KPMG

Agenda Decisions

Updated as of 24 June 2024

IFRS® Interpretations Committee (IFRIC) is an interpretative body of the IASB® Board (Board) which works with the Board in supporting the application of IFRS® Accounting Standards.

Agenda decisions are a way of making a statement about why a change of an IFRS Standard requirement or an IFRIC® Interpretation of that requirement is not necessary. They often include explanatory information that is intended to provide guidance for the consistent application of IFRS Standards. As a result, agenda decisions form part of guidance in the IFRS Accounting Standards.

Any resulting changes would be accounted for as a change in accounting policy in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, i.e. it is to be applied retrospectively. AASB 108 requires specific disclosures to be made when the adoption of a new or revised standard results in a change in existing policy or new policy that is significant. AASB 108 also requires disclosure of the possible impact of relevant standards on issue but not yet adopted.

Likely frequency across entities

High | Medium | Low

IFRIC met in June 2024 to discuss two issues. One new tentative agenda decision was issued and one agenda decision was finalised by IFRIC - but which is still subject to Board approval/further consideration. [click on list below to navigate]

Issued/finalised in recent meeting

[IFRIC Update June 2024]

[IFRIC Podcast April 2024]

Agenda decisions finalised from prior IFRIC meetings (click on list below to navigate) [Table 2]

Final agenda decisions from June 2022 – not yet incorporated into KPMG's *Insights into IFRS*

- Merger between parent and subsidiary – Separate financial statements (Low)

IFRIC Update November 2023

- Guarantee over a derivative contract (Low)
- Homes and home loans provided to employees (Low)
- Insurance premiums receivable from an intermediary (Low)

IFRIC Update September 2023

- Definition of a lease – Substitution rights (Low)

IFRIC Update March 2023

- Lessor forgiveness of lease payments (Medium)
- SPAC – Accounting for warrants at acquisition (Low)
- Multi-currency group of insurance contracts (Low)

IFRIC Update September 2022

- Negative low emission vehicle credits (Low)
- SPAC – Classification of public shares as financial liabilities or equity (Low)

IFRIC Update June 2022

Finalised agenda decisions will remain on this list until the impacts are incorporated into KPMG's *Insights into IFRS*.

Likely frequency across entities

High | Medium | Low

Table 1: Tentative agenda decisions

IFRIC discussed the following matters and tentatively decided not to add them to its standard-setting agenda. The issues will be reconsidered, including the reasons for not adding the matters to its standard-setting agenda, at a future meeting. IFRIC invites comments from all interested parties on its tentative agenda decisions.

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Classification of cash flows related to variation margin calls on 'collateralised-to-market' contracts IAS 7	June 2024 **Comments due 19 August 2024**	*How an entity presents, in its statement of cash flows, the cash flows related to variation margin call payments made to contracts to purchase or sell commodities?* In the fact pattern presented: • An entity may enter into 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 contract for different purposes and applied the relevant requirements in IFRS Accounting Standards accordingly. For example, an entity may use a contract: - to receive commodities in accordance with its expected usage requirements. - to hedge against fluctuations in the prices of commodities. - for trading purposes. • Such a contract typically has maturity of up to three years, can be settled physically or net in cash and is both: - centrally cleared – after a new contract is entered into, for the purpose of settlement via a central counterparty, each counterparty novates the contract to the central counterparty; and - '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 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). *continued over..*	**Assets** **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** ▪ Tentative agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRS IC meeting	Key issues and impacts	Likely impact
Classification of cash flows related to variation margin calls on 'collateralised-to-market' contracts IAS 7 **(continued)**	June 2024 **Comments due 19 August 2024**	Based on its findings, the IFRIC **tentatively** concluded that the matter described in the request does not have widespread effects. Consequently, the IFRIC decided not to add a standard-setting project to the work plan. **Questions to consider** Have you entered into such contracts? How do you classify the related cash flows in the statement of cash flows?	**Assets** **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** ▪ Tentative agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 1: Tentative agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Disclosure of revenues and expenses for reportable segments IFRS 8 IFRIC has finalised the agenda decision – however it is still subject to Board approval. **Board should consider in its July 2024 meeting.**	November 2023	*Whether an entity is required to disclose the specified amounts in IFRS 8 Operating Segments paragraph 23 for each reportable segment if those amounts are not reviewed separately by the CODM? In addition, how an entity determines 'material items' in IFRS 8.23(f)?* IFRIC observed that: • IFRS 8.23 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 reviewed by the CODM, or when those amounts are regularly provided to the CODM, even if they are not included in the measure of segment profit or loss. • 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 of users of those financial statements on the basis of those financial statements • in applying IFRS 8.23(f), an entity: - assesses whether disclosure of information is material in the context of its financial statements as a whole. (IAS 1.7) - aggregates information in the financial statements, including the notes, in a manner that does not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or function. (IAS 1.30-31) - considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing a material item. - considers circumstances including, but not limited to, those in IAS 1.98. *continued over..*	**Assets** **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** • Finalised agenda decision ▪ Tentative agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 1: Tentative agenda decisions (continued)

Subject	IFRS IC meeting	Key issues and impacts	Likely impact
Disclosure of revenues and expenses for reportable segments IFRS 8 **(continued)** IFRIC has finalised the agenda decision – however it is still subject to Board approval. **Board should consider in its July 2024 meeting.**	November 2023	IFRIC further observed that IFRS 8.23(f) 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 accordance with IAS 1.97. In determining what 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. IFRIC concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in IFRS 8.23. Consequently, IFRIC **tentatively** decided **not** to add a standard-setting project to the work plan. **KPMG comment** We expect regulators will focus on the disclosure of specified items when those amounts are included in the measure of segment profit or loss reviewed by the CODM. Entities should apply judgement when determining a material item to disclose as required by IFRS 8.23(f). **Questions to consider** Have you disclosed "specified amounts" when those amounts are included in the measure of segment profit or loss reviewed by the CODM in your segment disclosure note? Have you considered IAS 1 when determining material items when applying IFRS 8.23(f)?	**Assets** **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** • Finalised agenda decision ▪ Tentative agenda decision ▪ Background agenda paper ▪ Meeting recording

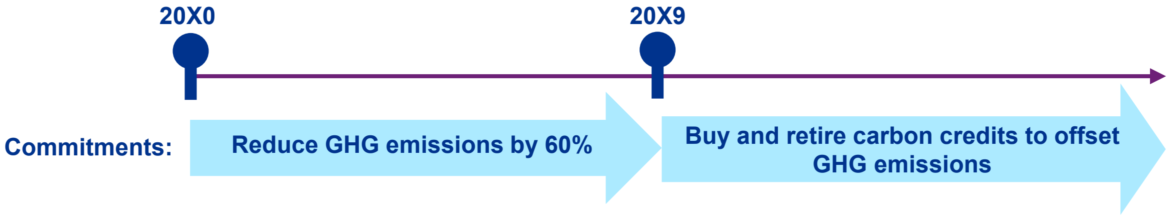
Table 2: Final agenda decisions

The following matters have been discussed by IFRIC since June 2022. Each of the following matters have not been added to the IFRIC standard-setting agenda. However each matter could impact the accounting (debits/credits) for an associated transaction. A finalised agenda decision may also result in an entity changing its accounting policy in accordance with the requirements of IAS 8.

