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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS IC: Addendum on accounting for customisation costs for SaaS published

Editorial

Dear Readers,

The IFRS Interpretations Committee (IFRS IC or the ‘Committee’) discussed the specifics of accounting for the costs of configuring and customising application software in a ‘Software as a Service’ (SaaS) arrangement. In this edition of novus IFRS, we bring you up to speed on the results of the deliberations on this topic, as well as on other important topics that the standard-setters addressed in the second quarter of 2021.

The IASB published the Exposure Draft Management Commentary for management reporting under IFRS. Even though the management commentary is to remain a voluntary component of the IFRS financial statements, this project still sends important signals for the narrative reporting of publicly traded companies. In addition, the Board resolved amendments to IAS 12 concerning deferred tax related to assets and liabilities arising from a single transaction. It also issued an exposure draft intended to improve the accounting for foreign currency transactions where there is a lack of exchangeability between two currencies in accordance with IAS 21; this is open for comment.

Finally, we report on recent important agenda decisions by the Committee that were published in the ‘IFRIC Update’, as well as on the end of two-step financial reporting enforcement in Germany, sealed with the termination of Germany’s contract with the German Financial Reporting Enforcement Panel (DPR) at the end of this year.

We hope you enjoy reading this ‘novus IFRS’. We would be happy to help you if you have questions on any of the topics.

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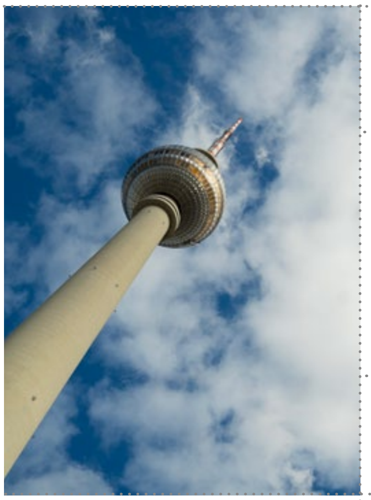
CONTENT



IFRS IC: Addendum on accounting for customisation costs for SaaS published

On 27 April 2021, the IFRS Interpretations Committee (the 'Committee') published an agenda decision as an addendum to IFRIC Update March 2021 on accounting for configuration and customisation costs in a 'Software as a Service' (SaaS) arrangement.

This sets out that a customer who has entered into a SaaS agreement for configuration and customising is required to recognise an intangible asset if the recognition criteria in IAS 38 are met. The Committee assumes in most cases that these criteria are not met. However, it argues that in some circumstances, for example in the case of additional code, an intangible asset as defined in IAS 38 could exist because the intangible asset can be controlled through the code.

Where an intangible asset is not required to be recognised, the configuration and customisation costs pursuant to IAS 38 must be recognised as an expense when incurred, i.e. when the underlying service is performed. If payment is made for services that are not performed until a later date, a prepayment asset must be recognised.

The "distinct" criterion provided for in IFRS 15 shall be used to determine whether configuration and customisation services and the SaaS services must be considered separate services in assessing when the corresponding expense is to be recognised. Where the configuration and customisation services are to be provided by a third-party supplier, the costs shall be subsequently recognised as an expense when the third-party supplier configures or customises the software.

Note: The agenda decision can be downloaded from the IASB's website here.

IASB publishes 'Management Commentary' Exposure Draft (management reporting)

The IASB published its 'Management Commentary' Exposure Draft on 27 May 2021. The comment letter period is open until 23 November 2021. The exposure draft would supersede IFRS Practice Statement 1 'Management Commentary'.

The Practice Statement was issued in 2010. However, the IASB believes that investors' information needs have evolved, leading many organisations to develop guidelines for the narrative reporting. The objective of the IASB project is to develop a comprehensive conceptual framework based on the existing guidelines, part of which will concentrate solely on specific topics and/or on specific industries. The conceptual framework is designed to help an entity's management select the information to be reported and present this information in the management commentary and, at the same time, provide an effective base for regulators to enforce the revised Practice Statement and for auditors to assess compliance with it.

