IFRS Accounting

Staff paper

Agenda reference: 2

IFRS® Interpretations Committee meeting

Date	**March 2025**
Project	**Guarantees Issued on Obligations of Other Entities**
Topic	**Comment letters on tentative agenda decision**
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Introduction

1. At its September 2024 meeting, the IFRS Interpretations Committee (Committee) published a tentative agenda decision about how an entity accounts for guarantees that it issues.

2. The tentative agenda decision was published in response to a request that 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.[1] The request 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.

3. This paper:

   (a) provides a summary of the tentative agenda decision;

   (b) provides staff analysis of the comments on the tentative agenda decision; and

[1] The fact patterns are set out in Appendix B to Agenda Paper 2 for the September 2024 Committee meeting and summarised in paragraphs 5–8 of that paper.

(c) asks the Committee whether it agrees with our staff recommendation to finalise the agenda decision.

4. The appendix to this paper sets out suggested wording for the agenda decision.

Summary of the tentative agenda decision

5. Evidence gathered by the Committee until the publication date of the tentative agenda decision 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.

6. 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.

7. 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.

8. 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.

9. 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.

Summary of the comment letters

10. The Committee received 10 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our website.[2] This agenda paper includes analysis of only the comment letters received by the comment letter deadline.

11. By the comment letter deadline, we received responses from:

(a) three accounting firms—Deloitte Touche Tohmatsu Limited (Deloitte), Forvis Mazars and GAAP Advisors;

(b) four national accounting standard-setters—the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI), the Financial Accounting Standards Board of the Institute of Indonesia Chartered Accountants (DSAK IAI), the Malaysian Accounting Standards Board (MASB) and the Saudi Organization for Chartered and Professional Accountants (SOCPA);

(c) one regional group representing national accounting standard-setters—the Group of Latin American Accounting Standard Setters (GLASS); and

(d) two individuals—Marek Muc and Sounder Rajan.

Respondents agreeing with the tentative agenda decision

12. Six respondents—Deloitte, DSAK IAI, Forvis Mazars, GLASS, Marek Muc and MASB—agree (or partially agree) with the Committee's conclusion and tentative decision not to add a standard-setting project to the work plan for the reasons set out in the tentative agenda decision. Some of these respondents—DSAK IAI, Forvis

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

Mazars and GLASS—highlight their agreement with aspects of the Committee's observations and conclusion. For example, they agree:

(a) guarantees found in practice are issued on obligations of various types of entities and have a variety of terms and conditions;

(b) an entity follows a 'step-by-step' approach to determine how to account for guarantees that it issues; and

(c) an entity accounts for guarantees that it issues based on the terms and conditions of the guarantees and not based on the nature of the entity's business activities.

13. Two of the six respondents that agree (or partially agree) with the tentative agenda decision suggest changes to the tentative agenda decision:

(a) Deloitte suggests additional wording related to warranties excluded from the scope of IFRS 17 (see paragraphs 16–18 of this paper); and

(b) Marek Muc disagrees with the applicability of IAS 37 to issued guarantees and suggests revisions to refer to IFRS 9 as the 'fallback' Standard for issued guarantees (see paragraphs 19(c)–24 of this paper).

Respondents not agreeing with the tentative agenda decision

14. Two respondents—GAAP Advisors and ICAI—disagree with the Committee's conclusion and tentative decision not to add a standard-setting project to the work plan. These respondents say 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 (see paragraphs 19 and 21–24 of this paper);

(b) the meaning of the term 'debt instrument' (see paragraphs 25–28 of this paper); and

(c) the debit-side accounting for issued guarantees (see paragraphs 29–33 of this paper).

15. Two respondents—SOCPA and Sounder Rajan—do not express agreement or disagreement with the Committee's conclusion and tentative agenda decision. These respondents provide observations about the accounting for guarantees based on their experience. SOCPA says it supports the IASB's decision to consider broader application questions related to financial guarantee contracts in its next agenda consultation. The comments from SOCPA and Sounder Rajan are set out in paragraph 34 of this paper.

Staff analysis

Warranties excluded from the scope of IFRS 17

Respondents' comments

16. Deloitte suggests adding to the tentative agenda decision a reference to paragraph 7(a) of IFRS 17, which excludes from the scope of IFRS 17:

> warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see IFRS 15 *Revenue from Contract with Customers*).

17. Deloitte says its proposed addition would provide a more complete explanation of the contracts that meet the definition of an insurance contract but are, or may be, accounted for applying another Standard. Deloitte's wording suggestions are included in its comment letter.

