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IFRS Interpretations Committee

Meeting Notes

March 2023

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Contents

Overview

The IFRS Interpretations Committee (IFRS IC) met on 14 and 15 March 2023.

The IFRS IC discussed comment letters on one tentative agenda decision, three new items, two potential Annual Improvements to IFRS Accounting Standards and an item for input on an IASB project.

Comment letters on tentative agenda decision: IFRS 16 *Leases*—Definition of a Lease: Substitution Rights: In November 2022, the IFRS IC published a tentative agenda decision in response to a submission about how to assess whether a contract contains a lease applying IFRS 16 when the supplier has particular substitution rights. Almost all respondents agreed with the IFRS IC's analysis of the level at which to evaluate whether a contract contains a lease. Most respondents agreed (or did not disagree) with the conclusion that, there is an identified asset in the fact pattern described, but some of them raised comments on the analysis in the tentative agenda decision. In this meeting, all IFRS IC members agreed with the conclusion in the agenda decision with suggested amendments to the text.

New item: IFRS 9 *Financial Instruments*—Guarantee over a Derivative Contract: The IFRS IC received a submission about how to assess whether an issuer accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative. In the fact pattern described, Entity C provides a guarantee over a derivative contract between Entity A and Entity B, which promises to reimburse Entity A, in full or in part, the actual loss suffered in the event of a default by Entity B. The submitter asked whether such guarantee written meets the definition of a financial guarantee contract of a derivative. The staff concluded that the matter described in the request is, in isolation, too narrow for the IASB or the IFRS IC to address in a cost-effective manner. All IFRS IC members agreed with this.

New item: **IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*—Premium Receivable from an Intermediary:** The IFRS IC received a submission about how an issuer accounts for premiums receivable from an intermediary. In the fact pattern described, a policyholder has paid the premiums to an intermediary when the amounts became due under an insurance contract. At this point, the insurer is legally obliged to provide insurance contract services to the policyholder, even if the intermediary does not pay the premiums to the insurer (under the agreement between the insurer and the intermediary, the intermediary is allowed to pay later). The submission asked, when the policyholder pays the premiums to the intermediary, whether the insurer is required to recognise the premiums receivable from an intermediary as a separate financial asset under IFRS 9 and remove these premiums from the measurement of the group of insurance contracts under IFRS 17. The staff concluded that the premiums receivables from the intermediary remain in the measurement of a group of insurance contracts until recovered or settled in cash. However, the view that the premiums receivable from an intermediary should be recognised as a separate financial asset under IFRS 9 and are removed from the measurement of the group of insurance contracts under IFRS 17 cannot be precluded. Some of the IFRS IC members agreed that both views are acceptable. Some had their preferred view over another, but they accepted or did not preclude another view. The IFRS IC decided to publish a tentative agenda decision.

New item: Home and Home Loans Provided to Employees: The IFRS IC received a submission about how an entity accounts for homes and loans to buy homes provided to its employees in two fact patters. In view of the fact that outreach indicates that neither of the fact patterns described in the submission is widespread, nor are the amounts involved material, that staff recommend not adding a standard-setting project to the work plan and to publish a tentative agenda decision that explains the reasons. All IFRS IC members agreed with this.

Potential Annual Improvements to IFRS Accounting Standards: IFRS IC members shared their views on the staff's preliminary views on the following two proposed amendments to IFRS Accounting Standards and to include them in the next annual improvements cycle:

- IFRS 9 *Financial Instruments* and IFRS 16 *Leases*—Lessee accounting for lease payments forgiven
- Guidance on implementing IFRS 17 *Insurance Contracts*: Disclosure of deferred difference between fair value and transaction price

Input on IASB project: Business Combinations—Disclosures, Goodwill and Impairment: Possible changes to the impairment test of cash-generating units (CGU) containing goodwill: The IASB has a project which aims at improving information entities provide about their business combinations at a reasonable cost. The staff identified suggestions for changes to the impairment test of CGUs containing goodwill that the staff considered warrant further consideration. The staff paper provided details of each suggestion and initial staff comments. The purpose of the discussion is to obtain feedback on some suggestions respondents to the Discussion Paper had for changes to the impairment test of CGUs containing goodwill. IFRS IC members shared their views on each of the suggestions for changes to the impairment test of CGUs containing goodwill.

Work in progress: The new matter, Merger between a parent and its subsidiary in separate financial statements, has not yet been presented to the IFRS IC.

