

6 October 2025

International Accounting Standards Board
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United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION ON IFRS 18

In response to your request for comments on Tentative Agenda Decision on IFRS 18, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

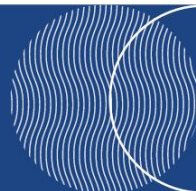
We thank you for the opportunity to provide comments on this Tentative Agenda Decision.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Lead: Financial Reporting

Cc: Kedibone Sono
Head: Financial Reporting



GENERAL COMMENTS ON ALL QUESTIONS:

We acknowledge the Board's intention to revise historical IAS 1 agenda decisions by incorporating references to IFRS 18 paragraphs, in order to promote consistent application and ensure a comparable interpretation during the transition to the new standard. However, we consider that the application and interpretation of IFRS 18 may differ principally from IAS 1 in certain respects. This is evident in the Board's communication, development and issuance of IFRS 18 in areas such as aggregation and disaggregation, useful structured summaries and income statement presentation.

Therefore, we are of the view that the Committee's approach of updating previous IAS 1 agenda decisions by merely substituting paragraph references with those from IFRS 18 may not achieve the intended objective. This approach could potentially lead to unintended consequences in the application and interpretation of IFRS 18 and of the updated agenda decisions. We recommend that the Committee reconsider each agenda decision holistically with the new underlying principles embedded in IFRS 18 when diversity in practice is observed, or when a new submission is received by the Committee requesting additional clarity on the same or similar issues. and determine whether the agenda decision is still necessary under IFRS 18, considering either of the following:

1. whether the standard is sufficiently clear and therefore no diversity in practice is expected; or
2. whether the agenda decisions should be amended in its entirety, applying the new principles in IFRS 18 (which could create unintended diversity in practice).

By proceeding with these agenda decisions, we are concerned that the Committee may be sending a message to preparers that IFRS 18 is not fit for purposes but instead needs to be supported with agenda decisions. We are also concerned with the manner in which these changes have been reflected in the IFRIC Update. Initially it was considered that only the paragraphs that changed in the original agenda decision were being presented, and that unchanged text was denoted by "...". However, we note that unchanged paragraphs have been presented, and further the use of "..." has not been consistently applied to indicate additional unchanged portions of the original agenda decisions. Certain of our constituents have questioned how the IFRIC update should be read. That is, does the IFRIC update only indicate changes that will be made to the original agenda decision which will remain in its entirety, or will the revised agenda decisions only consist of the paragraphs presented. It is assumed that it will be the former, however this is not clear from the inconsistent manner of presentation.

Overall, we would recommend that the Committee do not proceed with these IFRS 18 agenda decisions. However, should the Committee decide to continue with these agenda decisions, we have included certain specific concerns after each agenda decision.

We also recommend that the Board enhance its due process for updating IFRIC agenda decisions upon the issuance of new standards. This would ensure that any necessary updates to historical agenda decisions are subject to an appropriate process before being implemented.

COMMENTS ON SPECIFIC AGENDA DECISIONS:

Overview

At the request of the IASB, the IFRS Interpretations Committee discussed and tentatively decided to propose:

- a. replacing the references to IAS 1 *Presentation of Financial Statements* with references to the new or amended requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* for nine agenda decisions that refer to the general requirements about presentation, materiality and aggregation of information in the financial statements; and

The proposed updates to these agenda decisions are listed individually. New text added to the agenda decision is underlined and deleted text is struck through. The Committee invites comments on the proposed updates to the agenda decisions. The Committee is asking for feedback only about the proposed updates and not about other aspects of these agenda decisions.

1. Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments) — Agenda Paper 5A

The Committee received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 to disclose for each reportable segment specified amounts related to segment profit or loss.

The request asked:

...

- a. ...
- b. whether an entity is required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 *Presentation of Financial Statements* [now paragraph 42 of IFRS 18 *Presentation and Disclosure in Financial Statements*]; and

...

The Committee observed that there are two main aspects to the questions:

...

- a. ...
- b. the meaning of 'material items of income and expense' in the context of paragraph 97 of IAS 1 [now paragraph 42 of IFRS 18] as referenced in paragraph 23(f) of IFRS 8.

Disclosure of specified amounts

...