Subject	IFRS IC meeting	Key issues and impacts	Likely impact
Payment contingent on continued employment during handover periods IFRS 3	September 2023 Approved by Board in April 2024 meeting	*How an entity accounts for payments to the sellers of a business it acquired when those payments are contingent on the sellers' continued employment during a post-acquisition handover period?* The fact pattern presented: • An entity acquires a business and requires the sellers to continue as employees of the acquired business in order to transfer knowledge. • The sellers are compensated for their services at a level comparable to other management executives. • The entity agrees to make additional payments to the sellers contingent on both future performance (of acquired business) and continued employment of sellers. This issue was previously addressed in an IFRIC decision in January 2013. Evidence gathered by IFRIC indicated no significant diversity in the accounting for such contingent payments. Based on its findings, IFRIC concluded that the matter described in the request does not have widespread effects. Consequently, the IFRIC **decided not** to add a standard-setting project to the work plan. **KPMG comment** KPMG's agrees with IFRIC's research that there is no significant diversity in the accounting for such contingent payments in practice. **Questions to consider** • Do you have business combination transactions requiring the sellers to continue as employees?	—* **Assets** —* **Liabilities** **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (2.6.400) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRS IC meeting	Key issues and impacts	Likely impact

Climate-related commitments
 	
IAS 37
	November 2023
	
	Approved by Board in April 2024 meeting
		Does a public statement of a net zero transition commitment create a constructive obligation as defined in IAS 37 Provisions, Contingent Liabilities and Contingent Assets? If so, should a provision be recognised? Is the amount recognised as an asset or expensed when the provision is recognised?
		
		The issue is considered by reference to the following fact pattern:
		• In 20X0, an entity publicly states its commitment:
		  - to reduce its future greenhouse gas (GHG) emissions by at least 60% of their current level by 20X9; and
		  - to offset its remaining emission in 20X9 and thereafter, by buying carbon credits and retiring them.
		• The entity also publishes a detailed transition plan setting out how it will gradually modify its manufacturing method to achieve the 60% reduction in emissions between 20X1 to 20X9.
		• In addition to publishing a detailed transition plan, the entity takes a number of other actions that publicly affirm its intention to fulfill its commitments.
		• Management is confident that the entity can make all these modifications and continue to sell its products at a profit.
			Assets
			↑ **Liabilities**
			Revenue/income
			↑ **Expenses**
			
			Resources
			
			KPMG guidance
			▪ IFRS Today – video and transcript
			
			IASB guidance
			▪ Final agenda decision
			▪ Background agenda paper
			▪ Meeting recording

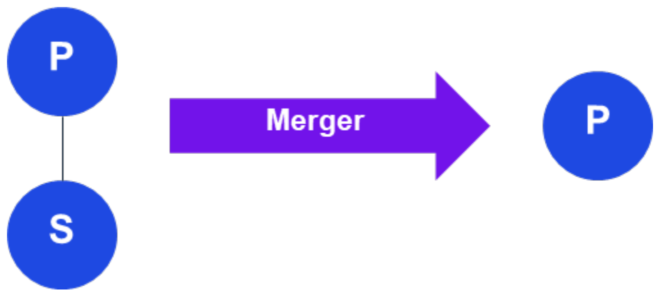


continued over..

Subject	IFRS IC meeting	Key issues and impacts	Likely impact
Climate-related commitments IAS 37 **(continued)**	November 2023	IFRIC **concluded** in the fact pattern described: • In considering IAS 37.10, whether an entity's statement of its commitment creates a valid expectation that it will fulfill its commitment depends on the facts of the statements and circumstances. • If the statement creates a constructive obligation: - the entity does not recognise a provision when it makes the statement in 20X0 as the constructive obligation is not a present obligation as a result of a past event. - the entity does not recognise a provision between 20X0 and 20X9 as it does not have a present obligation as a result of a past event until it emitted GHG it has committed to offset. - the entity will incur a present obligation as it emits GHG in 20X9 and thereafter. If it has not yet purchased, or has purchased and recognises as assets, the carbon credits needed to offset its past emission and a reliable estimate can be made of the amount of the obligation, the entity recognises a provision. • If a provision is recognised, the amount is recognised as expenses, rather than assets, unless it give rises to or forms part of the cost of an item that qualifies for recognition of an asset. IFRIC also observed that, irrespective of whether an entity's commitment to reduce or offset its GHG emissions results in the recognition of a provision, the actions the entity plans to take to fulfil that commitment could affect the amounts at which it measures its other assets and liabilities and the information it discloses about them, as required by various IFRS Accounting Standards. IFRIC concluded that the principles and requirements in IAS 37 provide an adequate basis for an entity to determine how to apply IAS 37 to climate-related commitments. Consequently, IFRIC **decided not** to add a standard-setting project to the work plan. *continued over..*	**Assets** ↑ **Liabilities** **Revenue/income** ↑ **Expenses** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRS IC meeting	Key issues and impacts	Likely impact
Climate-related commitments IAS 37 **(continued)**	November 2023	**KPMG comment** KPMG's agrees with IFRIC's analysis on the application of IAS 37 to climate-related commitments. **Questions to consider** Have you made any public statements of net zero commitments? Do you have a present obligation on the net zero commitment as a result of a past event?	**Assets** ↑ **Liabilities** **Revenue/income** ↑ **Expenses** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Merger between parent and its subsidiary in separate financial statements IAS 27	November 2023 Approved by Board in January 2024 meeting	*How a parent entity that prepares separate financial statements applying IAS 27 Separate Financial Statements accounts for a merger with its subsidiary in its separate financial statements?* In the fact pattern submitted: • parent recognises investment in subsidiary applying IAS 27.10 • the subsidiary contains a business • the parent entity merges with the subsidiary resulting in the subsidiary's business becoming part of the parent entity (merger transaction).  The submission notes two ways of accounting for the above (merger) transaction: • View 1 – apply requirements of IFRS 3 *Business Combinations* – fair value accounting. • View 2 – merger is not a business combination – book value (previous carrying amount) accounting.	—* **Assets** —* **Liabilities** **Revenue/income** **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

