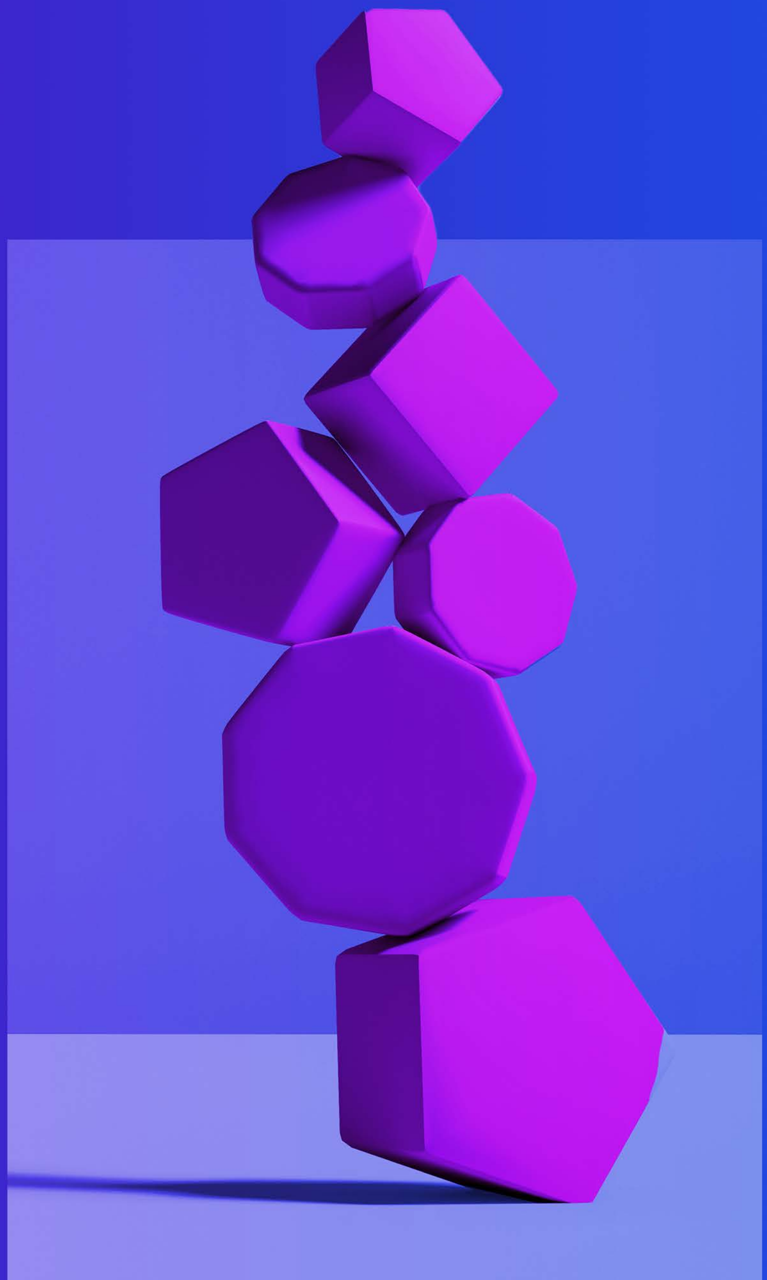
Accounting newsletter



July 2024
KPMG Lower Gulf

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Foreword

This edition of our quarterly accounting newsletter provides essential updates and practical insight across financial reporting and sustainability reporting. It covers significant topics such as the release of a detailed guide on IFRS 18, the introduction of IFRS 19, updates regarding electronic payments for financial instruments, and the classification of instruments with ESG-linked features. We also delve into sustainability reporting with updates from the ISSB on agenda priorities, as well as benchmarking climate-related disclosures in the banking and insurance sectors.

We trust this newsletter will equip you with valuable knowledge to navigate current challenges and opportunities in the accounting and reporting landscape. To find out more about how KPMG can help your organization with your accounting needs, please feel free to get in touch with any of the contacts listed in this publication.

