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IFRS Interpretations Committee

Meeting summary

September 2023

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Overview

The IFRS Interpretations Committee (IFRS IC) met on 12 September 2023.

The IFRS IC held discussions on one new item and discussed comment letters on three tentative agenda decisions.

Initial consideration: IFRS 3 *Business Combinations*—Payment Contingent on Continued Employment during Handover Periods: The IFRS IC received a submission about how an entity accounts for payments (as part of the acquisition agreement) to the sellers of an acquired business. The payments and continued employment aim to ensure the appropriate transfer of knowledge from the sellers to the new management team. The sellers are remunerated for their services at a level comparable to other management executives, but some of the consideration for the shares is withheld until the handover is complete and is forfeited if the individual leaves employment before completion of the handover. The sellers are also entitled to additional payments that are contingent upon meeting a specified level of financial performance and the continued employment during a limited period. The submitter asked whether the entity may split the accounting for the additional payments between remuneration for post-combination services, and additional consideration for the business combination. The staff outreach identified no diversity in accounting treatment. It appears that the accounting described in the agenda decision published in January 2013 is the treatment enforced by the auditors and regulators, although some respondents said some stakeholders disagreed with the outcome because it does not always reflect the economic substance of the arrangement and could even result in recognising a gain from a bargain purchase. The IFRS IC decided to publish a tentative agenda decision stating that no further action is required.

Comment letters on tentative agenda decision: IFRS 17 *Insurance Contracts*— Premium Receivable from an Intermediary: In its March 2023 meeting, the IFRS IC discussed a submission about how an issuer accounts for premiums receivable from an intermediary. 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 IFRS IC concluded there is an accounting policy choice that premiums receivables remain in the measurement of a group of insurance contracts under IFRS 17 until recovered or settled in cash (View 1) or it is removed from the measurement of the group of insurance contracts and is recognised as a separate financial asset under IFRS 9 (View 2). 16 comment letters were received and most of the respondents agreed with the technical analysis in the tentative agenda decision and agreed not recommending the IASB to consider adding a standard-setting project to the work plan. The IFRS IC decided to finalise the agenda decision, with some editorial changes.

Comment letters on tentative agenda decision: Homes and Home Loans Provided to Employees: In its March 2023 meeting, the IFRS IC discussed a submission about how an entity accounts for homes and loans to buy homes provided to its employees. Two fact patterns have been submitted: employee home ownership plans and employee home loans. The IFRS IC concluded that such fact patterns may not be widespread, and the amount involved may not be material. The IFRS IC therefore decided not to add this item to the standard-setting work plan and instead to publish an agenda decision. Seven comment letters were received and most of the respondents agreed with the IFRS IC's conclusion not to add a standard-setting project to the work plan. The IFRS IC decided to finalise the agenda decision, with some editorial changes.

Comment letters on tentative agenda decision: IFRS 9 *Financial Instruments*—Guarantee over a Derivative Contract: In its March 2023 meeting, the IFRS IC discussed a submission on how to assess whether an issuer accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative. The IFRS IC concluded that such a matter is not widespread, and the effect is not material and thus the IFRS IC decided not to add a standard-setting project to the work plan. Six comment letters were received, and all respondents agreed with the IFRS IC's decision. The IFRS IC decided to finalise the agenda decision.

Work in progress: There was no new matter that has not yet been presented to the IFRS IC.

Initial consideration

IFRS 3 *Business Combinations*—Payment Contingent on Continued Employment during Handover Periods (Agenda Paper 2)

Background

The IFRS IC received a submission about how an entity accounts for payments (as part of the acquisition agreement) to the sellers of an acquired business when those payments are contingent on the sellers' continued employment during a post-acquisition handover period. The continued employment aims to ensure the appropriate transfer of knowledge from the sellers to the new management team. The sellers are compensated for their services at a level comparable to other management executives and are entitled to additional payments that are contingent upon meeting a specified level of financial performance and the continued employment during a limited period. The sellers can receive the additional payments if employment terminates only due to specified circumstances, but the additional payments are forfeited if employment terminates in any other circumstances. The submitter asked whether the entity may split the accounting for the additional payments between remuneration for post-combination services, and additional consideration for the business combination.

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. Most respondents said that fact patterns such as the one described in the submission are common across many jurisdictions and many industries, particularly those that require expert technical knowledge or that are heavily reliant on customer relationships or human capital. The payments contingent on continued employment are generally material or can be material for affected entities. All respondents said that entities apply, or generally apply, the accounting treatment described in the agenda decision *Contingent payments to shareholders and continuing employment* (published in January 2013)—that is, entities recognise these payments as remuneration for post-combination services rather than additional consideration for the acquisition. Many of them said that there is no diversity in accounting treatment and a few of them said the accounting treatment described in the agenda decision published in January 2013 is the treatment enforced by auditors and regulators, although some respondents said some stakeholders disagreed with the outcome because it does not always reflect the economic substance of the arrangement and could even result in recognising a gain from a bargain purchase.