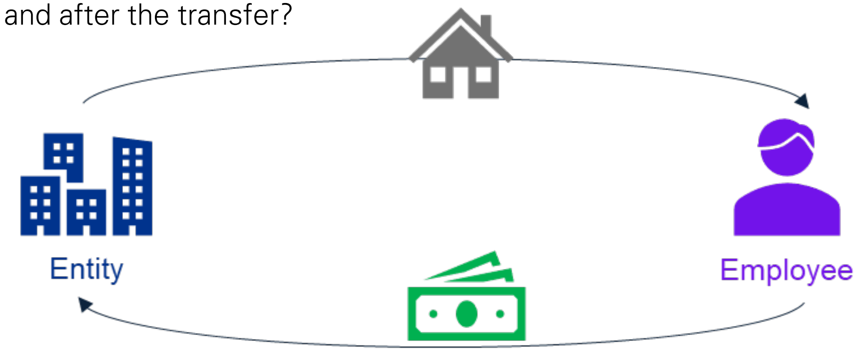
Subject	IFRIC meeting	Key issues and impacts	Likely impact
Merger between parent and its subsidiary in separate financial statements IAS 27 **(continued)**	November 2023	Proponents of View 2 say the parent obtained control of the subsidiary before the merger and the existing parent-subsidiary relationship continues to hold even in the context of separate financial statements. Therefore the definition of a business combination in IFRS 3 is not met. The evidence gathered by IFRIC indicated little, if any, diversity in determining whether to apply the acquisition method in IFRS 3. The parent generally does not apply the acquisition method – i.e., they apply View 2. Based on its findings, IFRIC **concluded** not to consider this issue further as it does not have widespread effect. **KPMG comment** IFRIC concluded this issue does not have widespread effect but we noted concerns from some jurisdictions where separate financial statements are important. **Questions to consider** • Have you undertaken merger transactions in the past? Have you accounted for these transaction at book value or fair value?	— * **Assets** — * **Liabilities** **Revenue/income** **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Guarantee over a derivative contract IFRS 9	September 2023 Approved by Board in October 2023 meeting	*Whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative?* The request described a guarantee written over a derivative contract between two counterparties. Such a guarantee would reimburse the holder of the guarantee for the actual loss incurred (up to the close-out amount) in the event of default by the other party. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative prior to default. Based on its findings, the IFRIC **concluded** that the matter described in the request does not have widespread effects and it does not have (and nor is it expected to have) a material effect on those affected. Consequently, the IFRIC decided not to add a standard-setting project to the work plan. **Questions to consider** • Do you have guarantee contracts written over a derivative contract?	* **Assets** * **Liabilities** **Revenue/income** * **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact

Home and home loans provided to employees
 	
IFRS 9 and IAS 19
	September 2023
	
	Approved by Board in October 2023 meeting
		How an entity accounts for employee home ownership plans and employee home loans?
		The submission contained two fact patterns.
		Fact pattern 1
		• An entity provides its employee with a house that the entity constructed and owns.
		• The employee has a proportion of his or her base salary deducted every month until the agreed price of the house has been fully repaid.
		• If the employee leaves employment within the first five years after receiving the house, the employee forfeits the house and recovers the salary deductions to date. If the employee leaves employment after that five-year period, the employee may choose either to:
		  • forfeit the house and recover the salary deductions to date; or
		  • keep the house and immediately repay the outstanding balance.
		• Legal title transfers to the employee only when he or she has paid in full the agreed price for the house.
		Issue – when should the transfer of the house be recognised and what is the accounting before and after the transfer?
		
		continued over.
			—* **Assets**
			—* **Liabilities**
			—* **Revenue/income**
			—* **Expenses**
			***will impact, direction dependent on facts**
			
			Resources
			KPMG guidance
			▪ Nil
			
			IASB guidance
			▪ Final agenda decision
			▪ Background agenda paper
			▪ Meeting recording

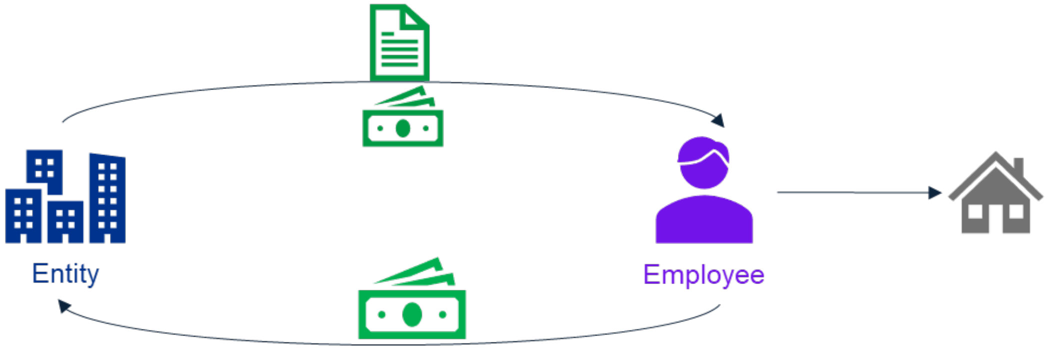
Subject	IFRIC meeting	Key issues and impacts	Likely impact
Home and home loans provided to employees IFRS 9 and IAS 19 (**continued**)	September 2023	***Fact pattern 2*** • An entity provides its employee with a loan to buy a house, which the employee chooses and purchases and the entity does not own. • The entity provides the loan at a below-market rate of interest; typically interest-free. • The employee repays the loan through salary deductions. • If the employee leaves employment for any reason at any point, the outstanding balance of the loan becomes repayable. **Issue** – the request asked how to account for either of the above arrangements.  Based on its findings, the IFRIC **concluded** that the matter described in the request does not have widespread effects and the amounts involved are not material. Consequently, the IFRIC decided not to add a standard-setting project to the work plan. **Questions to consider** • Have you provided homes or home loans to employees?	—* **Assets** —* **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Nil **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Premiums receivable from an intermediary IFRS 17 and IFRS 9	September 2023 Approved by Board in October 2023 meeting	*How an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments to premiums receivable from an intermediary?* The submission contained the following fact pattern: • An intermediary acts as a link between an insurer and a policyholder to bring about an insurance contract between them. • The policyholder has paid in cash the premiums to the intermediary, the insurer has not yet received in cash the premiums from the intermediary. The agreement between the insurer and the intermediary allows the intermediary to pay the premiums to the insurer at a later date. • When the policyholder paid the premiums to the intermediary, the policyholder discharged its obligation under the insurance contract and the insurer is obliged to provide insurance contract services to the policyholder. • If the intermediary defaults, the insurer does not have the right to recover the premiums from the policyholder, or to cancel the insurance contract.  **Issue** – whether the premiums receivable from the intermediary are: • future cash flows within the boundary of an insurance contract (applying IFRS 17) – **View 1** • a separate financial asset (applying IFRS 9) – **View 2**. *continued over..*	—* **Assets** —* **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (8.1.90.50-60 8.1.580) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

