



Financial Reporting Advisory Board Paper

IFRS Interpretations Committee meetings – update

Issue:	A summary of the IFRS Interpretations Committee meetings 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 2022 and November 2022. 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. Relevance to the public sector and any impacts on the FReM have been considered and noted.
2. There were seven agenda decisions published since the last update and set out below:
 - 2.1 Agenda decision - Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments) - June 2022
 - 2.2 Agenda decision - Negative Low Emission Vehicle Credits (IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - June 2022

- 2.3 Agenda decision - Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 Financial Instruments: Presentation) - June 2022
- 2.4 Agenda decision - Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 Insurance Contracts) - June 2022
- 2.5 Agenda decision - Multi-currency Groups of Insurance Contracts (IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates) - September 2022
- 2.6 Agenda decision - Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition - September 2022
- 2.7 Agenda decision - Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases) - September 2022

IFRS Interpretation Committee Update 14-15 June

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

- 3.1 **Multi-currency Groups of Insurance Contracts (IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates) - [SEE APPENDIX 1 FOR THE FULL TEXT](#)**

Consideration following a request about how to account for insurance contracts that generate cash flows in more than one currency. The request asked whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts. The Committee observed that, in measuring a multi-currency group of insurance contracts, an entity:

- a) applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.
- b) applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—at the closing rate (or rates).
- c) develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated.

The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. 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:

- 3.2 **Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)**

The Committee considered feedback on the tentative agenda decision published in the September 2021 IFRIC Update about the recognition of cash received via an

electronic transfer system as settlement for a financial asset. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's Due Process Handbook, the IASB will consider this agenda decision at a future meeting. If the IASB does not object to the agenda decision, it will be published in an addendum to this IFRIC Update.

No action for the public sector proposed at this time

3.3 Negative Low Emission Vehicle Credits (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

The Committee considered feedback on the tentative agenda decision published in the February 2022 IFRIC *Update* about whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's Due Process Handbook, the IASB considered this agenda decision at its July 2022 meeting.

July 2022: The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether, in the fact pattern described in the request, it has an obligation that meets the definition of a liability in IAS 37. Consequently, the Committee decided not to add a standard-setting project to the work plan.

No action for the public sector proposed at this time

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

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about whether a special purpose acquisition company that applies IAS 32 classifies public shares it issues as financial liabilities or equity instruments. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's Due Process Handbook, the IASB considered this agenda decision at its July 2022 meeting.

July 2022: The Committee concluded that the matter described in the request is, in isolation, too narrow for the IASB or the Committee to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee decided not to add a standard-setting project to the work plan. The Committee nonetheless noted the importance of the SPAC disclosing information in the notes to its financial statements about the classification of its public shares.

No action for the public sector proposed at this time

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

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about a group of annuity contracts—specifically, how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's Due Process Handbook, the IASB considered this agenda decision at its July 2022 meeting.

July 2022: The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. Consequently, the Committee decided not to add a standard-setting project to the work plan.

No action for the public sector proposed at this time

IFRS Interpretation Committee Update 13 September

4. Agenda decision for Board consideration:

4.1 Multi-currency Groups of Insurance Contracts (IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates)

The Committee considered feedback on the tentative agenda decision published in the June 2022 IFRIC *Update* about how an entity accounts for insurance contracts that generate cash flows in more than one currency. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB considered this agenda decision at its October 2022 meeting.

October 2022: The Committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee could address it in an efficient manner. Consequently, the Committee decided not to add a standard-setting project to the work plan.

No action for the public sector proposed at this time

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

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about an entity's acquisition of a special purpose acquisition company (SPAC)—specifically, how the entity accounts for warrants on acquiring the SPAC. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB considered this agenda decision at its October 2022 meeting.

October 2022: The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern the Committee discussed. Consequently, the Committee decided not to add a standard-setting project to the work plan.

No action for the public sector proposed at this time

4.3 Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)

The Committee considered feedback on the tentative agenda decision published in the March 2022 IFRIC *Update* about a lessor's application of IFRS 9 and IFRS 16 in accounting for a particular rent concession. The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS

Foundation's *Due Process Handbook*, the IASB considered this agenda decision at its October 2022 meeting.

October 2022: The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for a lessor to determine how to apply the expected credit loss model in IFRS 9 to an operating lease receivable and account for the rent concession described in the request. Consequently, the Committee decided not to add a standard-setting project to the work plan.
No action for the public sector proposed at this time

Appendix 1

Multi-currency Groups of Insurance Contracts (IFRS 17 Insurance Contracts and IAS 21 The Effects of Changes in Foreign Exchange Rates)

The Committee received a request about how to account for insurance contracts that generate cash flows in more than one currency.

The request asked:

- a. whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and
- b. how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

Identifying portfolios of insurance contracts

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

IFRS 17 defines financial risk and insurance risk (a non-financial risk). Financial risk is defined to include 'the risk of a possible future change in ... [a] currency exchange rate'. When IFRS 17 requires an entity to consider or reflect only particular risks (for example, only non-financial risk), it explicitly refers to the risks to be considered or reflected. Consequently, the Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' do not mean 'identical risks'. An entity could therefore identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The Committee observed that what an entity considers to be 'similar risks' will depend on the nature and extent of the risks in the entity's insurance contracts.

Measuring a multi-currency group of insurance contracts

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

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

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

- b. to determine the carrying amount of a monetary item in conjunction with other relevant Accounting Standards; and
- c. to translate at the end of the reporting period foreign currency monetary items into the functional currency using the closing rate.

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

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

- a. applies all the measurement requirements in IFRS 17 to the group of insurance contracts, including the requirement in paragraph 30 to treat the group—including the contractual service margin—as a monetary item.
- b. applies IAS 21 to translate at the end of the reporting period the carrying amount of the group—including the contractual service margin—at the closing rate (or rates).
- c. develops an accounting policy to determine on initial recognition the currency or currencies in which the group—including the contractual service margin—is denominated. The entity uses its judgement in developing and applying an accounting policy based on its specific circumstances and the terms of the contracts in the group. The accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) and be applied consistently for similar transactions, other events and conditions (paragraph 13 of IAS 8). The entity could determine that the group—including the contractual service margin—is denominated in a single currency or in the multiple currencies of the cash flows in the group. The entity cannot simply deem the contractual service margin for the group to be denominated in the functional currency because simply deeming such a denomination would, in effect, fail to treat the contractual service margin as a monetary item as required by paragraph 30 of IFRS 17.

In applying IFRS 17, there is a single contractual service margin for the group of insurance contracts. Accordingly, if an entity were to determine that for the purpose of applying IAS 21 the contractual service margin is denominated in the multiple currencies of the cash flows in the group, the entity would:

- a. assess whether the group of contracts is onerous considering the contractual service margin as a single amount, after translation into the functional currency; and
- b. determine the amount of the contractual service margin to recognise in profit or loss by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future.

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