IFRIC *Update* September 2024

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings. Past *Updates* can be found in the IFRIC *Update* archive.

The Committee met on 10 September 2024 and discussed:

Contents

Related information

The work plan

Supporting consistent application

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add standard-setting projects to the work plan. The Committee will reconsider these tentative decisions, including the reasons for not adding standard-setting projects, at a future meeting. The Committee invites comments on the tentative agenda decisions. Interested parties may submit comments on the open for comment page. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing up to and including the closing date; comments received after that date will not be analysed in agenda papers considered by the Committee.

Guarantees Issued on Obligations of Other Entities—Agenda Paper 2

Open for comment until 18 November 2024

The Committee received a request about how an entity accounts for guarantees that it issues.

The request described three fact patterns in the context of an entity's separate financial statements. In the fact patterns, an entity issues several types of contractual guarantees on obligations of a joint venture. These fact patterns include situations in which the entity guarantees to make payments to a bank, a customer, or another third party in the event the joint venture fails to meet its contractual obligations under its service contracts or partnership agreements and fails to make payments when due.

The request asks whether the guarantees issued are financial guarantee contracts to be accounted for in accordance with IFRS 9 *Financial Instruments* and, if not, which other IFRS Accounting Standards apply to these guarantees.

Evidence gathered by the Committee [to date] indicated that, in practice, entities issue guarantees on obligations of their joint ventures and other entities (such as associates, subsidiaries or third parties), and those guarantees have a variety of terms and conditions. The Committee observed that questions relating to the accounting for issued guarantees arise both in the context of an entity's separate financial statements and consolidated financial statements.

Which IFRS Accounting Standards apply to issued guarantees?

Analysing the terms and conditions of the guarantee

Guarantees can arise or be issued in many ways and convey various rights and obligations to the affected parties. IFRS Accounting Standards do not define 'guarantees', and there is no single Accounting Standard that applies to all guarantees.

An entity accounts for a guarantee that it issues based on the requirements, including the scoping requirements, in IFRS Accounting Standards and not based on the nature of the entity's business activities. An entity applies judgement in determining which IFRS Accounting Standard applies to a guarantee that it issues. In making that judgement, an entity is required to analyse all terms and conditions—whether explicit or implicit—of the guarantee unless those terms and conditions have no substance.

Is the guarantee a financial guarantee contract?

Based on the scoping requirements in IFRS 9, IFRS 17 *Insurance Contracts*, IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity first considers whether a guarantee that it issues is a 'financial guarantee contract'. A 'financial guarantee contract' is defined in IFRS 9 as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument'. The term 'debt instrument' in the definition of a financial guarantee contract is not defined in IFRS Accounting Standards. The Committee was informed that there is diversity in practice in the interpretation of the meaning of the term 'debt instrument'.

Paragraph 2.1(e)(iii) of IFRS 9 and paragraph 7(e) of IFRS 17 state that financial guarantee contracts are within the scope of IFRS 9 (and IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*)—with one exception. If the issuer has previously asserted explicitly that it regards such financial guarantee contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either IFRS 9 (and IAS 32 and IFRS 7) or IFRS 17. Paragraph 2.1(e)(iii) of IFRS 9 states that 'the issuer may make that election contract by contract, but the election for each contract is irrevocable'.

Is the guarantee an insurance contract?

If an entity concludes that the guarantee it issues is not a financial guarantee contract, the entity considers whether the guarantee is an insurance contract. IFRS 17 applies to all insurance contracts, regardless of the type of entity issuing them.

An entity considers the scoping requirements in paragraphs 3–13 of IFRS 17 and the definition of an 'insurance contract'. IFRS 17 defines an 'insurance contract' as 'a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'. IFRS 17 defines 'insurance risk' as 'risk, other than financial risk, transferred from the holder of a contract to the issuer'. Further application guidance on the definition of an 'insurance contract' and 'significant insurance risk' is provided in paragraphs B2–B30 of the Standard.

Although some contracts meet the definition of an insurance contract, an entity is permitted to choose whether to apply IFRS 17 to those contracts. Paragraphs 8–8A of IFRS 17 set out that:

a. *if a contract's primary purpose is the provision of services for a fixed fee* (and all the conditions set out in paragraph 8 of IFRS 17 are met), an entity may choose to apply either IFRS 15 or IFRS 17 to that contract. The entity may make that choice contract by contract, but the choice for each contract is irrevocable.
b. *if a contract limits the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract,* an entity shall choose to apply either IFRS 9 or IFRS 17 to that contract. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

Other requirements in IFRS Accounting Standards that might apply

If an entity concludes that a guarantee it issues is neither a financial guarantee contract nor an insurance contract, the entity considers other requirements in IFRS Accounting Standards to determine how to account for the guarantee. These requirements include:

a. IFRS 9—the guarantee might be within the scope of IFRS 9 because it is a loan commitment (paragraph 2.3 of IFRS 9), a derivative (as defined in Appendix A to IFRS 9), or otherwise meets the definition of a financial liability as defined in IAS 32.
b. IFRS 15—if the counterparty to the guarantee is a customer, and the guarantee is not within the scope of other IFRS Accounting Standards, IFRS 15 might apply (paragraphs 5–8 of IFRS 15).
c. IAS 37—this Standard is applicable only if the guarantee gives rise to a provision, contingent liability or contingent asset that is not within the scope of other IFRS Accounting Standards (paragraph 5 of IAS 37).