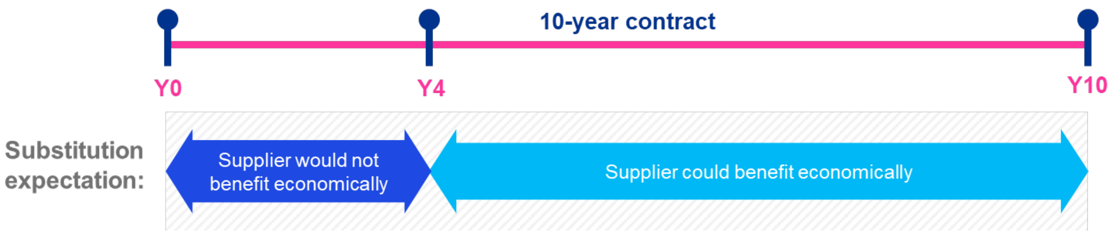
Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Premiums receivable from an intermediary IFRS 17 and IFRS 9 **(continued)**	September 2023	Further details on the technical merits of each of the views can be found in the IFRIC background agenda paper. IFRIC observed that IFRS 17 is the starting point to consider how to account for the right to receive premiums under an insurance contract. IFRIC observed the following: • IFRS 17.B65 – premiums receivable are cash flows within the boundary of the contract. This paragraph does not distinguish between premiums to be collected directly from a policyholder and those to be collected via an intermediary. • For the fact pattern provided, IFRS 17 is silent on whether future cash flows within the boundary of an insurance contact are removed from measurement only when these cash flows are received or settled in cash. • IFRIC observed that in accounting for premiums receivable from an intermediary when payment by the policyholder discharges the policyholder's obligation under the insurance contract an insurer develops and applies an accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine when cash flows are removed from the measurement of a group of insurance contacts. That is an insurer can apply either View 1 or View 2. • IFRIC then considered the implications of both views for information about credit risk. It noted that IFRS 17 and IFRS 9 deal differently with expected credit losses. • Users of financial statements receive useful information about credit losses and credit risk regardless of whether premiums from intermediaries are accounted for by applying IFRS 17 or IFRS 9. • An insurer is still required to apply all measurement and disclosure requirements in applicable IFRS Accounting Standards. *continued over..*	—* **Assets** —* **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (8.1.90.50-60 8.1.580) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Premiums receivable from an intermediary IFRS 17 and IFRS 9 (**continued**)	September 2023	IFRIC considered whether to recommend that the Board consider adding a standard-setting project on when cash flows are removed from the measurement of a group of insurance contracts. IFRIC observed that the application of either View 1 or View 2 would provide users of financial statements with useful information based on the requirements in IFRS 17 or IFRS 9. Consequently IFRIC **concluded** that a standard-setting project would not be sufficiently narrow in scope that the Board could address it in an efficient manner. Consequently, the IFRIC decided not to add a standard-setting project to the work plan. **KPMG comment** KPMG's current Insights guidance predominately supports View 2. We will update our guidance in Insights to reflect this IFRIC agenda decision. **Questions to consider** • If premiums are collected via intermediaries, what view have you applied?	—* **Assets** —* **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (8.1.90.50-60 8.1.580) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Definition of a lease – Substitution rights IFRS 16	March 2023 Approved by Board in April 2023 meeting	*How to assess whether a contract contains a lease applying IFRS 16 Leases when the supplier has particular substitution rights?* The following fact pattern was presented: • Customer enters into a 10 year contract with a supplier for the use of 100 similar new batteries. • Each battery is used together with other resources readily available to the customer (an electric bus). • Customer determines that the supplier has the practical ability to substitute the assets (batteries) throughout the period of use. • If a battery were substituted, the supplier is required to compensate the customer for any revenue lost or costs incurred whilst the substitution takes place. • Whether substitution is economically beneficial for the supplier depends on the amount of compensation payable and the condition of the battery. • At contract inception, it is expected that the supplier would **not** benefit economically from substituting a battery used for less than three years but could benefit economically from substituting a battery used for longer.  *continued over..*	↑ **Assets** ↑ **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (5.1.230 & 5.1.185) ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Definition of a lease – Substitution rights IFRS 16 (**continued**)	March 2023	The following two questions were asked by the submitter: • At what level to evaluate whether a contract contains a lease – each asset separately or all assets together? • Whether there is an identified asset if the supplier (i) has the practical ability to substitute alternative assets throughout the period of use but (ii) **would not benefit** economically from substitution throughout the period of use? ***The level at which to evaluate whether a contract contains a lease*** IFRS 16.B32 specifies that the right to use an underlying asset is a separate lease component if both: • the lessee can benefit from use of the underlying asset either on its own or together with other resources readily available to it, and • the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. In the fact pattern submitted the customer is able to benefit from use of each battery together with a bus – so each battery is neither highly dependent on, nor highly interrelated with, the other batteries in the contract. IFRIC **concluded** that each battery is a separate lease component – as outlined in IFRS 16. Therefore the customer needs to assess whether the contract contains a lease for each battery. **Identified asset – Substitution rights** For substitution rights to be substantive, both the following must exist: • The supplier has the practical ability to substitute alternative assets throughout the period of use (for example, customer cannot prevent and alternative assets are readily available to the supplier). • The supplier would benefit economically from the exercise of its right to substitute the asset (benefits exceeds costs). *continued over..*	**Assets** **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (5.1.230 & 5.1.185) ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Definition of a lease – Substitution rights IFRS 16 **(continued)**	March 2023	In the fact pattern submitted each battery is specified and in accordance with IFRS 16.B14(a) the supplier has the practical ability to substitute alternative assets throughout the period of use is assumed to exist (as advised by the submitter). However, IFRIC observed, that the condition in IFRS 16.B14(b) does not exist throughout the period of use – the **supplier would not benefit economically from exercising its right to substitute a battery for at least the first three years** of the contact. The period for use under the contract is the full 10 years. While determining whether a suppliers substitution right is substantive throughout the period of use can require judgement, in this fact pattern it is clear that the right is not substantive. IFRIC therefore **concluded**: • There is an identified asset (each battery) and the substitution right is not substantive. • To assess whether the contract contains a lease, the customer would then determine whether, throughout the period of use, it has the right to obtain substantially all the economic benefits from use, and direct the use, of each battery. **KPMG comment** The use of the phrase 'period of use' in IFRS 16.B14, and B14(a) and not in 14(b) is problematic. However we do acknowledge the Board's intention in the basis of conclusions to IFRS 16 that requirements of IFRS 16.B13 through B.19 set a high hurdle for a customer to conclude that there is no identified asset (i.e., that a substitution right is substantive). **Questions to consider** • Have you not recognised a lease by arguing that the supplier has a substantive substitution right?	↑ **Assets** ↑ **Liabilities** **Revenue/income** **Expenses** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (5.1.230 & 5.1.185) ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