Material items of income and expense

Paragraph 23(f) of IFRS 8 sets out one of the required 'specified amounts', namely, 'material items of income and expense disclosed in accordance with paragraph 42 of IFRS 18 ~~paragraph 97 of IAS 1~~'. Paragraph 42 of IFRS 18 states that '[a]pplying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material ...'. ~~Paragraph 97 of IAS 1 states that 'when items of income or expense are material, an entity shall disclose their nature and amount separately'.~~

Definition of 'material'

Appendix A of IFRS 18 ~~Paragraph 7 of IAS 4~~ defines 'material information' and states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

Paragraph B2 of IFRS 18 ~~Paragraph 7 of IAS 4~~ also states that 'materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole'.

Aggregation and disaggregation of information

Paragraphs 41–43 of IFRS 18 ~~Paragraphs 30–31 of IAS 4~~ provide ~~provides~~ requirements about how an entity aggregates and disaggregates information in the financial statements, which include the notes. Paragraph 41(d)–(e) of IFRS 18 states that an entity shall 'aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information' and 'ensure that aggregation and disaggregation in the financial statements do not obscure material information ...'. ~~Paragraph 30A of IAS 1 states that 'an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'.~~

Applying paragraph 23(f) of IFRS 8—material items of income and expense

The Committee observed that when IFRS 18 ~~IAS 4~~ 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 users of financial statements make on the basis of those financial statements.

The Committee observed that, in applying paragraph 23(f) of IFRS 8 by disclosing, for each reportable segment, material items of income and expense disclosed in accordance with paragraph 42 of IFRS 18 ~~paragraph 97 of IAS 4~~, an entity:

- a. applies the definition of 'material information' in Appendix A and paragraph B2 of IFRS 18 ~~paragraph 7 of IAS 1~~ and assesses whether information about an item of income and expense is material in the context of its financial statements taken as a whole;
- b. applies the requirements in paragraphs 41–43 of IFRS 18 ~~paragraphs 30–31 of IAS 4~~ in considering how to aggregate and disaggregate information in its financial statements;
- c. considers the nature or magnitude of information—in other words, qualitative or quantitative factors—or both, in assessing whether information about an item of income and expense is material; and
- d. considers circumstances including, but not limited to, those in paragraph B79 of IFRS 18 ~~paragraph 98 of IAS 4~~.

SPECIFIC COMMENTS ON AGENDA DECISION 1

As highlighted in our general comments above, we are concerned that the current updates to agenda decisions may lead to unintended consequences in the application and exercise of judgement, particularly in relation to disaggregation and materiality under IFRS 18.42. IFRS 18 provides detailed guidance on aggregation and disaggregation as it relates to the presentation of useful structured summaries in preparing financial statements. This guidance was not equally present and detailed under IAS 1.97.

Based on the current tentative agenda, it remains unclear whether the application of IFRS 18.42 requires entities to assess materiality solely in relation to the line items presented on the face of the statement of profit or loss, or whether this assessment should also consider information that has been disaggregated and disclosed in the notes to the statement of other comprehensive income when determining the material line items to disclose in the segment report. An unintended consequence of applying IFRS 18 is that disaggregating information in the notes to the financial statements may suggest that these items are material and therefore require disclosure in the segment report. This could override management's judgement in presenting a useful structured summary of items presented on the face of the statement of profit or loss. Conversely, if an entity concludes that aggregation provides a more useful structured summary in terms of IFRS 18, this could affect previously disclosed items in the segment report, where the agenda decision makes it clear that only disaggregated items should be considered when determining material disclosures within the segment report.

We recommend that the Committee reconsiders the agenda decision holistically, focusing on the full application of IFRS 18 principles rather than substituting IAS 1 paragraph references.

2. Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7 Statement of Cash Flows)—Agenda Paper 5A

The Committee received a request about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. In the fact pattern described in the request, the entity:

- a. holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it (that is, were the entity to request any amount from the deposit, it would receive that amount on demand).

- b. has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.

Cash and cash equivalents in the statement of cash flows

...

IAS 7 and IFRS 18 *Presentation and Disclosure in Financial Statements* ~~IAS 1 *Presentation of Financial Statements*~~ indicate that amounts included in cash and cash equivalents may be subject to restrictions, namely:

- a. paragraph 48 of IAS 7 requires an entity to disclose information about 'significant cash and cash equivalent balances held by the entity that are not available for use by the group'; and
- b. ~~paragraph 99(d) of IFRS 18 paragraph 66(d) of IAS 1~~ requires an entity to classify as current an asset that is 'cash or a cash equivalent (as defined in IAS 7), unless the asset is restricted from being exchanged or used to settle a liability for at least 12 ~~twelve~~ months after the reporting period'.

