HM Treasury

Financial Reporting Advisory Board Paper

IFRS Interpretations Committee meetings – update

Issue:	A summary of the IFRS Interpretations Committee meetings from June-November, noting any particular relevance to the public sector.
Impact on guidance:	Potential adaptation or interpretation in the FReM dependent on outcomes of any Standard Setting adjustments.
IAS/IFRS adaptation?	No adaptations or interpretations proposed but further agenda decisions will be considered as needed.
Impact on WGA?	None.
IPSAS compliant?	This would depend on whether IPSASB make adjustments for any new IFRS amendments and interpretations.
Interpretation for the public-sector context?	No adaptations or interpretations proposed.
Impact on budgetary regime and Estimates?	None.
Alignment with National Accounts	No impact on the National Accounts.
Recommendation:	For the Board to note, HM Treasury proposes to make no adaptations or interpretations in relation to any outcome from the IFRS IC meetings summarised below.
Timing:	Ongoing

DETAIL

Introduction

1. This paper provides the Board with a summary of announcements from the IFRS Interpretations Committee between June 2021 and November 2021. The paper is provided for the Board's information and presented by meeting date in chronological order. The paper covers the main agenda decisions of the Interpretations Committee and tentative agenda decisions but does not represent an exhaustive commentary on all agenda items. Relevance to the public sector and any impacts on the FReM have been considered and noted.
2. There were four agenda decisions published since the last update and set out below:
   - 2.1 Agenda decision - Costs Necessary to Sell Inventories (IAS 2 Inventories) – June 2021
   - 2.2 Agenda decision - Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 Events after the Reporting Period) – June 2021

2.3 Agenda decision - Non-refundable Value Added Tax on Lease Payments (IFRS 16 Leases) – September 2021

2.4 Agenda decision - Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 Financial Instruments: Presentation) – September 2021

IFRS Interpretation Committee Update 8-9 June 2021

3. Committee's tentative agenda decisions which will return to the Committee for further discussion at a later point:

3.1 TLTRO III Transactions (IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance)
Consideration following a request about how to account for the third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank (ECB). The request asked:

- Whether the TLTRO III tranches represent loans with a below-market interest rate
- if the bank applies IAS 20 to account for the benefit of the below-market interest rate
- how the bank calculates the applicable effective interest rate
- whether the bank applies paragraph B5.4.6 of IFRS 9 to account for changes in estimated cash flows
- how the bank accounts for changes in cash flows related to the prior period.

The Committee concluded that if the bank determines that the TLTRO III tranches contain a government grant in the scope of IAS 20, the requirements in IAS 20 provide an adequate basis for an entity to determine how to account for that government grant. Therefore, the Committee decided not to add a standard-setting project to the work plan.
No action for the public sector proposed at this time.

3.2 Economic Benefits from use of a Windfarm (IFRS 16 Leases)
Consideration following a request about whether, applying paragraph B9(a) of IFRS 16, an electricity retailer (customer) has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator (supplier). The Committee concluded that, in the fact pattern described in the request, the customer does not have the right to obtain substantially all the economic benefits from use of the windfarm. Consequently, the contract does not contain a lease. Therefore, the Committee decided not to add a standard-setting project to the work plan.
No action for the public sector proposed at this time.

Agenda decision for Board consideration:

3.3 Costs Necessary to Sell Inventories (IAS 2 Inventories)
The Committee considered feedback on the tentative agenda decision published in the February 2021 IFRIC *Update* about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. The Committee concluded that:

- When determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business
- the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether the estimated costs necessary to make the sale are limited to incremental costs when determining the net realisable value of inventories.

Therefore, the Committee decided not to add a standard-setting project to the work plan.
No action for the public sector proposed at this time

3.4 Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 Events after the Reporting Period)
The Committee considered feedback on the tentative agenda decision published in the February 2021 IFRIC *Update* about the accounting applied by an entity that is no longer a going concern. The Committee had received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 *Presentation of Financial Statements*).
The Committee:
- concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.
- observed no diversity in the application of IFRS Standards with respect to Question II. Therefore, the Committee has not obtained evidence that the matter has widespread effect.

Therefore, the Committee decided not to add a standard-setting project to the work plan.
No action for the public sector proposed at this time.

IFRS Interpretation Committee Update 14-15 September 2021

4. Committees' tentative agenda decisions which will return to the Committee for further discussion at a later point:

4.1 Demand Deposits with Restrictions on Use (IAS 7 Statement of Cash Flows)
The Committee received a request about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. The committee concluded that:
- Restrictions on use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7.
- in the fact pattern described in the request, the entity presents the demand deposit as cash and cash equivalents in its statement of financial position.
- the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether to include demand deposits subject to contractual restrictions on use agreed with a third party as a component of cash and cash equivalents in its statements of cash flows and financial position.

Therefore, the Committee decided not to add a standard-setting project to the work plan.
No action for the public sector proposed at this time.

4.2 Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)
The Committee received a request about the recognition of cash received via an electronic transfer system as settlement for a financial asset. The request asked whether the entity may derecognise the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date). The committee 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.

- 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.

Therefore, the Committee decided not to add a standard-setting project to the work plan.

No action for the public sector proposed at this time.

Agenda decisions for Board consideration (at the October 21 meeting):

4.3 Non-refundable Value Added Tax on Lease Payments (IFRS 16 Leases)

The Committee considered feedback on the tentative agenda decision published in the March 2021 IFRIC *Update* about how a lessee accounts for any non-refundable value added tax (VAT) charged on lease payments.

The Committee reached its conclusions on that agenda decision and the IASB considered it at its October 2021 meeting. It agreed that it had not received evidence that the matter had a widespread effect, and has, or is expected to have, a material effect on those affected. Consequently, the Committee decided not to add a standard-setting project to the work plan.

No further action for the public sector at this time. The existing reference to non-refundable VAT on lease payments in the IFRS 16 Application Guidance needs no further update.

4.4 Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 Financial Instruments: Presentation)

The Committee considered feedback on the tentative agenda decision published in the March 2021 IFRIC *Update* about the application of IAS 32 in relation to the reclassification of warrants. The Committee observed that IAS 32 contains no general requirements for reclassifying financial liabilities and equity instruments after initial recognition when the instrument's contractual terms are unchanged.

The Committee reached its conclusions on that agenda decision that the matter described in the request is, in isolation, too narrow for the Board or the Committee to address in a cost-effective manner. The IASB considered this agenda decision at its October 2021 meeting and agreed to consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee decided not to add a standard-setting project to the work plan.

No further action for the public sector at this time.