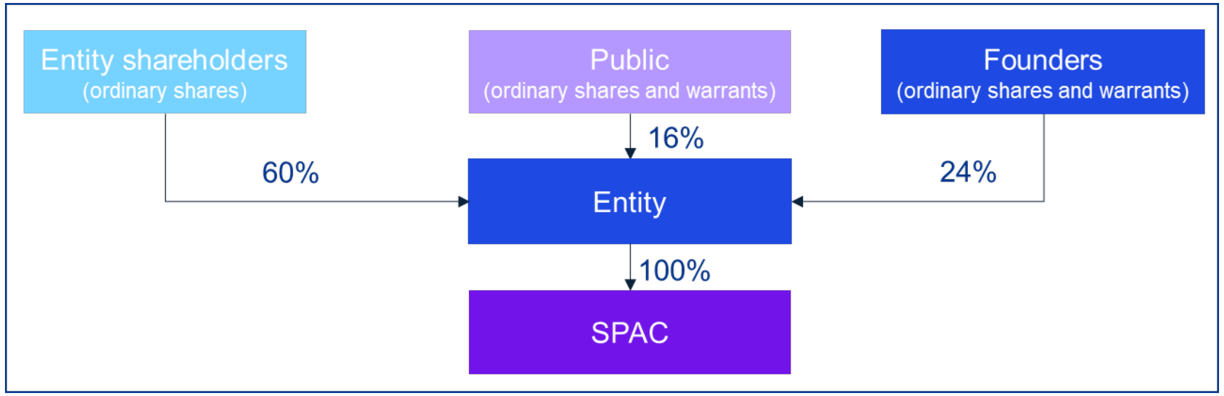
Subject	IFRIC meeting	Key issues and impacts	Likely impact
Lessor forgiveness of lease payments IFRS 9 and IFRS 16	September 2022 Approved by Board in October 2022 meeting	*How does a lessor apply IFRS 9 Financial Instruments and IFRS 16 Leases in accounting for a rent concession?* In the fact pattern presented: • The rent concession changes the original terms and conditions of the lease contract – which is classified by the lessor as an operating lease. • At the time of agreeing the rent concession the lessor had recognised an operating lease receivable (for periods occupied by lessee for which payment is due but as yet unpaid). • As part of the rent concession agreement the lessor forgives (**legally releases**) specified lease payments – some of which form part of the operating lease receivable and others are contractually due in the future. The rent concession **does not make other changes** the lease contract. In accordance with IFRS 9.2.1(b)(i) the operating lease receivable (OLR) recognised by the lessor is subject to the derecognition and impairments requirements of IFRS 9. So, prior to the rent concession being granted the lessor would have measured an expected credit loss (ECL) on the OLR. IFRIC **concluded**: • On the date the rent concession is granted the lessor first remeasures the ECL (with changes recognised in profit or loss) and derecognises the OLR (and associated ECL allowance) in accordance with IFRS 9.3.2.3. • The lessor then applies IFRS 16 to the future lease payments under the lease. IFRS 16.87 requires the modified lease to be accounted for as a new lease from the date the rent concession is granted. IFRIC observed that lease payments due that have been recognised as an OLR are not 'accrued' lease payments. Consequently, neither those lease payments nor their forgiveness are considered part of the lease payments for the new lease. *continued over..*	**Assets** * **Liabilities** **Revenue/income** * **Expenses** * ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (5.1.560 & 7.8.410) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Lessor forgiveness of lease payments IFRS 9 and IFRS 16 (**continued**)	September 2022	**KPMG comment** Our submission to IFRIC did not support this agenda decision. We will need to reflect the final agenda decision in Insights. **Questions to consider** • Have you as a lessor granted rent concessions over the last couple of years? If so, how have you accounted for any operating lease receivables forgiven?	—* **Assets** **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (5.1.560 & 7.8.410) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact

SPAC: Accounting for warrants at acquisition
 	
IFRS 2 & IAS 32
	September 2022
	
	Approved by Board in October 2022 meeting
		How does an entity account for warrants on acquiring a SPAC? Specifically:
		• *At acquisition, are the warrants in the scope of IFRS 2 Share-based Payment as part of the equity instruments issued, or do they represent a liability assumed in the SPAC?*
		• *After the acquisition, do the warrants remain in the scope of IFRS 2, or are they in the scope of IAS 32 Financial Instruments: Presentation?*
		
		A SPAC is a listed entity that is established for the purposes of acquiring a target entity to be identified in the future.
		
		The following fact pattern was presented to IFRIC:
		• An entity acquires a SPAC that has raised cash in an IPO – so that it can access the cash raised and a stock exchange listing. The entity is the acquirer as defined in IFRS 3 *Business Combinations*.
		• The SPAC does not meet the definition of a business in IFRS 3 and, at the time of acquisition, has no assets other than cash.
		• Before the acquisition, the SPAC's ordinary shares are held by its founders and public investors. The ordinary shares are appropriately equity classified. In addition the SPAC has issued warrants to the founders and public investors:
		  • Founder warrants were issued as consideration for services provided before acquisition date.
		  • Public warrants were issued at the time of the IPO.
		• The entity issues new ordinary shares and new warrants to the SPAC's founders and public investors in exchange for the SPAC's ordinary shares and legal cancellation of the SPAC's warrants.
		• The fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC. The entity replaces the SPAC as the listed entity.
		• The entity's owners control the group after the SPAC acquisition transaction.
		
		continued over..
			Assets
			—* **Liabilities**
			Revenue/income
			—* **Expenses**
			***will impact, direction dependent on facts**
			
			Resources
			
			KPMG guidance
			▪ IFRS Today – video and transcript
			▪ Specific – *Share-based payments – IFRS 2 handbook (3.5.70)*
			
