IFRIC *Update* September 2023

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings. Past *Updates* can be found in the IFRIC *Update* archive.

The Committee met on 12 September 2023 and discussed:

Committee's tentative agenda decisions

- Payments Contingent on Continued Employment during Handover Periods (IFRS 3 *Business Combinations*)—Agenda Paper 2

Agenda decisions for the IASB's consideration

- Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)—Agenda Paper 3
- Homes and Home Loans Provided to Employees—Agenda Paper 4
- Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)—Agenda Paper 5

Other matters

- Work in Progress—Agenda Paper 6

Addendum to IFRIC *Update*—Committee's agenda decisions

- Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)—Agenda Paper 3
- Homes and Home Loans Provided to Employees—Agenda Paper 4
- Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)—Agenda Paper 5

Related information

The work plan

Supporting consistent application

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. 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 up to and including the closing date; comments received after that date will not be analysed in agenda papers considered by the Committee.

Payments Contingent on Continued Employment during Handover Periods (IFRS 3 *Business Combinations*)—Agenda Paper 2

The Committee received a request about how an entity accounts for payments to the sellers of a business it has acquired if those payments are contingent on the sellers' continued employment during a post-acquisition handover period.

Fact pattern

In the fact pattern described in the request:

a. an entity acquires a business and, as part of the acquisition agreement, requires the sellers to continue as employees of the acquired business. The sellers' continued employment is to ensure the appropriate transfer of knowledge from the sellers to the new management team (handover of the business).
b. the sellers are compensated for their services at a level comparable to other management executives. The entity also agrees to make additional payments to the sellers contingent upon both the performance of the acquired business and, as described below, the continued employment of the sellers for a limited period after the acquisition to complete the handover of the business.
c. the sellers are entitled to receive the additional payments if their employment is terminated due to specified circumstances—such as death or disability—or with the entity's agreement. The sellers forfeit the additional payments if their employment is terminated in any other circumstance.

Findings

Evidence gathered by the Committee [to date] does not indicate significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the request. In these fact patterns, entities apply the accounting described in the agenda decision *Contingent payments to shareholders and continuing employment* (published in January 2013) and account for the payments as compensation for post-combination services rather than as additional consideration for the acquisition, unless the service condition is not substantive.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Agenda decisions for the IASB's consideration

Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)—Agenda Paper 3

The Committee considered feedback on the tentative agenda decision published in the March 2023 IFRIC *Update* about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the International Accounting Standards Board (IASB) will consider this agenda decision at its October 2023 meeting. If the IASB does not object to the agenda decision, it will be published in October 2023 in an addendum to this IFRIC *Update*.

Homes and Home Loans Provided to Employees—Agenda Paper 4

The Committee considered feedback on the tentative agenda decision published in the March 2023 IFRIC *Update* about how an entity accounts for employee home ownership plans and employee home loans.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its October 2023 meeting. If the IASB does not object to the agenda decision, it will be published in October 2023 in an addendum to this IFRIC *Update*.

Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)—Agenda Paper 5

The Committee considered feedback on the tentative agenda decision published in the March 2023 IFRIC *Update* about whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or as a derivative.

The Committee concluded its discussions on that agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation's *Due Process Handbook*, the IASB will consider this agenda decision at its October 2023 meeting. If the IASB does not object to the agenda decision, it will be published in October 2023 in an addendum to this IFRIC *Update*.

Other matters

Work in Progress—Agenda Paper 6

The Committee received an update on the status of open matters not discussed at its September 2023 meeting.

Addendum to IFRIC *Update*—Committee's agenda decisions

Agenda decisions, in many cases, include explanatory material. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Accounting Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, an entity may need to obtain new information or adapt its systems to implement a change). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Accounting Standards.

The Committee discussed the following matters and decided not to add standard-setting projects to the work plan.

Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)—Agenda Paper 3

Published in October 2023[1]

The Committee received requests about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary.

In the fact pattern described in the requests, an intermediary acts as a link between an insurer and a policyholder to arrange an insurance contract between them. The policyholder has paid in cash the premiums to the intermediary, but 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 fails to pay the premiums to the insurer, the insurer does not have the right to recover the premiums from the policyholder, or to cancel the insurance contract.

The requests asked whether, in the submitted fact pattern, the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 or are a separate financial asset applying IFRS 9. The requests set out two views.

Under the first view (View 1), the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. Applying View 1, when the policyholder pays the premiums to the intermediary:

[1] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its October 2023 meeting, the IASB discussed, and did not object to, this agenda decision.

a. for a group of contracts to which the premium allocation approach does not apply, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, includes them in the measurement of the group of insurance contracts until recovered in cash; and
b. for a group of contracts to which the premium allocation approach applies, the insurer does not increase the liability for remaining coverage—it does so only when it recovers the premiums in cash from the intermediary.