Conclusion

The Committee observed that an entity accounts for a guarantee that it issues based on the requirements, including the scoping requirements, in IFRS Accounting Standards and not based on the nature of the entity's business activities. An entity applies judgement in determining which IFRS Accounting Standard applies to a guarantee that it issues and in considering the specific facts and circumstances and the terms and conditions of the guarantee contract.

The Committee noted that the International Accounting Standards Board (IASB), at its April 2024 meeting, discussed diversity in practice in the interpretation of the term 'debt instrument' in the definition of a financial guarantee contract. The IASB decided to consider during its next agenda consultation the broader application questions related to financial guarantee contracts, including about the meaning of the term 'debt instrument' in the definition of a financial guarantee contract. The Committee therefore concluded that an entity applies judgement in interpreting the meaning of the term 'debt instrument' when determining whether a guarantee is accounted for a financial guarantee contract.

With regard to the scoping requirements in the IFRS Accounting Standards, 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 a guarantee that it issues.

Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Recognition of Revenue from Tuition Fees (IFRS 15 *Revenue from Contracts with Customers*)—Agenda Paper 3

Open for comment until 18 November 2024

The Committee received a request about the period over which an educational institution recognises revenue from tuition fees.

Fact pattern

In the fact pattern described in the submission:

a. students attend the educational institution for approximately 10 months of the year (academic year) and have a summer break of approximately two months;
b. during the summer break the educational institution's academic staff takes a four-week holiday and uses the rest of the time:
    i. to wrap up the previous academic year (for example, by marking tests and issuing certificates); and
    ii. to prepare for the next academic year (for example, administering re-sit exams for students who failed in the previous academic year and developing schedules and teaching materials); and
c. during the four-week period in which the academic staff is on holiday:
    i. the academic staff continues to be employed by, and receive salary from, the educational institution but provides no teaching services and does not carry out other activities related to providing educational services;
    ii. non-academic staff of the educational institution provides some administrative support (for example, responding to email enquiries and requests for past records); and
    iii. the educational institution continues to receive and pay for services such as IT services and cleaning.

Applying IFRS 15, the educational institution recognises revenue from tuition fees over time. The request asks whether the educational institution is required to recognise that revenue evenly over the academic year (10 months), evenly over the calendar year (12 months) or over a different period.

Findings and conclusion

Evidence gathered by the Committee [to date] indicates no diversity in accounting for revenue from tuition fees. Feedback suggests any differences in the period over which these educational institutions recognise revenue from tuition fees result from differing facts and circumstances and do not reflect diversity in accounting for revenue from tuition fees.

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Other matters

Pollutant Pricing Mechanisms—Agenda Paper 4

Committee members discussed a reserve list project of the International Accounting Standards Board (IASB) on Pollutant Pricing Mechanisms. Committee members provided input on:

a. how prevalent pollutant pricing mechanisms are;
b. how significant the financial effects of these mechanisms are to the financial statements; and
c. whether Committee members have observed diversity in practice or other deficiencies in the accounting for these mechanisms.

The IASB will consider input from Committee members and its other horizon-scanning activities, before it decides whether to prioritise a project on pollutant pricing mechanisms.

Post-implementation Review of IFRS 16 *Leases*—Agenda Paper 5

Committee members discussed the implementation and application of IFRS 16 *Leases* to help the IASB identify matters to include in a request for information for public consultation in the first phase of the post-implementation review of the Standard.

Committee members provided information on:

a. their overall assessment of IFRS 16;
b. the costs and benefits of applying IFRS 16; and
c. application questions for the IASB or the Committee to consider.

The IASB will consider the views of Committee members and other stakeholders in deciding on the scope of the request for information.

Changes to Agenda Decisions due to IFRS 18—Agenda Paper 6

The Committee received an update on planned annotations to agenda decisions due to the issuance of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Matters Reported to the IASB—Agenda Paper 7

The Committee received an update on matters previously reported to the IASB.

Work in Progress—Agenda Paper 8

The Committee received an update on the status of open matters not discussed at its September 2024 meeting.