Interpretations Committee Update

Talking points for episode 109

This talking points summarises the March and April 2021 discussions of the IFRS Interpretations Committee.

The Committee considered a question relating to whether **non-refundable value-added tax on lease payments** should be included in lease payments. This appears to be an industry-specific issue relevant to only a few industries and the conclusion depends on applicable legislation. In the most prevalent fact patterns, the non-refundable VAT would not be included as part of lease payments. As the Committee's outreach indicated limited evidence that this issue would have a material effect or result in diversity in practice, it decided that it would not add a standard-setting project to the work plan.

The Committee considered a question about whether **warrants that are classified as financial liabilities on initial recognition** where the exercise price is not fixed at inception, but is fixed at a later point should be reclassified to equity. To be classified as an equity instrument under IAS 32, a warrant must result in the exchange a fixed number of equity instruments for a fixed amount of cash or other financial instruments. The Committee noted that IAS 32 contains no general requirements for reclassification after initial recognition when the contractual terms are unchanged. As the issue is too narrow to consider in isolation, the Committee referred the issued to the Board to be considered in their FICE project.

The Committee finalised its tentative agenda decision (TAD) on **attributing benefit to periods of service**.This issue applies to a particular plan where employees are entitled to the retirement benefit only if employed by the entity at the retirement age, capped at a maximum number of years of service immediately before retirement age. The Committee decided not to add a standard-setting project to the workplan.

The Committee also finalised its TAD relating to a hedge accounting issue that arises when an entity has the objective of fixing cash flows in real terms. The Agenda Decision concludes that the requirements in IFRS 9 provide an adequate basis for an entity to determine whether a hedge of the **variability in cash flows arising from changes in the real interest rate**, rather than the nominal interest rate, could be accounted for as a cash flow hedge, and decided not to add a standard-setting project to the work plan.

The Committee considered the responses on its TAD for **classification of debt with covenants as current or noncurrent.** This TAD relates to amendments to IAS 1 that would be effective from 2023. Further details about this issue are available in Episode 99. The Committee confirmed the technical analysis in its TAD and noted concerns about the implications of the amendment, for example for covenants for entities with growing or seasonal business. The Committee decided to report both tits technical analysis and conclusions, and the respondents' comments on outcomes and potential consequences of those conclusions to the Board, highlighting those that might provide new information to the Board.

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