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Updates on financial reporting requirements

IFRS 18 | Get ready using our detailed guide

IFRS 18 *Presentation and Disclosure in Financial Statements* brings significant changes to how companies present their income statement and what information they need to disclose. It also makes certain 'non-GAAP' measures part of their audited financial statements for the first time. All companies are affected, so they need to prepare now.

The new standard is effective for annual periods beginning on or after 1 January 2027 but preparing for its implementation will take time. Companies will need to make new judgements, navigate many new requirements and oversee changes to systems and processes.

To help these companies understand the new standard and its impacts, our First Impressions publication provides our detailed insight and comprehensive analysis of IFRS 18, together with illustrative examples.

IFRS 19 | Reducing disclosures for subsidiaries

Subsidiaries of companies using IFRS Accounting Standards can substantially reduce their disclosures and focus more on users' needs following the release of IFRS 19 *Subsidiaries without Public Accountability: Disclosures* by the International Accounting Standards Board (IASB).

IFRS 19 offers eligible subsidiaries a practical way of addressing the problems of over-disclosure while reducing their reporting costs. Eligible subsidiaries can choose to apply the standard for reporting periods beginning on or after 1 January 2027. Earlier application is permitted.

Read more

Updates on financial reporting requirements cont.

Financial instruments | Settlement by electronic payments

The question of when to recognize or derecognize a trade receivable or payable seems relatively simple on the surface. However, it has generated a significant amount of debate because there is diversity in practice on both sides of the transaction.

Companies that recognize or derecognize financial assets or financial liabilities on the payment initiation date could see a change to their accounting, following amendments to IFRS 9 *Financial Instruments* issued by the IASB.

However, companies may be permitted to derecognize financial liabilities settled by an electronic payment system earlier than the settlement date, subject to meeting certain criteria.

Read more

Financial instruments | Classification of financial instruments with ESG-linked features

Over the past few years, questions have arisen regarding how to classify some financial assets with ESG-linked features – e.g. a loan with a reduction in its interest rate if a specified ESG target is met by the borrower – under existing requirements. As the global market for these financial assets is growing rapidly, there has been an urgent need for clarification on how such features should be analyzed.

The IASB has amended IFRS 9 following its post-implementation review of the classification and measurement requirements. The amendments include guidance on the classification of financial assets, including those with contingent features, and will help companies to assess whether these meet the SPPI (solely payments of principal and interest) criterion.

The IASB has also amended IFRS 7 *Financial Instruments: Disclosures*. Companies will now be required to provide additional disclosures on financial assets and financial liabilities that have certain contingent features.

Read more

Contracts for renewable electricity | IASB proposals

Companies face challenges in applying IFRS 9 to renewable electricity contracts – sometimes referred to as power purchase agreements (PPAs). The IASB is seeking to address these challenges with proposed amendments to the:

- application of the own use exemption to PPAs; and
- hedge accounting requirements for PPAs.

The IASB is also proposing to add new disclosure requirements for certain PPAs to IFRS 7 and IFRS 19.

Read more

Guides on financial reporting

Net-zero commitments | When to recognize a liability and how to tell a connected story

Many companies have made 'net-zero' and similar climate-related commitments. Users of the financial statements, regulators and the public are raising questions about the financial reporting impacts of such commitments – in particular when they trigger a liability. Stakeholders are focused on whether companies are telling a clear and connected net-zero story across different forums and reports, including their financial statements.

Companies need to assess their plans to meet such commitments and determine the financial reporting impacts for each action under IFRS Accounting Standards. When determining whether to recognize a liability, companies need to apply a two-test approach.

Read our web article and talkbook to find out more

Given the increased focus on climate, we have also refreshed our climate change resource centre, which brings together FAQs to help companies identify the potential financial statement impacts on their business.

Bookmark our climate change resource centre to stay up to date on the latest climate-related reporting developments..

Global minimum top-up tax in financial reports | Your questions answered

Many countries have amended their local laws to introduce a global minimum top-up tax as part of the international tax reform.

As you prepare your financial statements, you may have a number of practical questions. Our web article and accompanying video answer your questions on two key issues:

- interim reporting; and
- recharges of Pillar Two taxes.