Under the second view (View 2), because the payment by the policyholder discharges its obligation under the insurance contract, the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary. The insurer therefore determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but, instead, a separate financial asset. Applying View 2, when the policyholder pays the premiums to the intermediary:

a. for a group of contracts to which the premium allocation approach does not apply, the insurer removes the premiums from the measurement of the group of insurance contracts and, applying IFRS 9, recognises a separate financial asset; and
b. for a group of contracts to which the premium allocation approach applies, the insurer increases the liability for remaining coverage and, applying IFRS 9, recognises a separate financial asset.

Applying the requirements in IFRS Accounting Standards

The Committee observed that IFRS 17 is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract.

Paragraph 33 of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts an estimate of all the future cash flows within the boundary of each contract in the group. Paragraph B65 explains that cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including premiums from a policyholder.

The Committee observed that paragraph B65 of IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and premiums to be collected through an intermediary. In applying IFRS 17, premiums from a policyholder collected through an intermediary are therefore included in the measurement of a group of insurance contracts.

Paragraph 34 of IFRS 17 specifies that cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services.

In the fact pattern described in the requests, the insurer has not recovered the premiums in cash, but the policyholder has discharged its obligation under the insurance contract. The Committee observed that IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash.

Therefore, the Committee 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 contracts. The insurer could determine that cash flows are removed when the cash flows are recovered or settled in cash (View 1), or when the policyholder's obligation under the insurance contract is discharged (View 2).

IFRS 17 and IFRS 9 deal differently with the measurement, presentation and disclosure of expected credit losses from premiums receivable from an intermediary. The Committee considered that, depending on which view (View 1 or View 2) an insurer applies, it is required to apply all the measurement and disclosure requirements in the applicable IFRS Accounting Standards. Therefore, an insurer applies either IFRS 17 (including paragraph 131, which requires disclosure of information about the credit risk that arises from contracts within the scope of IFRS 17) or IFRS 9 (and the requirements in IFRS 7 *Financial Instruments: Disclosures*) to premiums receivable from an intermediary.

Conclusion

In the light of its analysis, the Committee considered whether to add a standard-setting project on when cash flows are removed from the measurement of a group of insurance contracts to the work plan. The Committee noted that any such project would involve assessing whether changes to the Accounting Standards would have unintended consequences. This assessment may take considerable time and effort to complete because it would involve, among other steps, analysing a broad range of contracts (not only those set out in the fact pattern described in the requests). The Committee observed that the application of either View 1 or View 2 when accounting for premiums paid by a policyholder and receivable from an intermediary would provide users of financial statements with useful information based on the requirements in IFRS 17 or IFRS 9.

Consequently, the Committee concluded that a project would not be sufficiently narrow in scope that the IASB or the Committee could address it in an efficient manner. The Committee therefore decided not to add a standard-setting project to the work plan.

Homes and Home Loans Provided to Employees—Agenda Paper 4

Published in October 2023[2]

The Committee received a request about how an entity accounts for employee home ownership plans and employee home loans of the types described in two fact patterns.

Fact pattern 1: employee home ownership plans

An entity provides its employee with a house that the entity constructed and owns. In return, 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.

[2] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its October 2023 meeting, the IASB discussed, and did not object to, this agenda decision.

If the employee leaves employment *within* the first five years of the arrangement, the employee forfeits his or her rights to the house and recovers the salary deductions to date. If the employee leaves employment *after* that five-year period, the employee may choose either:

a. to forfeit his or her rights to the house and recover the salary deductions to date; or
b. to keep the house and immediately repay the outstanding balance.

Legal title to the house transfers to the employee only when he or she has paid in full the agreed price for the house.

Fact pattern 2: employee home loans

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; the loan is 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.

Conclusion

Evidence gathered by the Committee indicated that the matters described in the request are not widespread. On the basis of that evidence, the Committee concluded that the matters described in the request do not have widespread effect. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)—Agenda Paper 5

Published in October 2023[3]

The Committee received a request about whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or as a derivative.

The request described a guarantee written over a derivative contract between two third parties. 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 immediately prior to default.

Conclusion

Evidence gathered by the Committee indicated that the matter described in the request is not widespread, and that when the matter does arise, the amounts involved are not material. On the basis of that evidence, the Committee concluded that the matter described in the request does not have widespread effect and it does not have (nor is it expected to have) a material effect on those affected. Consequently, the Committee decided not to add a standard-setting project to the work plan.

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[3] In accordance with paragraph 8.7 of the *Due Process Handbook*, at its October 2023 meeting, the IASB discussed, and did not object to, this agenda decision.