IFRIC *Update* June 2024

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

The Committee met on 11 June 2024 and discussed:

Committee's tentative agenda decisions

- Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts (IAS 7 *Statement of Cash Flows*)—Agenda Paper 3

Agenda decisions for the IASB's consideration

- Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 *Operating Segments*)—Agenda Paper 2

Other matters

- Intangible Assets—Agenda Paper 4
- Business Combinations—Disclosures, Goodwill and Impairment—Agenda Paper 5
- Work in Progress—Agenda Paper 6

Addendum to IFRIC *Update*—Committee's agenda decisions

- Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 *Operating Segments*)—Agenda Paper 2

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.

Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts (IAS 7 *Statement of Cash Flows*)—Agenda Paper 3

[*Open for comment until 19 August 2024*]

The Committee received a request about how an entity presents, in its statement of cash flows, the cash flows related to variation margin call payments made on contracts to purchase or sell commodities at a predetermined price and at a specified time in the future.

Fact pattern

The request describes a contract to purchase or sell commodities at a predetermined price and at a specified time in the future. An entity may enter into such a contract for different purposes and applies the relevant requirements in IFRS Accounting Standards accordingly. For example, the entity may use such a contract:

a. to receive commodities in accordance with its expected usage requirements.
b. to hedge against fluctuations in the prices of commodities.
c. for trading purposes.

Such a contract typically has a maturity of up to three years, can be settled physically or net in cash and is both:

a. *centrally cleared*—after a new contract is entered into, for the purpose of settlement via a central counterparty, the contract is novated by each counterparty to the central counterparty.
b. *'collateralised to market'*—during the life of the contract, the counterparties make or receive daily payments based on the fluctuations of the fair value of the contract (variation margin call payments). These variation margin call payments represent a transfer of cash collateral (hence the contract is 'collateralised to market'), rather than a partial settlement of the contract (as in 'settled-to-market' contracts).

The request asked how an entity presents, in its statement of cash flows, the cash flows related to variation margin call payments made on such a contract.

Conclusion

Evidence gathered by the Committee [to date] did not indicate that the matter described in the request is widespread. On the basis of that evidence, 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.

Agenda decisions for the IASB's consideration

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 *Operating Segments*)—Agenda Paper 2

The Committee considered feedback on the tentative agenda decision published in the November 2023 IFRIC *Update* about how an entity applies the requirements in paragraph 23 of IFRS 8 to disclose for each reportable segment specified amounts related to segment profit or loss.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the International Accounting Standards Board (IASB) will consider this agenda decision at its July 2024 meeting. If the IASB does not object to the agenda decision, it will be published in July 2024 in an addendum to this IFRIC *Update*.

Other matters

Intangible Assets—Agenda Paper 4

Committee members discussed the IASB's research project on Intangible Assets. In particular, Committee members provided input on:

a. the problem that the IASB needs to solve;
b. the scope of the project; and
c. the IASB's approach to staging the work.

The IASB will consider input from Committee members and other stakeholders on these matters.

Business Combinations—Disclosures, Goodwill and Impairment—Agenda Paper 5

Committee members provided input on the IASB's Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*.

The IASB will consider input from Committee members and other stakeholders on the Exposure Draft.

Work in Progress—Agenda Paper 6

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

Addendum to IFRIC *Update*—Committee's agenda decisions

Agenda decisions, in many cases, include explanatory material. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Accounting Standards.

The Committee discussed the following matters and decided not to add standard-setting projects to the work plan.

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 *Operating Segments*)—Agenda Paper 2

Published in July 2024[1]

The Committee received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 to disclose for each reportable segment specified amounts related to segment profit or loss.

The request asked:

a. whether an entity is required to disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment if those amounts are not reviewed separately by the chief operating decision maker (CODM);
b. whether an entity is required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 *Presentation of Financial Statements*; and
c. how an entity determines 'material items' in paragraph 23(f) of IFRS 8. In particular:
    i. whether 'material items' are only those items that are material on a qualitative basis;
    ii. whether 'material items' include amounts that are an aggregation of individual items that are quantitatively immaterial; and
    iii. whether the materiality assessment is performed at an income statement level (from an overall reporting entity perspective) or at a segment level.

The Committee observed that there are two main aspects to the questions:

a. the requirements of paragraph 23 of IFRS 8 to disclose, for each reportable segment, specified amounts included in segment profit or loss reviewed by the CODM; and

[1] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its July 2024 meeting, the IASB discussed, and did not object to, this agenda decision.

b. the meaning of 'material items of income and expense' in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8.

Disclosure of specified amounts

Paragraph 23 of IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment and to disclose specified amounts for each reportable segment. Paragraph 23 sets out specified amounts that an entity is required to disclose for each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM, or are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

The Committee observed that paragraph 23 of IFRS 8 requires an entity to disclose the specified amounts for each reportable segment when those amounts are:

- included in the measure of segment profit or loss reviewed by the CODM, even if they are not separately provided to or reviewed by the CODM, or
- regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.

Material items of income and expense

Paragraph 23(f) of IFRS 8 sets out one of the required 'specified amounts', namely, 'material items of income and expense disclosed in accordance with paragraph 97 of IAS 1'. Paragraph 97 of IAS 1 states that 'when items of income or expense are material, an entity shall disclose their nature and amount separately'.

Definition of 'material'

Paragraph 7 of IAS 1 defines 'material' and states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

Paragraph 7 of IAS 1 also states that 'materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole'.

Aggregation of information

Paragraphs 30–31 of IAS 1 provide requirements about how an entity aggregates information in the financial statements, which include the notes. Paragraph 30A of IAS 1 states that 'an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'.

Applying paragraph 23(f) of IFRS 8—material items of income and expense

The Committee observed that when IAS 1 refers to materiality, it is in the context of 'information' being material. An entity applies judgement in considering whether disclosing, or not disclosing, information in the financial statements could reasonably be expected to influence decisions users of financial statements make on the basis of those financial statements.

The Committee observed that, in applying paragraph 23(f) of IFRS 8 by disclosing, for each reportable segment, material items of income and expense disclosed in accordance with paragraph 97 of IAS 1, an entity:

a. applies paragraph 7 of IAS 1 and assesses whether information about an item of income and expense is material in the context of its financial statements taken as a whole;
b. applies the requirements in paragraphs 30–31 of IAS 1 in considering how to aggregate information in its financial statements;
c. considers the nature or magnitude of information—in other words, qualitative or quantitative factors—or both, in assessing whether information about an item of income and expense is material; and
d. considers circumstances including, but not limited to, those in paragraph 98 of IAS 1.

The Committee further observed that paragraph 23(f) of IFRS 8 does not require an entity to disclose by reportable segment each item of income and expense presented in its statement of profit or loss or disclosed in the notes. In determining information to disclose for each reportable segment, an entity applies judgement and considers the core principle of IFRS 8—which requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8.

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