...

Presentation in the statement of financial position

Paragraph 103(k) of IFRS 18 ~~54(i) of IAS 1~~ requires an entity to include a line item in its statement of financial position that presents the amount of 'cash and cash equivalents'. Paragraphs 23–24 of IFRS 18 require an entity to present additional line items and subtotals, and permit an entity to not present separately a required line item, if such presentations are necessary for a primary financial statement to provide a useful structured summary. ~~Paragraph 55 of IAS 1 states 'an entity shall present additional line items (including by disaggregating the line items listed in paragraph 54) ... in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position'.~~

Therefore, the Committee concluded that, in the fact pattern described in the request, the entity presents the demand deposit as cash and cash equivalents in a way that provides a useful structured summary of its statement of financial position. ~~When necessary to provide a useful structured summary of the statement of financial position, the entity would present the demand deposit in an additional line item separately from other cash and cash equivalents. When relevant to an understanding of its financial position, the entity would disaggregate the 'cash and cash equivalents' line item and present the demand deposit separately in an additional line item.~~

An entity that presents assets as current or non-current would classify the demand deposit as current applying paragraph 99(d) of IFRS 18 paragraph 66(d) of IAS 1, unless the demand deposit is 'restricted from being exchanged or used to settle a liability for at least 12 ~~twelve~~ months after the reporting period'.

Disclosures

Paragraph 45 of IAS 7 states that 'an entity shall disclose the components of cash and cash equivalents...'. Applying this requirement, in the fact pattern described in the request, the entity discloses the demand deposit as a component of cash and cash equivalents. The entity also considers whether to disclose additional information:

- a. in the context of the requirements in IFRS 7 *Financial Instruments: Disclosures* about liquidity risk arising from financial instruments and how an entity manages that risk; and
- b. if the information it provides in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient to enable users of financial statements to understand the effect ~~impact~~ of the restrictions on the entity's financial position (paragraph 20 of IFRS 18 paragraph 31 of IAS 1).

SPECIFIC COMMENTS ON AGENDA DECISION 2

The aggregation and disaggregation requirements under IFRS 18 differ from those in IAS 1. IAS 1 permits aggregation based on similar nature and function, whereas IFRS 18 requires aggregation based on shared characteristics, which may

extend beyond these criteria. As illustrated in the IFRIC agenda on restricted demand deposits, applying IFRS 18 could lead to different interpretations and outcomes compared to IAS 1.

We recommended that an assessment be performed to assess if the aggregation and disaggregation criteria in IFRS 18 would result in a different opinion from the existing application of IAS 1.

3. Subsequent Expenditure on Biological Assets (IAS 41 Agriculture)—Agenda Paper 5A

The Committee received a request about the accounting for costs related to the biological transformation (subsequent expenditure) of biological assets measured at fair value less costs to sell applying IAS 41. The request asked whether an entity capitalises subsequent expenditure (i.e. adds it to the carrying amount of the asset) or, instead, recognises subsequent expenditure as an expense when incurred.

...

Accordingly, the Committee concluded that, applying IAS 41, an entity either capitalises subsequent expenditure or recognises it as an expense when incurred. The Committee observed that capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on profit or loss; however, it affects the presentation of amounts in the statement of profit or loss. In assessing how to present such subsequent expenditure in the statement of profit or loss, an entity would apply the requirements in IFRS 18 Presentation and Disclosure in Financial Statements paragraphs 81–105 of IAS 1 Presentation of Financial Statements. In particular, the Committee observed that the entity would:

- a. the entity would—applying paragraphs 23–24 of IFRS 18—present additional line items and subtotals, or not present separately a required line item, if such presentations are necessary for a primary financial statement to provide a useful structured summary applying paragraph 85, ‘present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance; and
- b. if the expenses are classified in the operating category of the statement of profit or loss, the entity would—applying paragraph 78 of IFRS 18—classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of the nature of expenses or the function of the expenses within the entity applying paragraph 99, present in the statement(s) presenting profit or loss and other comprehensive income or in the notes an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

Applying paragraph 13 of IAS 8 Basis of Preparation of Financial Statements ~~IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors~~, an entity would apply its accounting policy for subsequent expenditure consistently to each group of biological assets. An entity would also disclose the selected accounting policy applying paragraphs 27A–27I of IAS 8 ~~paragraphs 117–124 of IAS 4~~ if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance.