			IASB guidance
			▪ Final agenda decision
			▪ Background agenda paper
			▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact
SPAC: Accounting for warrants at acquisition IFRS 2 & IAS 32 **(continued)**	September 2022	***Post-acquisition structure***  ***Which IFRS Accounting Standard applies?*** IFRS 3.2(b) states that IFRS 3 does not apply to the acquisition of assets or a group of assets that does not constitute a business. As such, the acquirer identifies and recognises individual identifiable assets acquired and liabilities assumed. In the fact pattern presented, the entity acquires cash held by the SPAC. The entity also needs to consider whether it assumes any of the SPAC warrants (issued to founders and public investors) as part of the acquisition and, consequently, whether it assumes any liability related to those warrants.. *continued over..*	**Assets** * **Liabilities** **Revenue/income** * **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript ▪ Specific – *Share-based payments – IFRS 2 handbook (3.5.70)* **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact
SPAC: Accounting for warrants at acquisition IFRS 2 & IAS 32 (continued)	September 2022	***Does the entity assume the SPAC warrants?*** In assessing whether it assumes the SPAC warrants as part of the acquisition, the entity considers the specific facts and circumstances of the transaction, including the terms and conditions of all agreements associated with the acquisition – e.g. the legal structure of the transaction, the terms and conditions of the SPAC warrants and the new warrants it issues. The entity **might conclude** that the facts and circumstances are such that it: • **Assumes** the SPAC warrants as part of the acquisition—in this case, the entity issues ordinary shares to acquire the SPAC and assumes the SPAC warrants as part of the acquisition. The entity then issues new warrants to replace the SPAC warrants assumed. • **Does not assume** the SPAC warrants as part of the acquisition—in this case, the entity issues both ordinary shares and warrants to acquire the SPAC and does not assume the SPAC warrants. ***How does the entity account for the SPAC warrants assumed as part of the acquisition?*** If the terms and conditions are such that the entity assumes the SPAC warrants as part of the acquisition, the entity applies IAS 32 *Financial Instruments: Presentation* to determine whether the SPAC warrants are financial liabilities or equity instruments. Assuming the SPAC warrants are part of the acquisition does not mean that the entity assumes a share-based payment transaction in the scope of IFRS 2. In the fact pattern, the SPAC's founders are not SPAC employees nor will they provide services to the entity after the acquisition. Instead, the entity assumes the founders warrants as instruments held by the founders solely in their capacity as owners of the SPAC. *continued over..*	**Assets** * **Liabilities** **Revenue/income** * **Expenses** *will impact, direction dependent on facts **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript ▪ Specific – *Share-based payments – IFRS 2 handbook (3.5.70)* **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Subject	IFRIC meeting	Key issues and impacts	Likely impact
SPAC: Accounting for warrants at acquisition IFRS 2 & IAS 32 **(continued)**	September 2022	***How does the entity account for the replacement of SPAC warrants?*** The entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition. Therefore, the entity determines the extent to which it accounts for the replacement transaction as part of that acquisition. No IFRS specifically applies in making this determination. In applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraphs 10 and 11 to develop an accounting policy, the entity refers to, and considers the applicability of, the requirements in paragraph B50 of IFRS 3. To the extent an entity concludes that it accounts for the replacement separately from the SPAC acquisition, the entity applies the applicable requirements in IAS 32 and IFRS 9 *Financial Instruments* to do so. ***Does the entity also acquire a stock exchange listing service?*** The SPAC's stock exchange listing does not meet the definition of an intangible asset because it is not 'identifiable'. Accordingly, it is not an identifiable asset acquired. The fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets acquired. Therefore, IFRIC concluded that, applying paragraphs 2 and 13A of IFRS 2, the entity both: • Receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction • Measures the stock exchange listing service received as the difference between the fair value of the instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired. *continued over..*	**Assets** * **Liabilities** **Revenue/income** * **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript ▪ Specific – *Share-based payments – IFRS 2 handbook (3.5.70)* **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
SPAC: Accounting for warrants at acquisition IFRS 2 & IAS 32 (**continued**)	September 2022	***Which IFRS Accounting Standards applies to the instruments issued?*** Depending on the specific facts and circumstances, the entity issues ordinary shares – or ordinary shares and new warrants – in exchange for acquiring cash, for the stock exchange listing service and for assuming any liability related to the SPAC warrants. IFRIC observed that: • IAS 32 applies to all financial instruments, with some exceptions. Those exceptions include financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 applies (IAS 32.4). • IFRS 2 applies to 'share-based payment transactions in which an entity acquires or receives goods or services… ' (IFRS 2.5). Therefore, IFRIC **concluded** that the entity applies: • IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service. • IAS 32 in accounting for instruments issued to acquire cash and assume any liability related to the SPAC warrants – these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2. ***Which instruments were issued for the SPAC's net assets and which were issued for the service?*** If the entity concludes that the terms and conditions are such that it **does not assume** the SPAC warrants as part of the acquisition, the entity issues both ordinary shares and new warrants to acquire cash and a stock exchange listing service. The entity determines to what extent it issued each type of instrument to acquire the cash and the stock exchange listing service. No IFRS specifically applies to this determination. Therefore, the entity applies IAS 8.10-11 to develop an accounting policy. *continued over..*	**Assets** —* **Liabilities** **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript ▪ Specific – *Share-based payments – IFRS 2 handbook (3.5.70)* **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

KPMG

Subject	IFRIC meeting	Key issues and impacts	Likely impact
SPAC: Accounting for warrants at acquisition IFRS 2 & IAS 32 (**continued**)	September 2022	IFRIC noted: • The accounting policy must result in information that is relevant and reliable (IAS 8.10). An accounting policy that results in allocating all the new warrants issued to the acquisition of the stock exchange listing service solely to avoid their accounting as financial liabilities applying IAS 32 would not meet this requirement. • An entity could allocate the shares and warrants to the acquisition of cash and the stock exchange listing service on the basis of the relative fair values of the instruments issued. **KPMG comment** The final agenda decision sets out that the accounting for the warrants is driven by the entity's judgement as to whether the warrants are considered items the SPAC assumed as part of the acquisition **or** they are part of the consideration paid for the SPAC. **Questions to consider** • Have you acquired a SPAC that involve warrants?	**Assets** —* **Liabilities** **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript ▪ Specific – *Share-based payments – IFRS 2 handbook (3.5.70)* **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Multi-currency groups of insurance contracts IFRS 17 & IAS 21	September 2022 Approved by Board in October 2022 meeting	*How an entity accounts for insurance contracts that generate cash flows in more than one currency? Specifically does an entity consider currency exchange rate risks when applying IFRS 17 Insurance Contracts and how does IAS 21 The Effects of Changes in foreign Exchange Rates and IFRS 17 interact.* IFRS 17 requires an entity to recognise and measure groups of insurance contacts. The first step in this process is to identify portfolios of insurance contacts. A **portfolio** comprises contracts subject to similar risks and managed together. IFRIC concluded, by reference to IFRS 17.14, that an entity is required to consider currency exchange rate risks when identifying portfolios of insurance contacts. ***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 (CSM). IFRS 17.30 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 CSM, as a monetary item'. IAS 21 defines 'monetary items' and includes requirements for translating foreign currency transactions and amounts into functional currency. Both IFRS 17 and IAS 21 refer to transactions or items that are denominated or require settlement in a single currency. IFRSs include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency. *continued over..*	**Assets** —* **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (8.1A.345.60) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact

Multi-currency groups of insurance contracts
 	
IFRS 17 & IAS 21
 	
(**continued**)
	September 2022	Therefore, IFRIC **observed** that, in measuring a multi-currency group of insurance contracts, an entity:
		• 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 CSM - as a monetary item,
		• applies IAS 21 to translate at the end of the reporting period the carrying amount of the group - including the CSM - at the closing rate (or rates),
		• develops an accounting policy to determine on initial recognition the currency or currencies in which the group - including the CSM - 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 and be applied consistently for similar transactions, other events and conditions (per IAS 8.10, 13).
		  • The entity could determine that the group - including the CSM - is denominated in a single currency or in the multiple currencies of the cash flows in the group.
		  • The entity cannot simply deem the CSM for the group to be denominated in the functional currency because doing so would, in effect, fail to treat the CSM as a monetary item as required by IFRS 17.30
		
		For those interested in the detail – the background agenda paper includes numerical examples of the above different approaches.
		
		continued over..
			Assets
			—* **Liabilities**
			—* **Revenue/income**
			—* **Expenses**
			***will impact, direction dependent on facts**
			
			Resources
			
			KPMG guidance
			▪ Specific – *Insights into IFRS* (8.1A.345.60)
			
			IASB guidance
			▪ Final agenda decision
			▪ Background agenda paper
			▪ Meeting recording

<table>
<tr><th>Subject</th><th>IFRIC meeting</th><th>Key issues and impacts</th><th>Likely impact</th></tr>
<tr><td>Multi-currency groups of insurance contracts

IFRS 17 & IAS 21

(continued)</td><td>September 2022</td><td>Single vs multiple-currency denomination

The entity's accounting policy on currency denomination determines which effects of changes in exchange rates are accounted for applying IAS 21 and which are accounted for applying IFRS 17.