Comment letters on tentative agenda decision

IFRS 16 *Leases*—Definition of a Lease: Substitution Rights (Agenda Paper 2)

Background

In its November 2022 meeting, the IFRS IC discussed a submission about how to assess whether a contract contains a lease applying IFRS 16 when the supplier has particular substitution rights. In the fact pattern, a customer enters into a 10-year contract with a supplier for the use of 100 similar assets (batteries in electric buses). The supplier has the practical ability to substitute alternative assets throughout the 10-year contract term. If an asset were to be substituted, the supplier would be required to indemnify the customer for any revenue lost or costs incurred while the substitution takes place. For this reason, it is expected that the supplier could benefit economically from substituting an asset only when the buses are in the workshop for maintenance or other reasons. At inception of the contract, that event is not considered likely to occur in the first three years of the contract.

The submission asked:

- What the implications are if the supplier:
    - Has the practical ability to substitute alternative assets throughout the period of use but
    - Is expected to benefit economically from the exercise of its right to substitute the asset only on the occurrence of events or circumstances that are not considered likely to occur until some time into the contract term
- If a contract is for the use of multiple similar assets, at what level an entity evaluates whether the supplier's substitution right is substantive—by considering each asset separately or all assets together

15 comment letters were received. Almost all respondents agreed with the IFRS IC's analysis of level at which to evaluate whether a contract contains a lease. Most respondents agreed (or did not necessarily disagree) with the conclusion that, there is an identified asset in the fact pattern described but they raised comments on the analysis in the tentative agenda decision.

Staff analysis

Most of the respondents agreed with the staff conclusion that the supplier's substitution right is not substantive but suggested that the IFRS IC should explain the judgement applied in determining that the condition in IFRS 16:B14(b) does not exist throughout the period of use. Moreover, the wording of the IFRS IC's analysis could inappropriately imply that the economic benefit to the supplier must exist 'continuously throughout the period of use' or 'at all points in time over the contract term'. They also raised concerns on the applicability on other fact patterns and this agenda decision may result in far fewer substitution rights being judged to be as substantive.

The staff explained that the first paragraph of IFRS 16:B14 explicitly requires assessment of whether a substantive substitution right exists "throughout the period of use". Conditions in IFRS 16:B14(a)-(b) merely help to make such assessment and therefore both conditions have to exist "throughout the period of use". The staff agreed that judgement is required to make such assessment. The example in IFRS 16:B14(a) illustrates that the supplier can have the practical ability to substitute alternative assets throughout the period of use even if it could source alternative asset only within a reasonable period of time. It could explain such right does not have to be at "all points" throughout that period but it ought to be "a reasonable period of time". Accordingly, in order to make it clear that the agenda decision does not imply that the substitution right must exist at all points throughout the period of use, the staff will include the reference to the example of IFRS 16:B14(a) and explain further the IFRS IC's conclusions in the agenda decision.

One respondent suggested that, if "throughout the period of use" applies to both conditions in IFRS 16:B14(a)-(b), such phrase (which already exists in condition (d)) should be added to condition (b) as an Annual Improvement. The staff considered it not necessary because the requirements in paragraphs B13-B19 provide an adequate basis for an entity to assess whether substitution rights are substantive and the explanatory material in this agenda decision would be helpful in explaining this. Some respondents suggested the resulting outcome of the agenda decision does not reflect economic reality and suggested that IFRS 16:B14 should be reviewed. The staff said that the IASB intentionally set a high hurdle for a customer to conclude that there is no identified asset by setting the requirements in paragraphs B13-B19 and the review of IFRS 16:B14 is therefore not necessary.

Staff recommendation

The staff recommended finalising the agenda decision with some amendments to explain more clearly the conclusions on the questions asked.

IFRS IC discussion

All IFRS IC members agreed with the conclusion in the draft agenda decision and they commented that suggested amendments to the agenda decision addressing the concerns/comments raised by the respondents make the analysis better and clearer to reach the conclusion now.

IFRS IC members spent extensive time commenting on whether IFRS 16:B14(b) should be amended by adding the phrase "throughout the period of use". Since IFRS 16:B14(a) contains such phrasing while IFRS 16:B14(b) does not, some IFRS IC members considered it would be clearer to add whether both conditions have to be met throughout the period of use. These members believed that if there is no such phrase in condition IFRS 16:B14(b), it would bring confusion or give room to apply judgement whether it is required for condition in IFRS 16:B14(b). However, other IFRS IC members were of the view that such amendment is not necessary because it is very clear from the first sentence of IFRS 16:14, which is the overarching principle, that both conditions have to exist throughout the period of use. The conditions in IFRS 16:B14(a)-(b) merely help to evaluate whether such right is substantive. Another IFRS IC member, on the other hand, suggested to take out such phrasing in IFRS 16:B14(a) for consistency.

Another concern shared by several IFRS IC members was over the phrase "every minute of every day" being used to to explain "throughout the period of use" They considered such phrase is too strong and suggested and the staff agreed to change that phrase to "all the time".

