Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	**Other Business – Public**	**Meeting:**	April 2022 (M186)
Topic:	**Cover Memo**	**Agenda Item:**	2
		Date of the Agenda Paper:	7 April 2022
Contact(s):	Helena Simkova hsimkova@aasb.gov.au	**Project Priority:**	n/a
		Decision-Making:	Low
		Project Status:	n/a

Objective of this paper

1 The objective of this paper is to

- inform the Board about topics discussed at the recent IFRS IC meeting; and
- ask the Board to decide which tentative agenda decision to provide feedback on.

2 Please refer to the tables below for details. All tentative agenda decisions are open for comments until 23 May 2022.

3 Does the Board agree with staff suggestions not to comment on the tentative agenda decisions?

IFRS IC UPDATES

Paper No.	Title	IFRIC topic discussed	Previous outreach in AU	Staff recommendation
n/a	IFRS 17 Insurance Contracts – Transfer of Insurance Coverage	**IFRS 17 Insurance Contracts – Transfer of Insurance Coverage** The Committee considered a request on how to recognise a contractual service margin in PL on annuity contracts under group contracts. The request presented 2 different bases of recognition (both over time but different pattern of profit to be recognised over time): - one was based on the annuity payment expected to be claimed in each period; - the other one based on the present value of all annuity payments expected in the future period at the beginning of each period. The Committee decided that the second view does not meet IFRS 17 criteria.	No The topic was discussed at the TRG meetings, the issue few insurers in AU. The IFRIC staff paper was presented at TRG meeting – no major disagreement with the decision.	Staff recommend not to comment on the tentative agenda decision.
n/a	Lease Forgiveness of Lease Payments	This relates to the rent concessions provided during the pandemic (but can relate to concessions in general). The lease receivables are subject to impairment model under IFRS9 (ECL model). The question was, how the lessor asses the receivables that were forgiven: - how should the lessor apply the IFRS 16 criteria;	Yes Based on the outreach there is limited material diversity in practice in lessor's accounting. ASIC issued specific guidance on how it expected lessors to account for this fact pattern	Staff recommend not to comment on the tentative agenda decision.

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		- should the lessor derecognise the receivable under IFRS9 or modify the lease under IFRS16. The IC decided that lessor needs to apply the ECL model criteria, ie recognise credit losses representing the expected cash shortfall (which includes expectations or forgiven lease payments). The IC also decided that the change represents a lease modification, therefore, the lessor needs to account for the modified lease. The receivables already recognised are not part of the new lease payments (as part of the lease are only accrued or prepaid amounts). Therefore, the lessor should: - derecognise operating lease receivables that were forgiven applying IFRS 9; - apply modification rules of IFRS 16 to the forgiven lease payments that were not recognised as receivables yet. No standard-setting project recommended for the lessor part. On the lessee side, the IC concluded that lessee should derecognise the liability (gain into PL) and adjust the right of use asset value for the modified value of future payments. To make clear that IFRS 16 does not override IFRS 9, staff recommended standard-setting activity – excluding from IFRS 16 changes to a lease contract that result only in the extinguishment of the lessee's liability as described in IFRS 9.	(https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/covid-19-implications-for-financial-reporting-and-audit-frequently-asked-questions-faqs/#q9). The guidance recommended that rent forgiven that related to past occupancy was immediately expensed through the P&L. In practice, where lease receivable is accrued on the balance sheet, this would be considered rent for past occupancy, and hence, if forgiven, would be taken to the P&L. The respondents admitted certain diversity in respect of accounting by lessee however it was less common.	

Paper No.	Title	IFRIC topic discussed	Previous outreach in AU	Staff recommendation
n/a	Special purpose acquisition companies (SPAC): Classification of public shares as financial liabilities or equity	The fact pattern stated that some shareholders (B) of SPAC may be entitled to reimbursement of their shares in case of liquidation or if the acquisition of a target company is approved. However, the life of SPAC may be extended if 2/3 of shareholders or 2/3 of shareholders (A) or (B) approve it. The question was whether this decision is within the control of SPAC (as it determines whether the shares would be accounted for as equity or liabilities). The IC did not decide on this as the topic is too narrow. IASB is looking at similar issue as part of the project FICE. No standard-setting project recommended. The IC highlighted the importance of disclosure in the notes about the classification of public shares.	No	Open for comments Staff recommend not to comment on the tentative agenda decision. Staff understand that similar issue is being dealt with as part of the FICE project.
n/a	SPAC: Accounting for Warrants at Acquisition	The fact pattern describes scenario where the SPAC that has been acquired by an entity. Prior to the acquisition SPAC issued warrants and ordinary shares. SPAC has cash and is listed at the stock exchange. Acquiring entity issued shares and warrants in exchange of SPAC's shares and warrants, which have a higher FV. On the accounting treatment the IC concluded the following: the Committee concluded that the entity applies: a. IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service; and	No	Staff agree with the Committee's conclusion and recommend not to comment on the tentative agenda decision.

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		b. IAS 32 in accounting for instruments issued to acquire cash and assume any liabilities related to the SPAC warrants—these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2. The allocation of issued warrants and equity should be accounting policy. No standard-setting activity added.		
n/a	**Tentative agenda decision on demand deposit passed to IASB**	At the past meeting the IC decided that demand deposit held by entity, which can be used only for specified purpose, still qualifies as cash and cash equivalents in the CF. However, it noted that the information should be disclosed (ie breakdown of cash provided). The IASB is to consider this decision.	Yes	Not open for comments.