASB staff concluded that the "acquisition method" under IFRS 3 cannot be applied by the NewCo as the transaction does not meet the definition of a business combination (SPAC is not a business).

40 Instead, the NewCo has to identify and recognise the individual identifiable assets acquired and liabilities assumed as part of the acquisition. That is, the NewCo considers:

(a) Acquired assets: the acquired cash held by the SPAC

(b) Liabilities assumed: assess whether it assumes any liability related to the warrants issued by the SPAC to its founder shareholders and public investors.

41 In regard to the warrants issued by the SPAC, depending on the terms and conditions, the NewCo may or not assume the SPAC warrants as part of the acquisition.

<u>The NewCo assumes warrants as part of the acquisition and then replaces them with new warrants</u>

42 If the terms and conditions are such that the entity assumes the warrants issued by the SPAC as part of the acquisition, the entity applies IAS 32 to determine whether the warrants are financial liabilities or equity instruments.

43 Nonetheless, it is worth noting that the NewCo negotiated the replacement of the SPAC warrants together with the SPAC acquisition. Therefore, the NewCo has to consider to what extent it accounts for the replacement transaction as part of that acquisition (there are no requirements in IFRS Accounting Standards that specifically apply to this consideration).

44 If an entity concludes that it accounts for the replacement transaction separately from the SPAC acquisition, then the NewCo would first account for the SPAC warrants it assumes as part of the acquisition, and then separately account for their replacement.

45 If an entity concludes that it does not account for the replacement transaction separately, then the entity issues new ordinary shares and warrants to only acquire cash and a stock exchange listing service received (see the accounting for in section below The NewCo does not assume warrants as part of the acquisition).

46 In the fact pattern discussed, the fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC acquired. The IASB Staff concluded that, applying paragraphs 2 and 13A of IFRS 2, the NewCo:

(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.

47 The IASB Staff therefore concluded that when the NewCo assumes warrants as part of the acquisition (and then replaces them with new warrants), then NewCo 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 liabilities related to the SPAC warrants—those instruments were not issued to acquire goods or services and are not in the scope of IFRS 2

(c) IFRS 9 in accounting for the replacement of the warrants (if any).

<u>The NewCo does not assume warrants as part of the acquisition</u>

48 If the entity concludes that the terms and conditions are such that it does not assume the SPAC warrants as part of the acquisition, the NewCo issues both ordinary shares and warrants to acquire cash and a stock exchange listing service.

49 In accordance with the requirements in IAS 32 and IFRS 2, the entity applies IFRS 2 in accounting for shares and warrants issued to acquire the stock exchange listing service and IAS 32 in accounting for the shares and warrants issued to acquire cash.

50 In this case, the entity has to determine which instruments it issued to acquire the cash and which it issued to acquire the stock exchange listing service. There is no IFRS Accounting Standard that specifically applies to this determination. Nonetheless, the IASB Staff observed that:

(a) an entity would not make this determination solely to achieve a particular accounting outcome; and

(b) an entity could allocate the shares and 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).

<u>IASB Staff recommendation</u>

51 The IASB Staff concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine - in the fact pattern and variation discussed - how to account for warrants on acquiring a SPAC.

52 Consequently, the IASB Staff suggested not to add a standard-setting project to the work plan and that the Committee instead publish a tentative agenda decision that outlines how IFRS Accounting Standards apply in the submitted fact pattern and the variation thereof.

IFRS IC's tentative agenda decision (March 2022)

53 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 tentatively decided not to add a standard-setting project to the work plan.

Lessor Forgiveness of Lease Payments

54 The IFRS IC received a submission about the application of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* by both a lessor and a lessee in accounting for a particular rent concession. The rent concession results in the forgiveness by the lessor of amounts due from the lessee (comprising both amounts already recognised in receivables and future payments amounts not recognised as receivable) under the lease.

55 For the lessor, the rent concession applies to a lease contract classified as an operating lease.

56 For the lessee, the rent concession applies a lease contract for which the lessee has recognised a right-of-use asset and a lease liability (i.e., the lessee has elected to apply neither of the recognition exemptions in paragraph 5 of IFRS 16).

57 Regarding the lessor accounting, the submitter asks:

(a) how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable when the lessor expects to forgive payments due from the lessee under the lease before the rent concession is granted.