Staff analysis

18. We recommend no changes to the agenda decision. We note that:

    (a) the tentative agenda decision states that when an entity considers whether a guarantee it issues is an insurance contract, it 'considers the scoping requirements in paragraphs 3–13 of IFRS 17 and the definition of an 'insurance contract'.' Accordingly, the tentative agenda decision already reflects paragraph 7(a) of IFRS 17.

    (b) paragraph 7 of IFRS 17 excludes from the scope of the Standard various items that might meet the definition of an insurance contract—warranties are only one such item. We think highlighting warranties as an example in the tentative agenda decision is not necessary and could inadvertently cause readers to overlook the other scope exclusions in paragraph 7 of IFRS 17.

Scoping requirements and applicability of IAS 37 to issued guarantees

Respondents' comments

19. Three respondents provide suggestions about the sequence in which an entity, in accounting for a guarantee that it issues, assesses the scoping requirements in the relevant IFRS Accounting Standards or about the applicability of IAS 37 in this context. In particular:

    (a) the ICAI asks for more clarity about the sequence and suggests the Committee provide an example illustrating situations when a guarantee contract falls within the scope of IAS 37.

    (b) GAAP Advisors does not explicitly express a view on the sequence but suggests the Committee clarify that an entity may disclose guarantees it issues as contingent liabilities *only* if those guarantees are within the scope of IAS 37.

(c) Marek Muc disagrees with an aspect of the sequence and says issued *contractual* guarantees fall within the scope of IFRS 9, IFRS 17 or IFRS 15—but not IAS 37. In this respondent's view, a 'common misconception among accountants is to apply IAS 37 when there is significant uncertainty regarding the timing or amount of cash outflows arising from a contractual arrangement'. Further, this respondent says the tentative agenda decision, as drafted, 'could further encourage this error'.

20. Marek Muc suggests revising the tentative agenda decision to state that IFRS 9 is (or should be applied as) the 'fallback' Standard if an issued contractual guarantee is not within the scope of IFRS 17 or IFRS 15.

Staff analysis

21. Although we agree that most contractual guarantees that are not in the scope of IFRS 17 or IFRS 15 would be in the scope of IFRS 9, we disagree with the view that contractual guarantees cannot be within the scope of IAS 37 or that IFRS 9 is (or should be applied as) the 'fallback' Standard for issued guarantees. Paragraph 2 of IAS 37 excludes from the scope of that Standard 'financial instruments (including guarantees) that are within the scope of IFRS 9'. This paragraph does not exclude the possibility of *any* guarantees issued by an entity being in the scope of IAS 37.

22. As set out in the tentative agenda decision, an entity would consider whether a guarantee that it issues is in the scope of IFRS 9 (as a financial guarantee contract), IFRS 17, IFRS 9 (as a financial instrument other than a financial guarantee contract), IFRS 15, or IAS 37—with IAS 37 applying '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).' In our view, the tentative agenda decision makes it clear that an entity cannot simply conclude that a guarantee is in the scope of IAS 37 because of uncertainty related to the timing or amount of cash flows associated with the guarantee.

23. We therefore do not consider it necessary to explicitly state that an entity would disclose guarantees it issues as contingent liabilities only if those guarantees are within the scope of IAS 37. In addition, given the Committee did not analyse any particular guarantee fact patterns in the tentative agenda decision, and in the light of the variety of guarantees in practice, we think it would be neither feasible nor appropriate for the Committee to provide examples of guarantees within the scope of IAS 37. An entity's accounting for a guarantee that it issues applying IAS 37 would depend on the facts and circumstances and the terms and conditions of the guarantee.

24. The tentative agenda decision already clearly sets out a sequence in which an entity assesses the scoping requirements in IFRS Accounting Standards, and we recommend no changes. We therefore continue to be of the view that the agenda decision, if finalised by the Committee, would help remove misconceptions in practice about the scoping requirements.

Meaning of the term 'debt instrument'

Respondents' comments

25. Two respondents, GAAP Advisors and the ICAI, disagree with the Committee's conclusion that the principles and requirements in the Standards provide an adequate basis for an entity to account for guarantees that it issues, because the term 'debt instrument' in the definition of a financial guarantee contract in IFRS 9 is not clear. For example:

    (a) GAAP Advisors says 'without the clarification on 'debt instrument', IFRS accounting Standards could not be regarded as providing an adequate basis for an entity to determine the credit side of the guarantee liability.'

    (b) the ICAI says 'the term 'debt instrument' needs to be clearly defined and it should not be left as a matter of open judgement. We believe that allowing entities to interpret the term 'debt instrument' based on their own judgement will result in varied practices and hinder the consistent application of IFRS Accounting Standards.'

