IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Guarantees Issued on Obligations of Other Entities**
Topic	**Finalisation of agenda decision**
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Introduction

1. At its March 2025 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about how an entity accounts for guarantees that it issues. The Committee instead decided to finalise an agenda decision.

2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

3. In September 2024, the Committee discussed a submission which 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. The submission asked 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.[1]

4. Evidence gathered by the Committee 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.[2] 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.

5. In considering which IFRS Accounting Standards apply to issued guarantees, the Committee observed:

    (a) 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.

    (b) the nature of the relationship between the entity issuing the guarantee and the other entity (or entities) whose obligations are subject to the guarantee does not affect the required accounting for the guarantee issued.

    (c) 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.

[1] Appendix B to Agenda Paper 2 for the Committee's September 2024 meeting reproduces the submission.

[2] Upon receiving the submission, we sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. Their responses are summarised in paragraphs 12–20 of Agenda Paper 2 for the Committee's September 2024 meeting.

6. The Committee further observed that:

   (a) 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'.

   (b) 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.

   (c) 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 IFRS 9, IFRS 15 and IAS 37. IAS 37 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.

7. Based on its analysis, the Committee concluded, with regard to the scoping requirements in IFRS Accounting Standards, 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. Therefore, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published a tentative agenda decision.

8. The Committee noted in the tentative agenda decision that the IASB has previously discussed diversity in practice in the interpretation of the term 'debt instrument' in the definition of a financial guarantee contract in IFRS 9. The Committee also noted that 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'. Therefore, the Committee concluded that an entity applies judgement in interpreting the meaning of the term 'debt instrument'

when determining whether a guarantee is accounted for as a financial guarantee contract.

Feedback on the tentative agenda decision

9. The Committee received 10 comment letters on its tentative agenda decision by the comment letter deadline.[3] The letters were from three accounting firms, four national accounting standard-setters, one regional group representing national accounting standard-setters and two individuals. Agenda Paper 2 for the Committee's March 2025 meeting summarised respondents' comments and set out our analysis of those comments.

10. Regarding the Committee's conclusion and tentative decision not to add a standard-setting project to the work plan:

    (a) six respondents agreed;

    (b) two respondents disagreed (see paragraph 11 of this paper); and

    (c) two respondents did not express agreement or disagreement and, instead, provided observations about the accounting for guarantees based on their experience.

11. The two respondents who disagreed with the Committee's conclusion and tentative decision said IFRS Accounting Standards do not provide an adequate basis for an entity to account for guarantees that it issues because of a lack of clarity in:

    (a) the scoping requirements in IFRS Accounting Standards and the applicability of IAS 37 to issued guarantees;

    (b) the meaning of the term 'debt instrument' in the definition of a financial guarantee contract in IFRS 9; and

    (c) the debit-side accounting for issued guarantees.

[3] At the date of posting this agenda paper, there was one late comment letter.

12. In the staff's view, as set out in paragraphs 21–24, 27–28 and 31–33 of Agenda Paper 2 for the Committee's March 2025 meeting:

    (a) the agenda decision clearly sets out a sequence in which an entity assesses the scoping requirements in IFRS Accounting Standards and, if finalised, would help remove misconceptions in practice about the scoping requirements;

    (b) the Committee and the IASB have acknowledged a lack of clarity about the term 'debt instrument' in the definition of a financial guarantee contract (see paragraphs 8 and 15 of this paper); and

    (c) some respondents' questions, including about the debit-side accounting for issued guarantees, were not the focus of the submission and would depend on the facts and circumstances and the terms and conditions of the guarantees.

The Committee's discussion and feedback

13. The Committee considered the feedback at its March 2025 meeting. All Committee members agreed with the staff's analysis in response to the comments on the tentative agenda decision. Some Committee members said the agenda decision would provide a useful framework for entities to determine which IFRS Accounting Standard applies to guarantees they issue, thereby potentially reducing diversity in practice.

14. All 14 Committee members voted to finalise the agenda decision. In addition to making some minor changes to the wording of the tentative agenda decision, the Committee decided to streamline the references to the scoping requirements in paragraphs 7–8A of IFRS 17. The appendix to this paper includes the wording of the agenda decision approved by the Committee.

15. Some Committee members requested to report to the IASB:

    (a) respondents' comments that the term 'debt instrument' in the definition of a financial guarantee contract is not defined in IFRS Accounting Standards, and the Committee's findings that there is diversity in interpreting the term; and

(b) their support for the IASB's decision 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'.

Questions for the IASB
Do you object to the Committee's a. decision not to add a standard-setting project to the work plan? b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—the agenda decision

A1. The agenda decision below was approved by the Committee at its March 2025 meeting.

Guarantees Issued on Obligations of Other Entities

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 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 a 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 no single Accounting Standard 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 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 of 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' as defined in IFRS 17. IFRS 17 applies to all insurance contracts, regardless of the type of entity issuing them.

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.

An entity also considers the scoping requirements in paragraphs 3–13 of IFRS 17, including:

a. paragraph 7 of IFRS 17—which excludes from the scope of the Standard various items that might meet the definition of an insurance contract; and

b. paragraphs 8–8A of IFRS 17—which permit an entity to choose to apply IFRS 17 to contracts that meet the definition of an insurance contract if the conditions set out in those paragraphs are met.

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—this Standard might be applicable if the guarantee is a loan commitment (see paragraph 2.3 of IFRS 9) or 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—this Standard might be applicable if the counterparty to the guarantee is a customer, and the guarantee is not within the scope of other IFRS Accounting Standards (see 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 (see paragraph 5 of IAS 37).

Conclusion

The Committee observed that an entity accounts for a guarantee 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 it issues and in considering the specific facts and circumstances and the terms and conditions of the guarantee contract.

The Committee noted that the 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 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 as a financial guarantee contract.

With regard to the scoping requirements in 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.