A few IFRS IC members commented that there was not sufficient analysis on why the supplier is considered to have practical ability to substitute the assets (the condition in IFRS 16:B14(a)). The staff responded that such analysis would involve the consideration of more fact and circumstances, which is not the focus of this agenda decision, so it is assumed that the supplier has such practical ability in the agenda decision.

One IFRS IC member agreed with the conclusion of the agenda decision but commented that the analysis is too technical but not focusing on the substance of the arrangement. The commercial substance of the arrangement is that the lessor grants the right to use assets to the lessee and the lessee needs such assets for its operation. The lessor has an obligation rather than a right to substitute the assets to ensure the smooth operation of the lessees. It would be unintuitive not to apply lease accounting due to the different terms of the contract and merely analysing whether the right is substantive. The IFRS IC member would rather use this analysis to arrive at the conclusion that there is a lease.

IFRS IC decision

The IFRS IC decided, by a vote of all, to finalise the agenda decision with some suggested amendments to the text.

Initial consideration

IFRS 9 *Financial Instruments*—Guarantee over a Derivative Contract (Agenda Paper 3)

Background

The IFRS IC received a submission about how to assess whether an issuer accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative. In the fact pattern described, Entity C provides a guarantee over a derivative contract between Entity A and Entity B, which promises to reimburse Entity A, in full or in part, the actual loss suffered in the event of a default by Entity B. Reimbursement under the guarantee will be provided only if the derivative contract is a financial asset for Entity A and Entity B has failed to make payment of the close-out amount when due in full or in part. The close-out amount is fixed only in the event of a default and is based on the fair value of derivative contract. The submitter outlines various views: View A—the guarantee meets the definition of a financial guarantee contract; View B1—The guarantee meets the definition of a derivative; View B2—The guarantee meets neither the definition of financial guarantee nor a derivative.

Staff analysis

The staff sent an information request to members of the International Forum of Accounting Standard-Setters (IFASS), securities regulators and large accounting firms. All respondents said that such an arrangement is not common or widespread and there are no material effects on financial statements when the matter does arise. Some standard-setters and accounting firms shared how they would theoretically apply the requirements in IFRS 9 to such a guarantee and some of these respondents noted that there could be potential diversity in practice.

The staff noted that similar questions about whether a guarantee contract meets the definition of a financial guarantee contract as defined in IFRS 9, could arise in other circumstances. The staff was of the view that the focus of this question is whether the guarantee is written over a 'debt instrument' as referenced in the definition of a financial guarantee contract. Therefore, any potential standard-setting project to eliminate diversity in practice would extend beyond the fact pattern described in the request and could result in significant unintended consequences when applying the requirements for financial guarantee contracts more generally. Therefore, the staff concluded that the matter described in the request is, in isolation, too narrow for the IASB or the IFRS IC to address in a cost-effective manner.

Staff recommendation

The staff recommended not to add a standard-setting project to the work plan but to publish a tentative agenda decision that explains the reasons for not adding a standard-setting project.

IFRS IC discussion

Some IFRS IC members agreed that the accounting treatment under different approaches would be different in terms of timing and amount recognised but the difference would be immaterial. However, a few IFRS IC members commented that the agenda decision did not give an analysis or explicit evidence to conclude the impact is immaterial. Instead of saying such conclusion is based on evidence gathered, negative assurance is suggested. The staff agreed with this and suggested removing the phrase "based on evidence gathered" in the tentative agenda decision.

IFRS IC decision

All IFRS IC members agreed with the conclusion of not adding this to the standard-setting project plan and agreed with the wording of the tentative agenda decision including the suggested amendments.

IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*—Premium Receivable from an Intermediary (Agenda Paper 4)

Background

The IFRS IC received a submission about how an entity that issues insurance contracts (insurer) accounts for premiums receivable from an intermediary. In the fact pattern described, a policyholder has paid the premiums to an intermediary when the amounts became due under an insurance contract. At this point, the insurer is legally obliged to provide insurance contract services to the policyholder, even if the intermediary does not pay the premiums to the insurer (under the agreement between the insurer and the intermediary, the intermediary is allowed to pay the insurer later). IFRS 17 requires (except for the premium allocation approach) an insurer to include in the measurement of a group of insurance contracts an estimate of all the future cash flows within the boundary of an insurance contract, including premiums from a policyholder. The submission asked, when the policyholder pays the premiums to the intermediary, whether the insurer is required to recognise the premiums receivable from an intermediary as a separate financial asset under IFRS 9 and remove these premiums from the measurement of the group of insurance contracts under IFRS 17.