(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.

58 Regarding the lessee accounting, the submitter asks whether the lessee applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.

Prevalence of the matter and diversity in practice

59 The IASB staff performed limited outreach to IFASS members, securities regulator, and large accounting firms

60 Regarding lessor accounting, many respondents said the lessor fact pattern is (or has been) common and the accounting has (or could have) a material effect. Of those who said it is common, most said it is common only in particular jurisdictions and industries and some said their observations are not specific to a jurisdiction or

industry. Many also said they had observed no material diversity in accounting for the lessor fact pattern. Some respondents said they have observed material diversity that is not specific to a jurisdiction.

61 Regarding lessee accounting:

(a) Half of respondents said the lessee fact pattern is not common and the accounting has no material effect for lessees. Many said they have no experience with the fact pattern because lessees applied the covid-19-related practical expedient over recent years.

(b) The other half of respondents said the lessee fact pattern is (or could be) common and the accounting has (or could have) a material effect

(c) Many respondents said they had observed no material diversity in accounting for the lessee fact pattern. Some respondents said they have observed material diversity that is not specific to a jurisdiction or industry.

IASB Staff analysis and recommendation

62 Lessor accounting: do not add a standard-setting project to the work plan in relation to the lessor accounting and publish instead a tentative agenda decision that outlines how IFRS 9 and IFRS 16 apply in the lessor fact pattern described in the submission.

63 Lessee accounting: recommend amending IFRS 16 (though annual improvements cycle) to exclude from the scope of IFRS 16 changes to a lease contract that result only in the extinguishment of the lessee's lease liability (or a part of it) as described in paragraph 3.3.1 of IFRS 9. For changes to lease contracts that result only in extinguishment, the lessee would apply the derecognition requirements in IFRS 9. For all other changes to lease contracts that meet the definition of a lease modification, the lessee would apply the lease modification requirements in IFRS 16.

IFRS IC's tentative agenda decision (April 2022)

64 *Applying the expected credit loss model in IFRS 9 to the operating lease receivable* - The Committee concluded that, in the period 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 determined by evaluating a range of possible outcomes (as required by paragraph 5.5.17 of IFRS 9), including considering its expectations of forgiving lease payments recognised as part of that receivable.

65 *Lessor accounting for the rent concession*: The Committee concluded that the lessor accounts for the rent concession described in the request by applying:

(a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent concession is granted; an

(b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.

66 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 tentatively decided not to add a standard-setting project to the work plan.

Initial consideration

Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 and IAS 29)

Issue and background

67 The IFRS Interpretations Committee received a request to clarify the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies* in regard to consolidating a non-hyperinflationary economy subsidiary by a hyperinflationary economy parent. In particular the submitter asked to clarify whether the parent applies IAS 29 to restate the current year and comparative amounts presented for its non-hyperinflationary subsidiary so that those amounts would be expressed in terms of the measuring unit current at the end of the reporting period (the reporting date).

68 The submitter identified two existing approaches, as follows:

- (a) View I:
  - (i) the parent does not restate the results and financial position of its non-hyperinflationary subsidiary in terms of the measuring unit current at the reporting date.
  - (ii) Proponents of this view highlight the requirement in the last sentence of paragraph 35 of IAS 29, which states 'the financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IAS 21'.
- (b) View II:
  - (i) the parent restates the results and financial position of its non-hyperinflationary subsidiary in terms of the measuring unit current at the reporting date.
  - (ii) Proponents of this view note that paragraph 1 of IAS 29 includes within the scope of IAS 29 the consolidated financial statements of any entity whose functional currency is that of a hyperinflationary economy and refer to the overall objective and requirements in IAS 29 that require the financial statements to be stated in terms of the measuring unit current at the reporting date

Summary of outreach

69 The IFRS IC Staff, during an initial outreach with Big Audit firms and IFASS members, received twelve responses - seven from large accounting firms, three from national standard setters, and two from securities regulators. The results revealed that the fact pattern is common in several jurisdictions e.g., Argentina, Lebanon, Turkey, and Zimbabwe, however it's not necessarily material. Most respondents have also observed diversity in accounting practice with neither View 1 nor View 2 clearly prevailing.