Since the results from the outreach do not indicate significant diversity in how entities account for payments contingent on continued employment in fact patterns described, the staff says that the matter does not satisfy the criterion in the paragraph 5.16(a) of the Due Process Handbook to be added as a standard-setting project.

Staff recommendation

The staff recommended that the IFRS IC does not to add a standard-setting project to the work plan and instead publish a tentative agenda decision explaining its reasons for not adding a standard-setting project.

IFRS IC discussion

IFRS IC members agreed with the technical analysis in the staff paper that the accounting conclusion is clear and there is no diversity in practice for this matter. However, some IFRS IC members were concerned that the agenda decision does not give an explicit conclusion on the accounting treatment, and therefore readers may read it as suggesting that they are not prohibited from accounting for the contingent payment as additional consideration for the acquisition. In addition, one IFRS IC member suggested that it would be beneficial to add a reference to IFRS 3:B55A to make the accounting conclusion clearer. On the other hand, some IFRS IC members appreciated the reference to the previous agenda decision, where the analysis and conclusion was clearly laid out. In their view, this is clear and efficient without the need to repeat in the current agenda decision. One IFRS IC member suggested to add in the agenda decision that the IASB had not identified the matter as a high priority when the previous agenda decision was published. This would help emphasise that this matter is not important enough to be on the work plan of the IASB. The Chair said that giving an explicit accounting conclusion and adding the suggested reference may result in an impression that the agenda decision is giving an accounting analysis, which is not intended given the agenda decision concludes that there is no diversity in practice and the matter is not widespread. Therefore, he recommended not making ant changes in response to the suggestions by IFRS IC members.

Some IFRS IC members also gave editorial comments to make the fact pattern clearer and these were agreed by the IFRS IC.

IFRS IC decision

The IFRS IC, by a unanimous vote, decided to publish a tentative agenda decision with some edits to the staff proposal suggested during the meeting.

Comment letters on tentative agenda decisions

IFRS 17 *Insurance Contracts*—Premium Receivable from an Intermediary (Agenda Paper 3)

Background

In its March 2023 meeting, the IFRS IC discussed a submission about how an entity that issues insurance contracts (insurer) accounts for premiums receivable from an intermediary. 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 IFRS IC concluded that there is an accounting policy choice that premiums receivables remain in the measurement of a group of insurance contracts under IFRS 17 until recovered or settled in cash (View 1) or it is removed from the measurement of the group of insurance contracts and is recognised as a separate financial asset under IFRS 9 (View 2). 16 comment letters were received and most of the respondents agreed (or did not disagree) with the technical analysis.

Staff analysis

15 respondents agreed (or did not disagree) with the technical analysis in the tentative agenda decision and agreed not recommending that the IASB should consider adding a standard-setting project to its work plan. They agreed that IFRS 17 is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract. In applying IFRS 17, premiums from a policyholder collected through an intermediary is included in the measurement of a group of insurance contracts. However, IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash. Therefore, an insurer can apply either View 1 (IFRS 17) or View 2 (IFRS 9) to the receivables. Only one respondent disagreed and said View 2 is the only appropriate treatment.

The staff continued to be of the view that IFRS Accounting Standards do not prohibit an insurer from either applying IFRS 17 or IFRS 9 and a standard-setting project would not be cost-efficient. In addition, the matter would not be sufficiently narrow in scope that the IASB can address it in an efficient manner. Meanwhile, considering the feedback, the staff suggests that the agenda decision be amended to (i) focus on the key reasons of the technical analysis; (ii) clarify that in accounting for premiums receivable from an intermediary, when payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer develops and applies an accounting policy that determines when cash flows are removed; and (iii) include a reference to the requirements in IAS 8 that an accounting policy results in information that is relevant and reliable and is applied consistently for all similar transactions.

Some respondents asked whether such technical analysis would apply equally to other fact patterns, for example, claims payables to an intermediary. In view of the fact that the *Due Process Handbook* says that explanatory material in an agenda decision explains how the principles and requirements in IFRS Accounting Standards apply to fact pattern submitted only, the agenda decision should not opine on how the technical analysis and conclusion applies to other fact patterns. Insurers may apply the additional insights from the agenda decision to evaluate its accounting policies on other transactions.

Staff recommendation

The staff recommended finalising the agenda decision with changes to the tentative agenda decision as suggested above.