Staff analysis

The staff sent an information request to members of the Transition Resource Group for IFRS 17 (TRG). All respondents said that the role of the intermediary is common in all jurisdictions and most of the respondents said that either an insurance contract or legal requirements in a jurisdiction require an insurer to start providing insurance contract services before it receives premium in cash. Most respondents said that the amount of premiums receivable from an intermediary at a reporting date can be substantial, particularly for non-life insurance and reinsurance contracts issued. In addition, many of the respondents commented that the rights and obligations indicate that the intermediary acts and collects premiums on behalf of the insurer. Those respondents believed that the insurer recognises the premiums receivable from an intermediary as a separate financial asset under IFRS 9 because the insurer's right to receive cash from the intermediary arise under the separate service contract. On the other hand, other respondents said that such receivables or payables from an intermediary are included within the measurement of a group of insurance contracts until recovered or settled in cash because these receivables or payables are covered by the scope exclusion in IFRS 9.

The staff agreed with the respondents' view that IFRS 17 is the starting point for the premium receivable from an intermediary. An insurer should include in the measurement of a group of insurance contracts an estimate of the future premiums. IFRS 17:B65 does not distinguish between premiums collected directly from a policyholder and premiums collected through an intermediary. Therefore, an insurer’s rights to collect premiums from a policyholder through an intermediary are included within the measurement of a group of insurance contracts under IFRS 17.

The next step of analysing the question would be determining when an insurer removes cash flows from the measurement of a group of insurance contracts. However, IFRS 17 is silent on this. By implication, amounts of cash flows are removed from that measurement when they are recovered or settled. The paper gave examples of expected future cash flows included within the measurement of a group of insurance contracts that are also within the scope of another IFRS Accounting Standard and these standards do not include a scope exclusion of IFRS 17. To avoid double accounting, the related cash flows need to be removed from the measurement of a group of insurance contracts when they are recognised as assets or liabilities under another Standard. Therefore, the staff are of the view that an insurer removes expected cash flows from the measurement of a group of insurance contracts: (a) when the cash flows are recovered or settled; or (b) when the cash flows are recognised as an asset or a liability applying another IFRS Accounting Standard.

The staff went on to analyse the scoping of the receivables from the intermediary. Some respondents were of the view that the insurer obtains a right to receive the premium under a contract with the intermediary that is not an insurance contract within the scope of IFRS 17. Therefore, the receivable from the intermediary should be recognised under IFRS 9. However, the staff said that the definition of an insurance contract should not be read in isolation from the rest of that Standard. In particular, IFRS 17:B65 does not distinguish between cash flows from policyholders and from intermediaries. They are all cash flows within the boundary of an insurance contract. Given IFRS 9:2.1(e) excludes from the scope of that Standard the rights and obligations that give rise to cash flows within the boundary of an insurance contract, an insurer’s right to premiums cannot become subject to IFRS 9 after inception of the contract. In addition, there is no mechanism under IFRS 17 nor IFRS 9 to bring cash flows that have already been included within the measurement of a group of insurance contracts back into the scope of IFRS 9. Accordingly, the premiums receivables from the intermediary remain in the measurement of a group of insurance contracts until recovered or settled in cash.

Nonetheless, the staff said there could be an alternative interpretation. IFRS 17 does not restrict the removal of cash flows from the measurement of an insurance group due to their recovery or settlement in cash. After the policyholder has discharged its obligation to pay the premiums, the receivable from the insurance contract has been recovered by the receipt of a different receivable, which arises under a separate contract between the insurer and the intermediary. Such a receivable accordingly would be outside the scope of the exclusion in IFRS 9:2.1(e). If an insurer takes that view, it recognises those receivables applying IFRS 9 when the related rights and obligations arise under the contract that is not an insurance contract; and remove the related expected cash flows from the measurement of a group of insurance contracts.

Regardless of the view an insurer takes, the staff said that the insurer is required to apply all the requirements, particularly the measurement of credit losses, of the relevant IFRS Accounting Standard to the receivables from an intermediary, being either IFRS 17 or IFRS 9. IFRS 17 and IFRS 9 address expected credit losses from an intermediary differently but both require disclosure of information about credit risk that arises from contracts. The staff considered that both of these result in useful information for users of financial statements.

Although the matter is common in all jurisdictions, the staff is of the view that the alternative interpretation of the requirements in IFRS 17 and IFRS 9 is not widespread. In addition, it is not expected to have a material effect and the matter is not narrow in scope so that the IASB or the IFRS IC can address it in an efficient manner. Therefore, the matter does not meet the requirement to add a standard-setting project.

Staff recommendation

The staff recommended not adding a standard-setting project to the work plan but to publish a tentative agenda decision that outlines the applicable requirements in IFRS 17 and IFRS 9, including how an insurer applies them to premiums receivable from an intermediary.

IFRS IC discussion

There was a lively discussion on this agenda item. Some of the IFRS IC members agreed that both views are acceptable. Some of them had their preferred view over another, but they accepted or would not preclude another view. Only a few IFRS IC members said only View 1 (i.e. not removing the premium receivables when the insurer has not received them in cash) is acceptable.