SPECIFIC COMMENTS ON AGENDA DECISION 3

The tentative agenda appears to suggest that there are cases where subsequent expenditure, although expensed by the entity, may not necessarily be classified within the operating category under IFRS 18. This raises the consideration that, depending on specific circumstances, such expenses could instead be classified within the financing or investing categories in the statement of profit or loss. We therefore question the clarity and consistency of classification guidance under IFRS 18, particularly in relation to subsequent expenditure items .

4. Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 Statement of Cash Flows)—Agenda Paper 5A

The Committee received a request from users of financial statements (investors) about the disclosure requirements in IAS 7 that relate to changes in liabilities arising from financing activities. Specifically, investors asked whether the disclosure requirements in paragraphs 44B–44E of IAS 7 are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7.

...
Reconciling between the opening and closing balances of liabilities arising from financing activities

...
 The Committee observed that an entity applies judgement in determining the extent to which it disaggregates and explains the changes in liabilities arising from financing activities included in the reconciliation to meet the objective in paragraph 44A. In this respect, the Committee noted the following:

- a. in disaggregating liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraphs 41–43 of IFRS 18 *Presentation and Disclosure in Financial Statements* paragraph 30A of IAS 1 *Presentation of Financial Statements*. Paragraph 41(e) states that an entity shall 'ensure that aggregation and disaggregation in the financial statements do not obscure material information.' ~~Paragraph 30A of IAS 1 states that an entity 'shall not reduce the understandability of its financial statements...by aggregating material items that have different natures or functions'.~~ Accordingly, an entity discloses any individually material items separately in the reconciliation. Such items include material classes of liability (or asset) arising from financing activities and material reconciling items (ie cash or non-cash changes).
- b. in explaining liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraph 113(c) of IFRS 18 ~~paragraph 112(e) of IAS 4~~. Paragraph 113(c) of IFRS 18 ~~Paragraph 112(e) of IAS 4~~ requires an entity to disclose 'other information that is not presented elsewhere in the primary financial statements, but is necessary for relevant to an understanding of any of them'. Accordingly, applying paragraphs 44A–44E, an entity determines the appropriate structure for its reconciliation including the appropriate level of disaggregation. Thereafter, the entity determines whether additional explanation is needed to meet the disclosure objective in paragraph 44A. An entity would explain each class of liability (or asset) arising from financing activities included in the reconciliation and each reconciling item in a way that (i) provides information about its sources of finance, (ii) enables investors to check their understanding of the entity's cash flows, and (iii) enables investors to link items to the statement of financial position and the statement of cash flows, or related notes.

Accordingly, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to disclose information about changes in liabilities arising from financing activities that enables investors to evaluate those changes. Accordingly, the Committee concluded that the disclosure requirements in paragraphs 44B–44E of IAS 7, together with requirements in IFRS 18 ~~IAS 4~~, are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

SPECIFIC COMMENTS ON AGENDA DECISION 4

We do not have any further comments on this agenda decision.

5. Physical Settlement of Contracts to Buy or Sell a Non-financial Item (IFRS 9 Financial Instruments)—Agenda Paper 5A

...

Consequently, the Committee concluded that IFRS 9 neither permits nor requires an entity to make the additional journal entry described in the request. However, the Committee observed that an entity is required to present gains and losses on the derivative, and disclose information about those amounts, applying applicable IFRS Standards, such as IFRS 18 Presentation and Disclosure in Financial Statements ~~IAS 1 Presentation of Financial Statements~~ and IFRS 7 Financial Instruments: Disclosures. In determining what line items to present in profit or loss, the requirements in IFRS 18 ~~IAS 1~~ (including those related to aggregation) are applicable. Paragraphs B70–B76 of IFRS 18 set out requirements for classification of gains and losses on derivatives and designated hedging instruments in categories in the statement of profit or loss. ~~IAS 1 does not specify requirements for the presentation of amounts related to the remeasurement of derivatives.~~ Paragraph 20(a)(i) of IFRS 7 specifies disclosure requirements for net gains or net losses on financial assets or financial liabilities that are mandatorily measured at FVPL applying IFRS 9. For these purposes, in the fact patterns described in the request, there is no gain or loss on the derivative caused by settlement.