IFRS IC discussion

While some IFRS IC members still preferred one particular view, they agreed that allowing an accounting policy choice is the best approach for this matter given there are no clear requirements in IFRS Accounting Standards. One IFRS IC member commented that the approach taken in the agenda decision is different from a previous agenda decision that clearly laid out the interaction between IFRS 16 and IFRS 9. No such analysis was presented in the current agenda decision with regard to the linkage and the flow from insurance risk to credit risk. The staff explained that the paper lays out the analysis starting with IFRS 17 and emphasised at which point an entity selects an accounting policy (i.e. to determine when cash flows are removed from the measurement of a group of insurance contracts, and thereby moving from IFRS 17 to IFRS 9). One IFRS IC member considered that the existing drafting with the whole paragraph on IAS 8 is boilerplate information and suggested deleting that paragraph while explicitly stating that the insurer applies IAS 8 in determining the accounting policy for the specific area for which an entity makes a choice. The staff agreed with this suggestion as well as other editorial suggestions by IFRS IC members to make the description of the fact pattern more precise.

IFRS IC decision

The IFRS IC, by a unanimous vote, decided to finalise the agenda decision with some edits suggested during the meeting.

Homes and Home Loans Provided to Employees (Agenda Paper 4)

Background

In its March 2023 meeting, the IFRS IC discussed a submission about how an entity accounts for homes and loans to buy homes provided to its employees. Two fact patterns have been submitted: employee home ownership plans and employee home loans. The IFRS IC concluded such fact patterns may not be widespread and the amount involved may not be material. Therefore, the IFRS IC did not recommend adding this matter to the standard-setting work plan and instead to publish an agenda decision. Seven comment letters were received and most of the respondents agreed with the IFRS IC's conclusion.

Staff analysis

Five respondents agreed with the IFRS IC's conclusion not to add a standard-project to the work plan but one respondent suggested that guidance would be helpful because such home and home loans to employees could have significant financial implications for both the entity and its employees. In addition, the two respondents who did not agree with the conclusion suggested agenda decision provide guidance to clarify how an entity accounts for the arrangements described.

The staff continued to consider that matters do not meet the 'widespread and material' criterion set out in paragraph 5.16(a) of the *Due Process Handbook*. In addition, it is not the IFRS IC's role to provide explanatory materials when the matter does not meet the criterion, which was the precedent set in the agenda decision *Non-Refundable Value added Tax on Lease Payments* published in October 2021.

The tentative agenda decision summarised the submission's alternative views on the accounting for Fact Pattern 2, employee home loans. One respondent commented that presenting two views without explanatory material might imply that both views are acceptable and suggested the IFRS IC clarify whether the first view is acceptable. However, the IFRS IC did not perform technical analysis on the matter, and as such a clarification would amount to explanatory material. Accordingly, the IFRS IC should not clarify this and instead should remove both views from the agenda decision.

Staff recommendation

The staff recommended finalising the agenda decision with changes to the tentative agenda decision as suggested above.

IFRS IC discussion

All IFRS IC members who commented on the agenda decision agreed with the conclusion. One IFRS IC member agreed that adding explanatory material may carry the risk that an entity applies the accounting treatment in this over-simplified fact pattern to more complicated scenarios in real life. Moreover, some IFRS IC members expressed concerns that the matter is described as "not material" in the discussion and the conclusion of the agenda decision. Given this matter has a material effect in at least one jurisdiction (evidenced by the comment letters), they suggested to delete those words to avoid confusion. They considered that the words "not widespread" are sufficient and precise enough because these are the exact words in the Due Process Handbook which result in no further analysis to this matter. The IFRS IC agreed with this and only the term "not widespread" is retained.

IFRS IC decision

The IFRS IC, by a unanimous vote, decided to finalise the agenda decision with some edits suggested during the meeting.

IFRS 9 *Financial Instruments*— Guarantee over a Derivative Contract (Agenda Paper 5)

Background

In its March 2023 meeting, the IFRS IC discussed 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 the derivative contract. The IFRS IC concluded that the matter is not widespread and the effect is not material. Therefore, the IFRS IC decided not to add a standard-setting project to the work plan. Six comment letters were received, and all respondents agreed with the IFRS IC's decision.

Staff analysis

All respondents agreed with the IFRS IC's decision not to add a standard-setting project onto its work plan for the reasons set out in the tentative agenda decision, i.e. the matter described in the request is not widespread, and that when the matter does arise, the amounts involved are not material.

Staff recommendation

The staff recommended finalising the agenda decision.

IFRS IC discussion

Two IFRS IC members pointed out that "not material" also appears in the conclusion of this agenda decision and wondered whether it should be deleted like in the previous agenda decision. The staff responded that there is evidence from the information request that this matter is not material and suggested to retain these words.

IFRS IC decision

The IFRS IC, by a unanimous vote, decided to finalise the agenda decision.

Administrative matters

IFRIC Update June 2023 (Agenda Paper 1)

This paper was not discussed.

Work in progress (Agenda Paper 6)

There was no new matter that has not yet been presented to the IFRS IC.