For the IFRS IC members who preferred View 2 (i.e. recognising a separate financial asset applying IFRS 9), they thought that when the policyholders pay the intermediary, these holders had discharged of their obligation for the payment and as a result the insurer has the obligation to provide the service. The nature of the receivables has been changed, a right to receive cash from the intermediary is established, which should be under the scope of IFRS 9. One IFRS IC member made analogy to the conclusion of the agenda decision for electronic transfers to get to the conclusion of recognising a separate financial asset under IFRS 9. Furthermore, these IFRS IC members said that the scope exemption in IFRS 9 does not apply because the risk that the intermediary default is not insurance risk which should not be under IFRS 17.

For those IFRS IC members who preferred View 1, they considered that in the scenario where the insurer is required to perform service when the policyholder pays the intermediary regardless of whether the insurer receives cash from intermediary or not, is within the scope of IFRS 17. The unit of account in IFRS 17 is a boundary of an insurance contract which includes a bundle of cash flows and it is managed on a net basis operationally, thus a single cash flow (for the premium receivable) cannot be pulled out. Moreover, the agenda decision mentioned that it is implied by IFRS 17 that cash flows are removed from that measurement when they are recovered or settled. Some IFRS IC members suggested giving more analysis on how such implication is derived given IFRS 17 is silent on it. These IFRS IC members commented that in order to achieve legal extinguishment, i.e. the policyholders discharging their obligation, the insurer would need to know when each individual policyholder pays the intermediary. These IFRS IC members had concerns over whether it is feasible for the insurer to track when as well as how much is received by the intermediary.

For the above IFRS IC members, although they had a preferred view, they accepted another view based on the analysis made by the staff in the agenda paper.

Given there are differences in measurement requirements under IFRS 17 and IFRS 9, some IFRS IC members were not convinced that there would be no "material effect on the amounts that entities report" as set out in the agenda decision. Particularly, IFRS 17 and IFRS 9 address expected credit losses differently. Also, the presentation would be different because the premium receivables would be presented net in the measurement of a group of insurance contracts under IFRS 17 while it would be presented as a gross receivable under IFRS 9. Therefore, one IFRS IC member suggested twisting the text of the tentative agenda decision to say it would not have a material impact in respect of information provided to readers, with the staff making this amendment subsequently.

For those who supported both views without preference, they said the agenda decision implies a preference of View 1 over View 2 and suggested text to be amended if it intends to deliver the message that both views are acceptable under the fact pattern submitted. The staff agreed with that and had already amended the text in the agenda decision.

After the redrafting by staff to take up the amendments by the IFRS IC members, the IFRS IC continued with the discussion regarding the text in the agenda decision. The IFRS IC still had concerns that the agenda decision mentioned judgement is required in determining which view is to be applied. They said judgement may be required in some scenarios while in this particular fact pattern, both views were determined/assessed to be acceptable, then there would be no judgement. The Chair suggested removing the "judgement" sentence, but the staff explained that judgement is needed to be applied to determine whether the premiums are within the boundary of the contract or not. Moreover, some IFRS IC members were not comfortable with the agenda decision stating that there would be no material effect applying both views and suggested to take that part out. Considering the comments by the IFRS IC members, the staff will further amend the drafting of the agenda decision.

IFRS IC decision

11 out of 14 IFRS IC members agreed with the conclusion of the agenda decision and the recommendation of not adding to a standard-setting project to the work plan. 10 out 14 of the IFRS IC members agreed with existing amended wordings.

Home and Home Loans Provided to Employees (Agenda Paper 5)

Background

The IFRS IC received a submission about how an entity accounts for homes and loans to buy homes provided to its employees. There are two fact patterns submitted:

Fact Pattern 1: Employee home ownership plans

An entity provides its employee with a house that the entity constructed and owns. In return, the employee has a proportion of his or her base salary deducted every month until the agreed price of the house has been fully repaid.

If the employee leaves employment within the first five years after receiving the house, the employee forfeits the house and recovers the salary deductions to date. If the employee leaves employment after that five-year period, the employee may choose either:

- To forfeit the house and recover the salary deductions to date
- to keep the house and immediately repay the outstanding balance

Legal title transfers to the employee only when they have paid the agreed price for the house in full.

The request asked how the entity should account for this arrangement—in particular, when it should recognise transfer of the house to the employee, and the accounting before and after the transfer.

Fact Pattern 2: Employee home loans

An entity provides its employee with a loan to buy a house, which the employee selects and purchases, and the entity does not own. The entity provides the loan at a below-market rate of interest, typically interest-free. The employee repays the loan through salary deductions. If the employee leaves employment for any reason at any point, the outstanding balance of the loan becomes repayable.