SPECIFIC COMMENTS ON AGENDA DECISION 5

In light of the updated references to IFRS 18, it appears that this agenda decision is not warranted on application of IFRS 18. We therefore recommend that the Committee withdraw the decision, consistent with our broader view that the application of IFRS 18 should be reassessed across all historical IAS 1 agenda decisions.

6. Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39 Financial Instruments: Recognition and Measurement and IAS 1 Presentation of Financial Statements)—Agenda Paper 5A

The Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income.

The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 Revenue [IAS 18 has been withdrawn. Paragraph 4.2 of the *Conceptual Framework for Financial Reporting* contains a definition of income], because it reflects a gross outflow, instead of a gross inflow, of economic benefits. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue, but in an appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 24 and 113(c) of IFRS 18 Presentation and Disclosure in Financial Statements ~~paragraphs 85 and 112(c) of IAS 1 Presentation of Financial Statements~~, the entity presents 'additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary', and discloses in the notes 'other information that is not presented in the primary financial statements, but is necessary for an understanding of any of them' ~~is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item.~~

SPECIFIC COMMENTS ON AGENDA DECISION 6

We do not have any further comments on this agenda decision. Please refer above for our general comments that would apply to this agenda decision.

7. Presentation of payments on non-income taxes (IAS 1 Presentation of Financial Statements and IAS 12 Income Taxes)—Agenda Paper 5A

...

The Committee observed that the line item of 'income tax expense or income' ~~'tax expense'~~ that is required by paragraph 75(a)(iv) of IFRS 18 Presentation and Disclosure in Financial Statements requires paragraph 82(d) of IAS 1 Presentation

~~of Financial Statements is intended to require~~ an entity to present taxes that meet the definition of income taxes under IAS 12. The Committee also noted that it is the basis of calculation determined by the relevant tax rules that determines whether a tax meets the definition of an income tax. Neither the manner of settlement of a tax liability nor the factors relating to recipients of the tax is a determinant of whether an item meets that definition. The Committee further noted that the production-based royalty payments should not be treated differently from other expenses that are outside the scope of IAS 12, all of which may reduce income tax payable. Accordingly, the Committee observed that it is inappropriate to consider the royalty payments to be prepayment of the income tax payables. Because the production-based royalties are not income taxes, the royalty payments should not be presented as an income tax expense in the statement of comprehensive income. The Committee considered that, in the light of its analysis of the existing requirements of IFRS 18 ~~IAS 4~~ and IAS 12, an interpretation was not necessary and consequently decided not to add this issue to its agenda.

Classification of tonnage taxes (IAS 12 Income Taxes)—Agenda Paper 5A

...

The IFRIC has previously noted that IAS 12 applies to income taxes, which are defined as taxes that are based on taxable profit, and that the term ‘taxable profit’ implies a notion of a net rather than a gross amount. Taxes either on tonnage transported or tonnage capacity are based on gross rather than net amounts. Taxes on a notional income derived from tonnage capacity are not based on the entity’s actual income and expenses. Consequently, the IFRIC noted that such taxes would not be considered income taxes in accordance with IAS 12 and would not be presented as part of tax expense in the statement of comprehensive income. However, the IFRIC also noted that, in accordance with paragraph 24 of IFRS 18 Presentation and Disclosure in Financial Statements, an entity presents additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary ~~paragraph 85 of IAS 1 Presentation of Financial Statements~~, an entity subject to tonnage tax would present additional subtotals in that statement if that presentation is relevant to an understanding of its financial performance. Given the requirements of IAS 12, the IFRIC decided not to add the issue to its agenda.

Normal operating cycle (IAS 1 Presentation of Financial Statements)—Agenda Paper 5A

The IFRIC considered an issue regarding the classification of current and non-current assets by reference to an entity’s normal operating cycle. It was asked whether the guidance in IAS 1.57(a) ~~[now paragraph 99(a) of IFRS 18]~~ was applicable only if an entity had a predominant operating cycle. This is particularly relevant to the inventories of conglomerates which, on a narrow reading of the wording, might always have to refer to the ~~twelve-month~~ criterion in IAS 1.57(c) ~~[now paragraph 99(c) of IFRS 18]~~, rather than the operating cycle criterion.