Single-currency denomination:
• changes in exchange rates between the currency of the cash flows and the currency of the group of contracts are changes in financial risk, accounted for applying IFRS 17.
• changes in exchange rates between the currency of the group of contracts and the functional currency are exchange differences, accounted for applying IAS 21.

Multi-currency denomination:
• all changes in exchange rates are exchange differences, accounted for applying IAS 21.

Finally, IFRIC noted that in applying IFRS 17, there is a single CSM for the group of insurance contracts. Appendix A to IFRS 17 defines the CSM as: 'the unearned profit the entity will recognise as it provides insurance contract services under the insurance contracts in the group.'

continued over..</td><td>Assets
—* Liabilities
—* Revenue/income
—* Expenses
*will impact, direction dependent on facts

Resources

KPMG guidance
▪ Specific – Insights into IFRS (8.1A.345.60)

IASB guidance
▪ Final agenda decision
▪ Background agenda paper
▪ Meeting recording</td></tr>
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Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Multi-currency groups of insurance contracts IFRS 17 & IAS 21 **(continued)**	September 2022	Accordingly, if an entity were to determine that the CSM is denominated in the multiple currencies of the cash flows in the group, the entity would: • assess whether the group of contracts is onerous considering the CSM as a single amount. • prevent the carrying amount of the CSM being negative by, when necessary to do so, recognising a loss. • determine the amount of the CSM to recognise in P/L by applying a single method of determining the coverage units provided in the current period and expected to be provided in the future to the amounts denominated in the multiple currencies. This results in allocating each of the currency amounts of the CSM translated into the functional currency equally to each coverage unit. **KPMG comment** • Refer to KPMG's guidance in *Insights into IFRS* – 8.1A.345.60. . **Questions to consider** • Have you any insurance contracts that generate cash flows in more than one currency?	**Assets** —* **Liabilities** —* **Revenue/income** —* **Expenses** ***will impact, direction dependent on facts** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (8.1A.345.60) **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

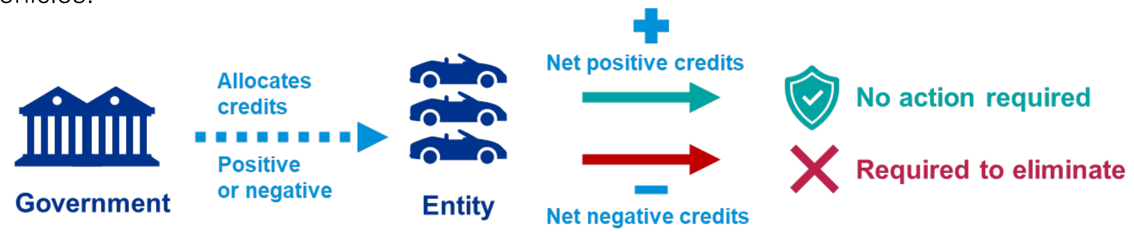
Subject	IFRIC meeting	Key issues and impacts	Likely impact
Negative low emission vehicle credits IAS 37	June 2022 Approved by Board in July 2022 meeting	*Whether an entity with negative credits has a present obligation that meets the definition of a liability in IAS 37 Provisions, Contingent Liabilities and Contingent Assets?* In this fact pattern a government has introduced measures that apply to entities that produce or import passenger vehicles. At the end of each calendar year, entities receive positive credits if they have exceeded targets from producing or importing low emissions vehicles during the year, and negative credits if they have fallen short of those targets. An entity that receives net negative credits can eliminate them either by purchasing positive credits from a third party or by generating its own positive credits in the following year (by changing its future operations). If an entity fails to eliminate its negative credits using one of those two ways, there is no direct financial penalties – however the government may restrict the entity's access to the market – for example, by not approving future applications to launch new vehicles.  In considering IAS 37.10 liability definition – **present obligation** arising from **past events**, the settlement of which is expected to result in an **outflow** from the entity of **economic benefits**. Further an obligating event creates **a legal or constructive obligation** that results in an entity having no realistic alternative to settling that obligation. IAS 37.17 clarifies that an entity has no realistic alternative to settling an obligation if settlement can be enforced by law. IAS 37.19 further clarifies that it is only those obligations arising from past events existing **independently of an entity's future actions** that are recognised as provisions. *continued over..*	**Assets** ↑ **Liabilities** **Revenue/income** ↑ **Expenses** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Negative low emission vehicle credits IAS 37 **(continued)**	June 2022 Approved by Board in July 2022 meeting	In applying to the fact pattern presented, – for an entity with negative credits: • an obligation arises from a **past event**, being the import or production of vehicles during the period • an obligation **exists independently** of the entity's future actions – the entity's future actions affect only whether and how the entity settles the obligation • the government regulation is **enforceable by law** – there does not need to be a financial penalty for the obligation to be considered enforceable • entity has an **obligation to eliminate** its negative credits either by purchasing positive credits or generating positive credits in the following year – 'two methods' • using either of these 'two methods' involves an **outflow of economic benefits** • an entity would have a realistic alternative to settling the obligation **only** if accepting the possible restrictions on market access is a realistic alternative for that entity • if an entity does not have a legal obligation it may have created a **constructive obligation** if, for example, it has a past practice of purchasing positive credits or made a market announcement confirming it will purchase positive credits in the current period, i.e. created a valid expectation. IFRIC has **observed** that the entity has a legal obligation that meets the definition of a liability in IAS 37, unless accepting the sanctions that the government can impose is a **realistic alternative** to eliminating negative credits for that entity. IFRIC did not consider the measurement of any liability that arises. **KPMG comment** This fact pattern relates to a Chinese scheme. The principals discussed on this issue could be readily applied to any number of equivalent emission reduction schemes around the world. **Questions to consider** • Is your entity a participant in energy efficiency or carbon emission reduction schemes?	**Assets** ↑ **Liabilities** **Revenue/income** ↑ **Expenses** **Resources** **KPMG guidance** ▪ IFRS Today – video and transcript **IASB guidance** ▪ Final agenda decision ▪ Background agenda paper ▪ Meeting recording