26. The ICAI says that 'it has been indicated that the project on financial guarantees may be considered in the next [IASB] agenda consultation' but that it is uncertain whether the IASB will indeed decide to take up such a standard-setting project on its work plan. Therefore, this respondent suggests that the Committee include guidance on the meaning of the term 'debt instrument' in the tentative agenda decision—in particular, to indicate whether debt includes only existing debt currently recognised on an entity's balance sheet or also includes future or potential debt.

Staff analysis

27. As explained in paragraph 9 of this paper, the Committee acknowledges in the tentative agenda decision that the term 'debt instrument' is not defined in IFRS Accounting Standards, and that there is diversity in interpreting the term. In the light of these facts, the Committee's conclusion in the tentative agenda decision—that the principles and requirements in IFRS Accounting Standards provide an adequate basis—is a qualified one. It is specifically 'with regard to the scoping requirements in IFRS Accounting Standards'.

28. We disagree with the suggestion that the Committee could include in a final agenda decision guidance on the meaning of the term 'debt instrument'. In our view, in the absence of a definition of the term in IFRS Accounting Standards, the Committee is not able to develop one in an agenda decision; doing so would add or change requirements in the Standards, which the Committee cannot do through an agenda decision as set out in paragraph 8.4 of the *Due Process Handbook*.[3]

[3] Paragraph 8.4 of the *Due Process Handbook* states that 'agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Debit-side accounting for issued guarantees

Respondents' comments

29. GAAP Advisors says IFRS Accounting Standards do not provide an adequate basis for an entity to determine the *debit-side* accounting for the guarantees that it issues. For example, the respondent says it is unclear whether an entity can recognise as assets (that is, as investments) guarantees that it issues for free on loans taken out by its subsidiary, joint venture or associate. The respondent says this question arises in the context of both separate and consolidated financial statements.

30. Sounder Rajan suggests expanding the tentative agenda decision to clarify its interaction with other Standards, including IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

Staff analysis

31. The Committee focused its analysis in the tentative agenda decision in response to the question in the submission—that is, whether the issued guarantees as described in the submission are financial guarantee contracts to be accounted for in accordance with IFRS 9 and, if not, which other IFRS Accounting Standards apply to these guarantees.

32. The findings from the Committee's information request and the comment letters on the tentative agenda decision indicate that other related questions might also arise, such as:

    (a) how an entity would account for issued guarantees in the context of consolidated financial statements[4]; and

[4] The Committee acknowledged in the tentative agenda decision 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.'

(b) whether those guarantees give rise to rights for the issuing entity to be accounted for as assets (as raised by the respondents in paragraphs 29–30 of this paper).

33. However, these questions were not the focus of the submission. Furthermore, analysing them would depend on the facts and circumstances and the terms and conditions of the guarantees. Therefore, we recommend that the Committee not expand its analysis in response to these comments.

Other comments

34. The following table summarises other comments raised by the respondents, together with our analysis of those comments.

Respondent's comment	Staff analysis and conclusion
1. No material difference resulting from reasonable application of any Standard GLASS says that if it is unclear which IFRS Accounting Standard applies to an issued guarantee, a reasonable application of any Standard would not give rise to a material difference in the resulting financial information.	*We recommend no action.* While acknowledging the respondent's view, we note that the findings from the Committee's information request and the comment letters on the tentative agenda decision indicate widespread diversity that has (or could have) a material effect on how entities account for guarantees they issue. Therefore, we continue to agree with the Committee's analysis in the tentative agenda decision and recommend no further action.

Respondent's comment	Staff analysis and conclusion
2. Support for an IASB project on financial guarantee contracts SOCPA provides observations about the accounting for guarantees in practice and says it welcomes the IASB's decision to consider broader application questions related to financial guarantee contracts during its next agenda consultation—particularly with the focus on clarifying the meaning of the term 'debt instrument'. This respondent also suggests the IASB clarify the requirements in IFRS 9 and IFRS 17 that allow an entity to apply either IFRS 9 or IFRS 17 to financial guarantee contracts it issues, particularly given the irrevocability of such an election.	*We will report this suggestion to the IASB.* We will report SOCPA's feedback and suggestion, together with other findings gathered by the Committee, to the IASB for consideration during its next agenda consultation.
3. Observations in the context of Indian laws and regulations Sounder Rajan provides observations about how guarantees are accounted for in India in the context of Indian laws and regulations.	*We recommend no action.* We acknowledge the respondent's observations and recommend no further action.

Staff recommendation

35. Based on our analysis in paragraphs 16–34, we recommend finalising the agenda decision, as published in IFRIC *Update* in September 2024, with changes to the wording of the tentative agenda decision as marked in the appendix to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee

Questions for the Committee
1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 35? 2. Do Committee members have any comments on the wording of the agenda decision in the appendix to this paper?

Appendix—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

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 ~~[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:

1. *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.

2. *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:

1. 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.

2. 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).

3. 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 as 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.