...Furthermore, if inventories of different cycles were held, IFRS 18 requires an entity to consider the roles of the primary financial statements and the notes (paragraphs 15–22 of IFRS 18) to determine whether and what additional information to present or disclose and it was material to readers’ understanding of an entity’s financial position, then the general requirement in IAS 1.71 already required disclosure of further information.

SPECIFIC COMMENTS ON AGENDA DECISION 7

We do not have any further comments on this agenda decision. Please refer above for our general comments that would apply to this agenda decision.

8. Supply Chain Financing Arrangements

Overview

At the request of the IASB, the IFRS Interpretations Committee discussed and tentatively decided to propose:

- a. explaining how an entity applies the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* to the fact pattern addressed by the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring*.

Supply Chain Financing Arrangements—Reverse Factoring—Agenda Paper 5B

The Committee received a request about reverse factoring arrangements. Specifically, the request asked:

- a. how an entity presents liabilities to pay for goods or services received when the related invoices are part of a reverse factoring arrangement; and
- b. what information about reverse factoring arrangements an entity is required to disclose in its financial statements.

In a reverse factoring arrangement, a financial institution agrees to pay amounts an entity owes to the entity's suppliers and the entity agrees to pay the financial institution at the same date as, or a date later than, suppliers are paid.

Presentation in the statement of financial position

IFRS 18 *Presentation and Disclosure in Financial Statements* specifies how an entity is required to present line items of liabilities in the statement of financial position. To determine which line items to present, an entity considers:

- a. the roles of the primary financial statements and the notes; and
- b. the principles of aggregation and disaggregation.

The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to investors (referred to as 'a useful structured summary'). The role of the notes is to provide material information. Paragraph 22 establishes the structure of the statement of financial position. Paragraph 96 states an entity is required to present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position (except when a presentation based on liquidity provides a more useful structured summary). Additionally, paragraph 103 of IFRS 18 requires an entity to present in its statement of financial position line items for trade and other payables and financial liabilities other than trade and other payables and provisions. However, an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary.

To determine whether it needs to present additional line items in its statement of financial position an entity applies its judgement based on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) of IFRS 18 assist an entity in identifying the nature or function of assets and liabilities.

An entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:

- a. aggregated within a line item that includes only trade and other payables;
- b. aggregated within a line item that includes financial liabilities other than trade and other payables; or
- c. disaggregated as a separate line item.

To identify the nature or function of these liabilities, the entity might consider their characteristics, such as:

- a. *duration and timing of settlement*—the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.
- b. *liquidity*—the extent to which the entity has concentrated with finance providers a portion of its financial liabilities originally owed to suppliers, and whether additional security is provided as part of the arrangement that would not be provided without the arrangement.
- c. *type*—assessed using these requirements:
 - i. paragraph 59 of IFRS 18 which requires an entity to distinguish between: (a) liabilities that arise from transactions that involve only the raising of finance; and (b) liabilities that arise from transactions that do not involve only the raising of finance. Paragraph B51(b) lists as an example of liabilities in (a) a liability under a supplier finance arrangement when the payable for goods or services is derecognised. Paragraph B53(a) lists as an example of liabilities in (b) payables for goods or services that will be settled in cash.
 - ii. paragraph B96 of IFRS 18 explains that '[s]ome current liabilities, such as trade payables ...are part of the working capital used in an entity's normal operating cycle'.

- iii. paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that 'trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier'.
- d. tax effects—whether liabilities that are part of a reverse factoring arrangement might have a different tax base to trade and other payables.
- e. restrictions on the transferability of a liability—whether the reverse factoring arrangement might restrict the transfer of the associated liabilities.

The Committee observed that:

- a. an entity presents a financial liability as a trade payable only if it:
 - i. represents a liability to pay for goods or services;
 - ii. is invoiced or formally agreed with the supplier; and
 - iii. is part of the working capital used in the entity's normal operating cycle.
- b. an entity presents other payables together with trade payables only if those other payables share at least one similar characteristic with trade payables other than meeting the definition of liabilities—for example, if the other payables are part of the working capital used in the entity's normal operating cycle.
- c. an entity presents the liabilities that are part of a reverse factoring arrangement separately if these liabilities have sufficiently dissimilar characteristics from other liabilities that such presentation in the statement of financial position is necessary for the statement of financial position to provide a useful structured summary.
- d. paragraph B111 of IFRS 18 states that trade payables disaggregated in accordance with IAS 7 *Statement of Cash Flows* might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information.