IASB Staff Recommendation

70 The IFRS IC Staff initially concluded that an entity could reasonably read the applicable requirements in IAS 21 and IAS 29 to require - or not require - restatement of the non-hyperinflationary subsidiary in terms of the measuring unit current at the reporting date.

71 They also concluded that the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.

72 The IFRS IC Staff recommended to the IFRS IC that further research and outreach should be conducted to decide whether to add a standard setting project or not. They would like to obtain the following:

(a) Further information on the prevalence of the matter and whether it has (or is expected to have) a material effect on entities affected.

(b) Information about other related matters (if any) with respect to the application of IAS 29.

(c) Information about the feasibility of possible narrow-scope standard-setting and the usefulness of the information provided by those possibilities.

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

Issue and background

73 The IFRS IC received a submission about the application of IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates to a group of insurance contracts with foreign currency cash flows.

74 The submission asks three questions:

(a) how and when does an entity determine the currency in which an individual insurance contract with cash flows in multiple currencies (a 'multi-currency' contract) is denominated? (Referred to as Question 2 in the IASB paper)

(b) is an entity required to consider currency risk when assessing 'similar risks' for the purpose of identifying portfolios of insurance contracts? (Referred to as Question 1 in the IASB paper)

(c) how does an entity determine the currency in which the contractual service margin of a group of insurance contracts is denominated? (Referred to as Question 2 in the IASB paper)

IASB Staff analysis and conclusion

75 The IASB sent information requests to members of the Transition Resource Group for IFRS 17 (TRG) and they also received input from an industry body and two preparers.

Question 1: Establishing a group of insurance contracts

76 **Outreach feedback** - All respondents said a portfolio of insurance contracts could potentially include contracts with cash flows in different currencies as in most cases, currency risk is not considered to be one of the key risks in their insurance contracts. Nonetheless, most respondents said there may be circumstances in which currency risk is considered to be a key risk in an insurance contract.

77 As per the IASB analysis, currency risk is a financial risk which is defined in IFRS 17. Therefore, an entity would consider all risks when identifying portfolios. What an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's contracts. 'Similar risks' do not mean 'identical risks.

78 The IASB Staff concluded that:

(a) An entity could identify portfolios of contracts that include contracts subject to different currency risk because 'similar' does not mean 'identical'. What an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's contracts.

(b) The IASB set requirements for grouping contracts (including the requirements for identifying portfolios) that would be expected to result in an entity generally grouping contracts together only if the contracts have future cash flows that the entity expects will respond similarly in amount and timing to changes in key assumptions.

Question 2: Measuring a group of insurance contracts with foreign currency cash flows

79 **Outreach feedback** – The approaches implemented are broadly as follows:

(a) Approach 1: the group of insurance contracts (including the contractual service margin) is considered to be denominated in a single currency.

(b) Approach 2: the group of insurance contracts (including the contractual service margin) is considered to be denominated in multiple currencies, reflecting the currencies of the fulfilment cash flows.

80 An entity that has groups of insurance contracts with cash flows predominantly in one currency might apply Approach 1, whilst an entity that has groups of contracts with cash flows in multiple currencies of similar predominance might choose Approach 2.

IASB Staff recommendation

81 Outreach responses indicate that the matter has widespread effect and could have a material effect on entities affected. Also, depending on the specific circumstances and the terms of the contracts, entities could use different approaches when applying IAS 21 to a multi-currency group of insurance contracts.

82 However, any standard-setting on the matter of how to account for the foreign currency aspects of multi-currency groups of contracts would require some considerable time and effort. Also, it would impact not only contracts in scope of IFRS 17 but also multi-currency contracts within the scope of other IFRS Standards. The IASB Staff have no evidence at this stage that the expected benefits of such standard-setting would outweigh the expected costs and that the matter is sufficiently narrow in scope for the IASB or the IFRS IC to address it in an efficient manner.

83 Therefore, the IASB Staff recommend that the Committee not add a standard-setting project to the work plan on the matter of how to account for the foreign currency aspects of multi-currency groups of contracts.

Questions for the EFRAG CFSS and EFRAG FR TEG members

84 Do you have any comments on the topics presented?

85 Do you wish to further discuss any of the presented issues at a future meeting?