The submitter asks whether the accounting for this arrangement would differ from that in Fact Pattern 1.

Staff analysis

The staff sent information request to members of IFASS, securities regulators and large accounting firms. All respondents said either that they have not seen employee home ownership plans like those described in the submission or the amounts involved are not material if they have seen such plans for both fact patterns.

Only a few respondents commented on how entities would account for employee home ownership plans. For Fact Pattern 1, they responded that an entity would generally derecognise the house when it enters a sales contract with an employee. The entity would then recognise a loan receivable in accordance with IFRS 9 and account for the below-market element of the loan as an employment benefit in the scope of IAS 19. There is another view that the control transfers when legal title passes to the employee and the entity derecognises the property once the employee has fully repaid the agreed price of the house. For Fact Pattern 2, the respondents who responded said that the loan is accounted for as a financial asset at amortised cost within the scope of IFRS 9 and the difference between the fair value and the nominal amount of the loan is recognised as a prepaid employee benefit and amortised over the shorter of (i) the expected employment term and (ii) the loan term.

Given that the findings indicated that neither of the fact patterns described in the submission is widespread, and that even when the fact patterns do arise, the amounts involved are not material, that staff recommend not adding a standard-setting project to the work plan.

Staff recommendation

The staff recommended not to add a standard-setting project to the work plan but to publish a tentative agenda decision that explains the reasons for not adding a standard-setting project.

IFRS IC discussion

Only few IFRS IC members provided comments on this item. They agreed that such fact patterns may not be widespread and the amount involved may not be material but it could be powerful with regard to how an entity applies the accounting treatment. Such scenarios might be more common in the future. One IFRS IC member commented that the actual scenario might be more complicated than what is described in the fact patterns and the accounting treatment may be even more complicated. However, based on the fact pattern submitted and the current situation, they agreed with the conclusion made by the staff to publishing the tentative agenda decision.

IFRS IC decision

All IFRS IC members agreed with the conclusion of not adding this to the standard-setting work plan and agreed with the text of the tentative agenda decision.

Potential Annual Improvements to IFRS Accounting Standards

The staff asked whether the IFRS IC members agree with their preliminary views on the following two proposed amendments to IFRS Accounting Standards and to include them in the next Annual Improvements Cycle. If not, they asked whether IFRS IC members have other suggestions on them.

Lessee accounting for lease payments forgiven (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*): Initial consideration (Agenda Paper 6A)

In its March 2022 meeting, the IFRS IC discussed lessee accounting for the rent concession and agreed that the IASB consider a narrow-scope standard-setting project to clarify the lessee's accounting in applying IFRS 16 and IFRS 9 to get to the conclusion in the Agenda Decision *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* published in October 2022.

Firstly, the IFRS IC agreed in its March 2022 meeting to amend the definition of "lease modification" to exclude from that definition, for a lessee, a change that solely results in a lease liability (or a part of it) being extinguished in accordance with IFRS 9. The staff continued to recommend this proposed amendment.

Secondly, some IFRS IC members suggested amending Illustrative Example 19 of IFRS 16, which describes the lessee accounting for a decrease in lease consideration as a lease modification applying IFRS 16 because it may contradict with the conclusion in the agenda decision where the lease liabilities are derecognised. The staff explained that the scenario in Illustrative Example 19 is different from that of the fact pattern in the agenda decision because the lessee has not discharged that liability by paying the lessor, and therefore the criteria in IFRS 9:B3.3.1(a) has not been met. After the proposed amendments to the definition of a lease modification as described above, the change in lease consideration illustrated in that example would continue to be a lease modification. Therefore, the staff did not recommend making such amendments.

Thirdly, IFRS IC members noted that IFRS 9:2.1(b)(ii) states that lease liabilities recognised by a lessee are subject to the derecognition requirements in of IFRS 9:3.3.1. They said that a lessee could make a corresponding adjustment to profit or loss applying IFRS 9:3.3.3. However, the current IFRS 9:2.1(b)(ii) does not refer to IFRS 9:3.3.3 which may result in misinterpretation that the corresponding adjustment could be made to the right-of-use asset applying IFRS 16. The staff therefore recommend amending IFRS 9:2.1(b)(ii) by a cross-reference to IFRS 9:3.3.3 to clarify the corresponding adjustment is required to be recognised in profit or loss when accounting for an extinguishment of a lease liability.