The management commentary is to focus on an assessment of the reporting entity's financial performance and financial position as well as its long-term prospects. For this, building on the IFRS financial statements, entities shall focus on key matters in six areas of content from the perspective of management and also present the relationships between these areas. The areas of content involve

- the entity's external environment,
- risks to which the entity is exposed,
- the entity's business model,
- management's strategy,
- key resources and relationships and
- the entity's financial performance and financial position

According to the new exposure draft, the management commentary shall also remain a voluntary addition to the IFRS financial statements, which means that financial statements can comply with IFRS Standards even if they are not accompanied by management commentary. For German companies, the provisions of the German Commercial Code (HGB) governing preparation of a management report continue to apply in all cases.

Note: The exposure draft can be downloaded from the IASB's website here.

IASB issues amendments to IAS 12

The IASB issued specific amendments to IAS 12 on 7 May 2021 that will become effective for annual reporting periods beginning on or after 1 January 2023 at the latest. Earlier application is permitted. The amendments clarify how companies account for deferred tax related to assets and liabilities arising from a single transaction, i.e. the recognition of a lease or the inclusion of decommissioning obligations in the initial measurement of an asset.

The IFRS Interpretations Committee received a submission in which it was assumed that lease payments and decommissioning costs were deductible for tax purposes when paid. The Committee referred the issue to the Board; this discussed the issue and in July 2019 published an exposure draft of proposed clarifying amendments, which have now been finalised. The change implemented is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. These exemptions provide that a deferred tax liability is not required to be recognised if temporary differences arise on initial recognition of an asset or a liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit at the time of the transaction.

This exemption no longer applies to transactions through which both deductible and taxable temporary difference arise at the same time for the reporting entity. A newly added paragraph 12.22A contains an explicit reference to leases as the main application of the revised provision.

Note: The amended standard can be downloaded from the IASB's website here.

IASB publishes limited changes in relation to a lack of exchangeability between two currencies in accordance with IAS 21

The IASB issued Exposure Draft ED 2021/4 – Lack of Exchangeability on 20 April 2021. The proposed amendments are designed to help to assess

- **when** a currency is exchangeable into another currency and, consequently, when it is not;
- **how** an entity determines the exchange rate to apply when a currency is not exchangeable; and
- **the information** an entity provides in the notes when a currency is not exchangeable.

IAS 21 governs currency translation for foreign currency transactions and foreign operations. This is normally relevant for the preparation of consolidated financial statements. So far, however, IAS 21 does not contain any guidance for cases where there is no observable exchange rate (no spot rate).

Note: The comment period ends on 1 September 2021. The exposure draft can be downloaded from the IASB's website here.

IFRS Interpretations Committee agenda decisions

If the IFRS Interpretations Committee takes the position that an issue addressed to the Committee is not suitable as a basis for an interpretation, the decision not to add it to its agenda is published in the IFRIC Update. In addition to a description of the fact pattern, this 'tentative agenda decision' also gives the reasons for the negative decision. After the end of a comment period of at least 30 days, the Committee decides on the final wording of the decision, including the rationale.

Some of the negative agenda decisions of the IFRIC IC also contain material statements on IFRS accounting (non-interpretations, non-IFRICs). The agenda decisions are explicitly published by the IASB for information purposes only. Nevertheless, the IASB believes that preparers must not ignore the IFRIC IC's agenda decisions and may only depart from them if there are compelling reasons for doing so.

Note: The following table provides a brief overview of the issues addressed by the IFRS Interpretations Committee's agenda decisions in the period from 16 March 2021 to 23 June 2021. A detailed description of the fact patterns and the decision are published as IFRS IC agenda decisions in the IFRIC Update.

