

IFRIC Update March 2021

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings.

The Committee met on [16 March 2021](#), and discussed:

Committee's tentative agenda decisions

- [Non-refundable Value Added Tax on Lease Payments \(IFRS 16 Leases\)—Agenda Paper 3](#)
- [Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition \(IAS 32 Financial Instruments: Presentation\)—Agenda Paper 4](#)

Committee's agenda decisions

- [Configuration or Customisation Costs in a Cloud Computing Arrangement \(IAS 38 Intangible Assets\)—Agenda Paper 2](#)

Other matters

- [Work in Progress—Agenda Paper 5](#)

Related information

Next scheduled IFRS Interpretations Committee meeting:

20 April 2021

Interpretations Committee open items

For further information about IFRS Interpretations Committee activities, including how to receive past IFRIC *Updates*, follow the [Interpretations Committee page](#).

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add standard-setting projects to the work plan. The Committee will reconsider these tentative decisions, including the reasons for not adding standard-setting projects, at a future meeting. The Committee invites comments on the tentative agenda decisions. Interested parties may submit comments on the [open for comment](#) page by 24 May 2021. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing by 24 May 2021; comments received after that date will not be analysed in agenda papers considered by the Committee.

Non-refundable Value Added Tax on Lease Payments (IFRS 16 Leases)—Agenda Paper 3

The Committee received a request about how a lessee accounts for any non-refundable value added tax (VAT) charged on lease payments. In the fact pattern described in the request:

- a. the lessee operates in a jurisdiction in which VAT is charged on goods and services. A seller includes VAT in an invoice for payment issued to a purchaser. In the case of leases, VAT is charged when an invoice for payment is issued by a lessor to a lessee.
- b. the applicable legislation:
 - i. requires a seller to collect VAT and remit it to the government; and
 - ii. generally allows a purchaser to recover from the government VAT charged on payments for goods or services, including leases.
- c. because of the nature of its operations, the lessee can recover only a portion of the VAT charged on purchased goods or services. This includes VAT charged on payments it makes for leases. Consequently, a portion of the VAT the lessee pays is non-refundable.
- d. lease agreements require the lessee to make payments to the lessor that include amounts related to VAT charged in accordance with the applicable legislation.

The request asked whether, in applying IFRS 16, the lessee includes non-refundable VAT as part of the lease payments for a lease.

Outreach conducted by the Committee provided limited evidence:

- a. that non-refundable VAT on lease payments is material to affected lessees; and
- b. of diversity in the way lessees in similar circumstances account for non-refundable VAT on lease payments.

The Committee has therefore not [yet] obtained evidence that the matter has widespread effect and has, or is expected to have, a material effect on those affected. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 *Financial Instruments: Presentation*)—Agenda Paper 4

The Committee received a request about the application of IAS 32 in relation to the reclassification of warrants. Specifically, the request described a warrant that provides the holder with the right to buy a fixed number of equity instruments of the issuer of the warrant for an exercise price that will be fixed at a future date. At initial recognition, because of the variability in the exercise price, the issuer in applying paragraph 16 of IAS 32 classifies these instruments as financial liabilities. This is because for a derivative financial instrument to be classified as equity, it must be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments ('fixed-for-fixed condition'). The request asked whether the issuer reclassifies the warrant as an equity instrument following the fixing of the warrant's exercise price after initial recognition as specified in the contract, given that the fixed-for-fixed condition would at that stage be met.

The Committee observed that IAS 32 contains no general requirements for reclassifying financial liabilities and equity instruments after initial recognition when the instrument's contractual terms are unchanged. The Committee acknowledged that similar questions about reclassification arise in other circumstances. Reclassification by the issuer has been identified as one of the practice issues the Board will consider addressing in its Financial Instruments with Characteristics of Equity (FICE) project. The Committee concluded that the matter described in the request is, in isolation, too narrow for the Board or the Committee to address in a cost-effective manner. Instead, the Board should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee [decided] not to add a standard-setting project to the work plan.

Committee’s agenda decisions

Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)—Agenda Paper 2

The Committee considered feedback on the [tentative agenda decision](#) published in the December 2020 IFRIC *Update* about how a customer accounts for costs of configuring or customising the supplier’s application software in a Software as a Service arrangement.

The Committee reached its conclusions on the agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s [Due Process Handbook](#), the Board will consider this agenda decision at its April 2021 meeting. Subject to the Board not objecting, the agenda decision will be published in April 2021 in an addendum to this IFRIC *Update*.

Agenda paper 2: Report to the Board

Respondents to the tentative agenda decision highlighted shortcomings in the requirements of IAS 38 in their application to intangible asset arrangements linked to digitalisation. The Committee suggested that the Board consider this feedback as part of its upcoming Agenda Consultation.

Other matters

Work in Progress—Agenda Paper 5

The Committee received an update on the current status of open matters not discussed at its meeting in March 2021.