IFRS IC discussion

Most IFRS IC members were of the view that the proposed amendments go beyond an Annual Improvement project and require broader consideration. They considered the proposed amendments amend the definition of modification of IFRS 16 which would require fundamental rethinking of the definition. They said it is unclear what "a change" means and that this could be interpreted as more than a change in scope, term and price. This may result in structuring opportunity to drive different accounting treatments. Most of the IFRS IC members did not consider the proposed amendments could help draw a dividing line between extinguishment under IFRS 9 and modification under IFRS 16, instead, they considered it would bring more confusion. Some of them could not distinguish why the scenario in Illustrative Example 19 of IFRS 16 meets the definition of modification while that in the agenda decision *Lessor Forgiveness of Lease Payments* is in the derecognition scope of IFRS 9.

Only few IFRS IC members agreed with the proposed amendments and considered that they could help distinguishing when to apply IFRS 9 (when the lease payments related past service) and when to apply IFRS 16 (for future lease service not yet performed). Moreover, they were of the view that Illustrative Example 19 merely illustrates the accounting treatment as result of the modification instead of trying to distinguish whether that fact pattern is a modification or not.

Disclosure of deferred difference between fair value and transaction price—Guidance on implementing IFRS 7: Initial consideration (Agenda Paper 6B)

The IFRS IC has been informed about an inconsistency between IFRS 7:28 and IG14 in the Guidance on implementing IFRS 7. Upon the issuance of IFRS 13 in May 2011, the IASB made consequential amendments to IFRS 7:28 to reflect the requirements in IFRS 9:B5.1.2A(b) (previously AG76 of IAS 39) that an entity should defer a difference between the fair value at initial recognition of a financial instrument and its transaction price if the fair value is not evidenced by a quoted price in an active market or based on a valuation technique that uses only data from observable markets. However, no corresponding amendments were made to IFRS 7:IG14, which illustrates some of the disclosure requirements in IFRS 7:28. The staff therefore proposed that the IASB amends IG14 of IFRS 7 to make it consistent with that in IFRS 7:28.

IFRS IC discussion

Only a few IFRS IC members commented on this item and they agreed with the proposed amendments.

Input on IASB project

Business Combinations—Disclosures, Goodwill and Impairment: Possible changes to the impairment test of cash-generating units containing goodwill (Agenda Paper 7)

The IASB has a project to improve information entities provide about their business combinations at a reasonable cost. The current focus of the project is a package of disclosure requirements about business combinations and changes to the impairment test of cash-generating unites containing goodwill in IAS 36.

The staff identified some suggestions for changes to the impairment test of CGUs containing goodwill that the staff considered warrant further consideration. The staff paper provided details of each suggestion and the staff's corresponding initial comments. The purpose of the discussion is to obtain feedback on some suggestions respondents to the Discussion Paper had for changes to the impairment test of CGUs containing goodwill. The questions for discussion include the following:

- Comparison of past forecasts:
    - How useful will information from this comparison be?
    - Do you think this comparison would help to deter management over-optimism? Why or why not?
    - Would entities incur significant incremental costs if required to provide this comparison? Why? Would information on accuracy of past forecasts be commercially sensitive?
    - Is the information for this already available because of the review performed in applying paragraph 34 of IAS 36?
    - How long would you recommend requiring entities to provide this comparison? In your answer, take into consideration how long the comparison needs to be so that it is meaningful and the cost of providing the comparison
- Reasonable and supportable:
    - Would additional guidance or illustrative examples on the application of paragraph 33 of IAS 36 help the application and enforcement of that paragraph and help deter management over-optimism?
- Goodwill allocated to segments:
    - Do you think impairment assumptions and segment information can be compared? Why?
    - Would entities incur significant incremental costs if required to disclose the reportable segments that CGU(s) containing goodwill are included in on a continuing basis (i.e. not just the segment the CGU(s) are included in on acquisition)? Why?
    - Do you think the additional information would help users to better assess the reasonableness of the assumptions used in impairment tests of CGUs containing goodwill because of the ability to compare to information disclosed about reportable segments? Why or why not?
    - Do you think the additional information would help to deter management over-optimism? Why or why not?