~~IAS 1 *Presentation of Financial Statements* specifies how an entity is required to present its liabilities in the statement of financial position. Paragraph 54 of IAS 1 requires an entity to present 'trade and other payables' separately from other financial liabilities. 'Trade and other payables' are sufficiently different in nature or function from other financial liabilities to warrant separate presentation (paragraph 57 of IAS 1). Paragraph 55 of IAS 1 requires an entity to present additional line items (including by disaggregating the line items listed in paragraph 54) when such presentation is relevant to an understanding of the entity's financial position. Consequently, an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:~~

- ~~a. within trade and other payables;~~
- ~~b. within other financial liabilities; or~~
- ~~c. as a line item separate from other items in its statement of financial position.~~

~~Paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that 'trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier'. Paragraph 70 of IAS 1 explains that 'some current liabilities, such as trade payables... are part of the working capital used in the entity's normal operating cycle'. The Committee therefore concluded that an entity presents a financial liability as a trade payable only when it:~~

- ~~a. represents a liability to pay for goods or services;~~
- ~~b. is invoiced or formally agreed with the supplier; and~~
- ~~c. is part of the working capital used in the entity's normal operating cycle.~~

~~Paragraph 29 of IAS 1 requires an entity to 'present separately items of a dissimilar nature or function unless they are immaterial'. Paragraph 57 specifies that line items are included in the statement of financial position when the size, nature or function of an item (or aggregation of similar items) is such that separate presentation is relevant to an understanding of the entity's financial position. Accordingly, the Committee concluded that, applying IAS 1, an entity presents liabilities that are part of a reverse factoring arrangement:~~

- ~~a. as part of 'trade and other payables' only when those liabilities have a similar nature and function to trade payables—for example, when those liabilities are part of the working capital used in the entity's normal operating cycle.~~
- ~~b. separately when the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position. In assessing whether it is required to present such liabilities separately (including whether to disaggregate trade and other payables), an entity considers the amounts, nature and timing of those liabilities (paragraphs 55 and 58 of IAS 1).~~

~~The Committee observed that an entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example:~~

- ~~a. whether additional security is provided as part of the arrangement that would not be provided without the arrangement.~~
- ~~b. the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.~~

Derecognition of a financial liability

An entity assesses whether and when to derecognise a liability that is (or becomes) part of a reverse factoring arrangement applying the derecognition requirements in IFRS 9 *Financial Instruments*.

An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies IFRS 18 IAS 4 in determining how to present that new liability in its statement of financial position (see 'Presentation in the statement of financial position').

Presentation in the statement of cash flows

...

Notes to the financial statements

...

An entity applies judgement in determining whether to provide additional disclosures in the notes about the effect of reverse factoring arrangements on its financial position, financial performance and cash flows. The Committee observed that:

- a. assessing how to present liabilities and cash flows related to reverse factoring arrangements may involve judgement. An entity discloses the judgements that management has made in this respect if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements (paragraph 27G of IAS 8 *Basis of Preparation of Financial Statements* paragraph 122 of IAS 4).
- b. reverse factoring arrangements may have a material effect on an entity's financial statements. An entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements (paragraph 113 of IFRS 18 paragraph 442 of IAS 4). The Committee noted that making materiality judgements involves both quantitative and qualitative considerations.

Paragraph 44A of IAS 7 requires an entity to provide 'disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes'. The Committee noted that such disclosure is required for liabilities that are part of a reverse factoring arrangement if the cash flows for those liabilities were, or future cash flows will be, classified as cash flows from financing activities.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of liabilities that are part of reverse factoring arrangements, the presentation of the related cash flows, and the information to disclose in the notes about, for example, liquidity risks that arise in such arrangements. Consequently, the Committee decided not to add a standard-setting project on these matters to the work plan.

SPECIFIC COMMENTS ON AGENDA DECISION 8

We do not have any further comments on this agenda decision.

We respectfully note that this was the only agenda decision the Committee reconsidered, and that limited insight was provided into the rationale for selecting this particular decision for holistic review, while others were not similarly addressed. Greater transparency in the decision-making process would be helpful in understanding the Board's approach to reassessing historical agenda decisions under IFRS 18.