Table 2: Final agenda decisions (continued)

<table>
<tr><th>Subject</th><th>IFRIC meeting</th><th>Key issues and impacts</th><th>Likely impact</th></tr>
<tr>
<td>SPAC: Classification of public shares as financial liabilities or equity

IAS 32</td>
<td>June 2022

Approved by Board in July 2022 meeting</td>
<td>How a SPAC which issues ‘public’ shares should classify the shares – as either a financial liability or equity?
A SPAC is a listed entity that is established for the purposes of acquiring a target entity to be identified in the future.
The submitter described a SPAC that issues two classes of shares – Class A issued to the founders and Class B issued to the public. Class B shareholders:
• Individually have a right to demand a reimbursement of their shares on approval by the SPAC shareholders of the acquisition of a target entity – for example if the shareholder voted against the acquisition.
• Have a reimbursement right in the event of the SPAC’s liquidation – for example if a target entity is not acquired within a specified period of time.
Issue – the impact of the above two bullet points on the classification of Class B shares as a financial liability or equity – unconditional right to avoid delivering cash or another financial asset.
IFRIC observed that:
• IAS 32 Financial Instruments: Presentation contains no requirements for assessing whether a decision of shareholders is treated as a decision of the entity, or beyond the control of the entity. This issue has been identified as one of the practice issues that will be addressed as part of the Financial Instruments with Characteristics of Equity (FICE) project.
• The questions raised in the request is too narrow to be considered in a cost-effective manner.
KPMG comment
We agree that this issue should be best addressed by the FICE project.
Questions to consider
• Do you have shares with redemption/reimbursement features?</td>
<td>Assets
—* Liabilities
Revenue/income
Expenses
*will impact, direction dependent on facts

Resources

KPMG guidance
▪ Specific – Insights into IFRS (7.3.30 & 7.3.180)

IASB guidance
▪ Final agenda decision
▪ Background agenda paper
▪ Meeting recording</td>
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</table>

Table 2: Final agenda decisions (continued)

The IFRIC may decide not to recommend standard-setting. This might be because the IFRIC concludes that standard-setting is:

- unnecessary — typically because, in the IFRIC's view, IFRS Standards and IFRIC Interpretations provide enough information for a company to determine its accounting or because there is no evidence that a widespread accounting problem exists; or

- unhelpful — for example, introducing new or amended requirements might assist one company with a particular type of transaction, while raising questions for other companies with slightly different types of transactions.

To explain why it did not recommend standard-setting, the IFRIC publishes an agenda decision. Agenda decisions are subject to due process.

Agenda decisions often include information to help companies applying IFRS Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the question submitted.

Access all IFRIC past agenda decisions issued

- Sorted by date

- Sorted by relevant Standard

Table 3: Agenda decisions not finalised

IFRIC has discussed the following matter and has decided **not** to finalise its tentative agenda decision.

Subject	IFRIC meeting	Key issues and impacts	Likely impact
Sale and leaseback in a corporate wrapper IFRS 10 & IFRS 16	February 2021	*Whether the entity, in the consolidated financial statements, recognises only the amount of the gain that relates to the rights transferred to the third party?* In the fact pattern presented an entity (seller – lessee) enters into a sale and leaseback transaction. The following is assumed: • the seller sells all of its equity interest in a subsidiary to a third party and as a consequence loses control of that subsidiary – the subsidiary holds only one asset (building) and has no liabilities • the seller enters into a contract to lease the building held by the (ex)subsidiary back for a period • the sale satisfied the requirements under IFRS 15 *Revenue from Contracts with Customers* • the sale price equals the fair value of the building and exceeds its carrying amount. The economic effect of the above transaction is the same as if the seller had directly sold its interest in the building and then leased the building back. In September 2020 IFRIC **tentatively** observed that the entity: • First applies IFRS 10 *Consolidated Financial Statements* paragraph 25 and B97 - B99 to derecognise the building held by the subsidiary and recognise the fair value of the consideration received • Then, if the transfer satisfies the requirements in IFRS 15 to be accounted for as a sale, the entity applies IFRS 16 *Leases* paragraph 100(a) to measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the building that relates to the right of use it retains. In addition it recognises only the amount of any gain that relates to the rights transferred to the buyer-lessor. **KPMG comment** This fact pattern is narrow, i.e. the subsidiary only holds one asset and has no liabilities. In February 2021 IFRIC members were concerned about issues that might arise in more complex fact patterns – for example, sells a business and lease back only one asset. **IFRIC decided to recommend to the Board that this matter be added to its standard-setting agenda. The Board has not as yet included this topic on its work plan.**	**Assets** ↓ **Liabilities** **Revenue/income** ↓ **Expenses** **Resources** **KPMG guidance** ▪ Specific – *Insights into IFRS* (4.4.400) **IASB® guidance** ▪ IFRIC decision ▪ Background agenda paper ▪ Meeting recording

Table 4: Other projects

The following is a list other items which are subject to ongoing IFRIC discussion.

Ongoing matters – subject to ongoing IFRIC discussions at future meetings	Support materials
Consolidation of a non-hyperinflationary subsidiary by a hyperinflationary parent IFRIC received a request to determine how a parent with a functional and presentation currency that is hyperinflationary consolidates a subsidiary with a functional currency that is not hyperinflationary. Specifically, does the parent apply IAS 29 *Financial Reporting in Hyperinflationary Economies* to restate the current year and comparative amounts presented for its non-hyperinflationary subsidiary? *Preliminary analysis* In preparing its consolidated financial statements the parent applies paragraphs 39–41 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* to translate the subsidiary's results and financial position into the functional (and presentation) currency of the parent. The parent could then either: • not restate the subsidiary's results and financial position in terms of the measuring unit current at the reporting date (View 1), or • restate the subsidiary's results and financial position in terms of the measuring unit current at the reporting date (View 2). In other words, in the submitted fact pattern, an entity could reasonably read the applicable requirements in IAS 21 and IAS 29 to require - or not require - restatement in terms of the measuring unit current at the reporting date. Further detail is in the background agenda paper.	**Background agenda paper – June 2022** For those interested in the detail – the background agenda paper includes numerical examples of View 1 and View 2. **Background agenda paper – June 2023** **Meeting recording – June 2022** **Meeting recording – June 2023** ***Next steps*** IFRIC continued its discussion at the June 2023 meeting – after further research and outreach. Given findings from the further research and outreach IFRIC decided to refer the matter to the Board for the development of a narrow-scope amendment on the issue submitted.

Further information

Please refer to the KPMG website for the subsequent release of *IFRS News* and *Reporting Updates*.

Contact Us

If you would like to discuss any of these decisions and resultant impacts on your business further, please contact your KPMG advisor.

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