- Indicators of impairment:
    - Should the IASB explore improving the list of indicators if:
        - It retains the requirement for an annual quantitative impairment test of CGUs containing goodwill?
        - It decides to provide relief from the annual quantitative impairment test of CGUs containing goodwill?
    - How would you suggest improving the list of indicators?
- Allocating goodwill to CGUs
    - Would the additional guidance suggested help improve the application and enforcement of the impairment test?
    - Should the IASB clarify that the reference to 'operating segment' in paragraph 80 of IAS 36 is a safeguard and if so, how?
    - Should the IASB clarify the term 'monitoring' and if so, how?
    - Could the level of goodwill to be tested for impairment be different to the level the business combination is monitored for the proposed disclosures?
    - Do you think the IASB should explicitly prohibit goodwill being tested for impairment at a level higher than the level the business combination is monitored for the proposed?
- Impairment test when entities reorganise:
    - Would entities have information/forecasts to perform an impairment test based on a previous reporting structure?
    - Would entities incur significant incremental costs if required to perform this impairment test? Why?
    - Conceptually, should an impairment be recognised based on the 'old' structure?
    - Do you think that requiring an entity to perform the impairment test on the 'old' reporting structure would provide useful information? Why or why not?
- Paragraph 99 of IAS 36:
    - In your experience, is paragraph 99 of IAS 36 applied frequently?
    - If not, why not? How could (and should) the IASB make it easier to apply?
    - Would paragraph 99 of IAS 36 (if applied) significantly reduce cost and complexity of the impairment test of CGUs containing goodwill, without reducing its effectiveness?
    - Do you think that when an entity applies paragraph 99 of IAS 36 it should be required to disclose additional information to that already required by IAS 36? If so, what additional information do you think would be useful?
    - If the IASB were to clarify or amend paragraph 99 of IAS 36, should similar clarifications or amendments be made for intangible assets with indefinite useful lives (paragraph 24 of IAS 36)? Why or why not?

IFRS IC discussion
IFRS IC members shared their views on each of the proposed suggestions.

For the suggestion to disclose a comparison of cash flow forecasts used in impairment tests in prior years with actual cash flows, most of the IFRS IC members considered such information as confidential and sensitive, and not necessarily useful to be disclosed in the financial statements. As the calculation of recoverable amount involves the denominator as well, solely disclosing the numerator (cash flow forecast) is not useful. The principle of IAS 36 already requires the use of reasonable assumptions in conducting forecasts. Entities should therefore already have used those, and it should have been discussed with and reviewed by their auditors. They considered that entities would incur significant incremental costs to prepare the disclosure and auditors would need to spend extra effort in evaluating the disclosures made by the entities. Some IFRS IC members commented that if the amount is material, the entity would make appropriate disclosure about the sensitivity of carrying amount to the assumption/estimations as required by IAS 1:129(b).

For the suggestion of providing additional guidance regarding the interaction between IAS 36:33(a) (requirement to base cash flow forecasts on reasonable and supportable assumptions) and IAS 36:33(b) (requirement to base cash flow forecasts on the most recent financial budgets or forecasts approved by management), the IFRS IC members commented that they did not see conflict between these requirements. However, this guidance is welcome because it would be an educational exercise which could encourage entities to look at information together and corroborate the expected forecast using external information.

Regarding the suggestion of disclosing goodwill allocated to segments on a continued basis, one IFRS IC member considered such disclosure is useful.

Regarding the suggested guidance on allocating goodwill to CGUs for impairment, some IFRS IC members commented that the segment level is already a very high level and agreed retaining the requirement of allocating goodwill to CGU not greater than a segment. They agreed that "monitoring" is difficult to define and did not recommend developing comprehensive guidance for that. One IFRS IC member suggested giving more guidance on the interaction of allocating goodwill to CGUs versus allocating goodwill to foreign currencies in IAS 36:83.

In response to respondents' comments on the potential delay in recognising impairment losses based on the list of impairment indicators in IAS 36:12, it is proposed to improve the list. Some IFRS IC members said the current standard is very clear that those indicators are examples only and they are useful to let people know when, at least, an impairment assessment has to be performed. A few IFRS IC members commented that some entities would know how remote the risk of impairment for a particular CGU with much headroom is. They were therefore supportive of removing the mandatory annual impairment assessment requirement but said that applying this relief would require judgement. One IFRS IC did not agree with this, and instead would accept interim relief in place of an annual relief.

Regarding the suggestion to require entities to perform an impairment test based on its previous reporting structure before reallocating goodwill to different CGUs, the staff considered this could help limit opportunist behaviour to avoid goodwill impairment. Some IFRS IC members agreed with this because when acquisition happens, the new business integrates into a larger CGU and the reallocation would result in aggregation of CGUs. Such structural change would trigger reallocation of goodwill and would naturally identify impairment, if any. On the other hand, one IFRS IC member said that it is unintuitive to conduct an impairment assessment due to restructuring. It should instead be done when there is an impairment indicator.

For the suggestion of amending IAS 36:99 to make it easier to apply, one IFRS IC member said it could be used by sophisticated entities who understand well what drives impairment. However, it is not commonly applied by most entities because it requires the use of significant cost to identify such factors and communicate with auditors. Entities would rather do a full impairment assessment. A few IFRS IC members commented that such suggestion would be feasible if more guidance is given on which periodic previous period calculation could be used.

Administrative matters

Work in progress (Agenda Paper 8)

The following new matter has not yet been presented to the IFRS IC:

Merger between a parent and its subsidiary in separate financial statements: How a parent that prepares separate financial statements applying IAS 27 *Separate Financial Statements* accounts for a merger with its subsidiary in its separate financial statements.

There was no discussion on this topic.