IFRIC Update June 2021

Standard/Issue	Excerpts from the key agenda decisions
IFRS 9/IAS 20: Transactions in the ECB's TLTRO III programme	The Committee received a query as to whether the TLTRO III tranches represent loans with a below-market interest rate that are required to be accounted for as government grants. In addition, several questions were asked about the application of IFRS 9 to the TLTRO III tranches. The Committee concluded that it could not assess whether a government grant is involved because this would require an assessment of non-accounting-related issues. According to the Committee, the other issues cannot be viewed in isolation and must therefore be considered as part of a post-implementation review of IFRS 9 by the IASB.
IFRS 16: Power purchase agreement relating to a windfarm	Where – in an electricity market in which customers and suppliers are unable to enter into contracts directly with each other for the purchase and sale of electricity and the electricity is sold in a pool – an electricity retailer (customer) enters into an agreement with a windfarm generator (supplier) to swap the electricity spot price for a fixed price over 20 years, the customer does not receive the right to obtain substantially all the economic benefits from use of the windfarm. A key factor in the decision was that with the swap the customer does not acquire the right to procure electricity from the windfarm or to receive a specified volume of electricity from the supplier.

IFRIC Update March 2021

Standard/Issue	Excerpts from the key agenda decisions
IFRS 16: Non-refundable value added tax on lease payments	The Committee received a query as to whether the lessee is required to account for any non-refundable value added tax charged on lease payments as part of the lease payments. The Committee decided not to add this matter to its agenda because it has not yet obtained evidence that the matter has a material effect on those lessees affected.
IAS 32: Accounting for warrants that are classified as financial liabilities on initial recognition	Where the exercise price of a warrant is not yet fixed at the time the equity instruments are granted, the warrant must be classified as debt. The question was whether the warrant has to be reclassified as equity if the exercise price is fixed at a future date. The Committee decided that the matter is, in isolation, too narrow for the Board or the Committee to address and that the Board should consider the matter as part of its broader discussions on the Financial Instruments with Characteristics of Equity (FICE) project.

EU Endorsement Status Report

The following table includes standards and interpretations not yet endorsed by the EU or endorsed by the EU after 1 January 2021. The table is based on the most recent EU Endorsement Status Report published by the EFRAG on 7 May 2021 (as at 23 June 2021).

Standards	IASB effective date	EU endorsement
IFRS 17: Insurance Contracts (18 Mar 2017), incl. amendments to IFRS 17 (25 June 2020)	1 January 2023	Outstanding
Amendments		
IAS 1: Classification of Liabilities as Current or Non-current (23 Jan 2020) and IAS 1: Classification of Liabilities as Current or Non-current – Deferral of Effective Date (15 July 2020)	1 January 2023	Outstanding
IFRS 3: Business Combinations; IAS 16: Property, Plant and Equipment; IAS 37: Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements Process 2018–2020 cycle (all 14 May 2020)	1 January 2022	Outstanding
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023	Outstanding
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (12 Feb 2021)	1 January 2023	Outstanding
Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (31 Mar 2021)	1 April 2021	Outstanding
Amendments to IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023	Outstanding
IFRS 4: Insurance Contracts – Deferral of IFRS 9 (25 June 2020)	1 January 2021	15 December 2020
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16: Interest Rate Benchmark Reform – Phase 2 (27 Aug 2020)	1 January 2021	13 January 2021

FISG: Update on the enforcement procedure (end of the DPR)

On 1 July 2021, the Financial Market Integrity Strengthening Act (FISG) entered into force after being adopted by the Bundestag and Bundesrat at the end of May. Along with extensive amendments in relation to auditor independence and corporate governance, the Act includes significant changes to the enforcement procedure. The existing two-step procedure based on voluntary participation by companies will be abolished and replaced by a one-step procedure. Going forward, the Federal Financial Supervisory Authority (BaFin) will therefore have sole responsibility for financial reporting enforcement, while the German Financial Reporting Enforcement Panel (DPR) will be dissolved at the end of the year. BaFin will continue any pending DPR proceedings.

BaFin will receive more extensive sovereign powers to fulfil its mandate. If there is a suspicion of accounting violations, BaFin is authorised to visit the companies concerned, conduct searches and seizures and interview both employees of the company and its auditors. In addition, there will be greater information sharing between BaFin and other regulatory bodies such as the Auditor Oversight Authority (APAS). BaFin is also allowed to inform the public in greater detail and earlier than before about ongoing proceedings.

Note: More information on the amendment of the FISG is provided in German in the current edition of our Novus client information as well as on our website. You can find the text of the FISG on the website of Germany's Federal Finance Ministry.

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