



Outlook

Re: Two Tentative Agenda Decision(s) issued by the IASB for comments

From ICAI BANGALORE <bangalore@icai.org>**Date** Thu 10/10/2024 12:36 PM**To** asb@icai.in <asb@icai.in>

1 attachments (19 KB)

AS & IFRS Comments.docx;

Chairman

लेखा मानक बोर्ड

Accounting Standards Board

भारतीय सनदी लेखाकार संस्थान

The Institute of Chartered Accountants of India

Dear Sir,

We are pleased to submit the inputs / suggestions from Chartered Accountants and other stakeholders on the Exposure Draft of comments on the IFRS Interpretations Committee's tentative agenda decision regarding Guarantees Issued on Obligations of Other Entities. In this regard, the Bengaluru Branch has obtained suggestions from the Members. Kindly find the following suggestions :

1. Clarification of the term 'debt instrument':

The IFRS Committee noted that there is diversity in practice regarding the interpretation of the term 'debt instrument' within the definition of a financial guarantee contract in IFRS 9. While the Committee decided that entities should apply judgment based on the terms and conditions of the contract, this approach could lead to inconsistency in financial reporting. It would be beneficial to provide further clarification or guidance on how the term 'debt instrument' should be interpreted in different contexts, especially for guarantees related to non-traditional obligations such as service contracts or partnership agreements.

2. Diversity in Practice:

The tentative agenda decision recognizes the diversity in practice when it comes to guarantees issued on obligations of joint ventures, associates, subsidiaries, and other entities. The current guidance may not provide a consistent framework for entities to evaluate guarantees across various fact patterns. A more structured clarification of the accounting treatment based on specific circumstances (financial vs. non-financial guarantees) would improve comparability and reliability in financial statements across different entities and industries.

3. Consideration of Multiple Standards:

The decision requires entities to evaluate the applicability of various standards—IFRS 9, IFRS 17, IFRS 15, and IAS 37—when accounting for guarantees. While this approach ensures flexibility, it introduces complexity and the risk of inconsistent application. Entities may struggle to apply the correct standard due to judgmental assessments. Additional illustrative guidance, practical examples, or flowcharts would be useful to help preparers determine which standard applies in various scenarios.

4. Clarifying the Role of IAS 37:

In cases where a guarantee is neither a financial guarantee contract nor an insurance contract, IAS 37 applies. However, the boundary between a financial guarantee contract under IFRS 9 and a contingent liability under IAS 37 may not always be clear. More explicit criteria or practical examples illustrating when IAS 37 should be applied to guarantees would aid in better differentiation and reduce ambiguity.

5. Lack of Standard-Setting Project:

The decision not to add a standard-setting project is understandable due to the current framework's flexibility, but given the diversity in practice, additional guidance is essential. The current decision risks perpetuating inconsistency in how entities account for guarantees. It may be worth reconsidering a limited standard-setting project focused on clarifying the key

Comments on the Exposure Draft

terms and scoping issues, particularly around financial guarantees, insurance contracts, and IAS 37.

6. Impact on Consolidated vs. Separate Financial Statements:

The agenda decision acknowledges that the issues raised apply to both consolidated and separate financial statements. However, the potential differences in accounting treatment across these two sets of financial statements warrant further exploration, especially concerning disclosures. Providing further guidance on how entities should handle guarantees in consolidated financial statements could help standardize reporting.

Conclusion:

While the existing IFRS standards provide a solid foundation, additional clarification and guidance on applying IFRS 9, IFRS 17, and IAS 37 to guarantees would enhance consistency and comparability. The decision to avoid a standard-setting project is understandable but should be balanced with enhanced practical guidance to address diversity in practice.

Chairman

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Please do not print this email unless it is absolutely necessary.
Spread environmental awareness.

On Tue, 1 Oct 2024 at 15:35, asb@icai.in <asb@icai.in> wrote:

October 1, 2024

Dear Sir/Madam,