Insurers' full-year reporting under IFRS 17 and IFRS 9

In our analysis of the first full-year reports of 53 insurers for the year ended 31 December 2023, we share our key observations on:

- the accounting policies, disclosures and significant judgements applied by insurers under IFRS 17 *Insurance Contracts* and IFRS 9;
- the impacts of IFRS 17 on key performance indicators (KPIs); and
- transition to IFRS 17 and IFRS 9.

Read more

Check the latest updates to Insights into IFRS

Insights - your tool for applying IFRS Accounting Standards - has been updated for new guidance on:

- insurance contracts (see chapter 8.1); and
- global minimum top-up tax ('Pillar Two'):
  - impact on impairment of non-financial assets (see chapter 3.10);
  - interim reporting (see chapter 5.9); and
  - recharge arrangements (see chapter 3.13).

The effective date of the update is the same as that of the 20th Edition – i.e. annual periods beginning on or after 1 January 2023.

Insights into IFRS is available as an e-book on ProView™. Speak to your usual KPMG contact to order your copy.

Sustainability reporting

ISSB | Agenda priorities update

Having published its first two standards – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, the International Sustainability Standards Board (ISSB) has now decided what it will focus on next.

The ISSB has decided to split its time between:

- supporting implementation of IFRS S1 and S2 (the highest level of focus);
- enhancing Sustainability Accounting Standards Board (SASB) Standards; and
- new research projects on biodiversity, ecosystems and ecosystem services (BEES) and human capital.

Read more

ISSB Standards and ESRSs | Joint guidance on interoperability

Interoperability between sustainability reporting frameworks is a key issue for companies that might be required to report under both ISSB Standards and European Sustainability Reporting Standards (ESRSs). This is because when disclosures are not aligned, companies may have to report similar information in different ways, creating duplication and an unnecessary burden.

Companies now have a list of areas of climate-related disclosures to look out for when dual adopting, whether they start from the ISSB Standards and want to understand what the differences are to comply with ESRSs, or vice versa.

Read more

ESRSs | EFRAG guidance on implementation

The European Financial Reporting Advisory Group (EFRAG) has published three implementation guidance documents on some of the more challenging aspects of ESRSs.

- **Materiality:** an illustrative double materiality assessment process and practical guidance on how to determine both impact and financial materiality when applying ESRS 1 *General requirements*.
- **Value chain:** practical guidance on how to implement the value chain requirements in ESRSs.
- **Datapoints:** a complete list of the disclosure requirements and related application requirements in the sector-agnostic standards

This non-authoritative guidance aims to support companies applying ESRSs.

Read more

Banks | Benchmarking climate-related disclosures

Investors are demanding ever more comprehensive disclosures on the impact of climate-related matters. They are expecting a company's financial statements, management discussion and analysis (MD&A) and sustainability-related disclosures to provide a coherent, connected and integrated picture of the risks and opportunities facing the business.

Our latest analysis of the climate-related disclosures made by 35 major banks as part of their 2023 reporting cycle shows that banks are responding to the demands for greater disclosure of climate-related information.

They are now on a journey to connect the pieces together and create a narrative that is more meaningful and clearer for their users.

Highlights include:

- 60% mention climate in the financial statements but disclosures are usually limited;
- 94% obtain limited assurance and 29% obtain reasonable assurance; and
- 67% disclose restatements of previously disclosed emissions, typically due to improvements in data quality or enhancements to the methodology.

For our full analysis, read the report.

Insurers | Benchmarking climate-related disclosures

Our equivalent analysis for insurers covers 47 major insurers and also shows that while progress continues, the opportunity for insurers to tell a more connected story remains.

Highlights include:

- 55% mention climate in the financial statements but disclosures are usually limited;
- 10% disclosed insurance-associated emissions – reflecting data and methodology challenges; and
- 51% acknowledge nature-related risks to their operations.

For our full analysis, read the report.

About KPMG Lower Gulf

For 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. KPMG firms operate in 143 countries and territories, and in FY23, collectively employed more than 270,000 partners and people. Established in 1973, KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise.

For 50 years, KPMG Lower Gulf has provided audit, tax and advisory services to public and private sector clients and continues to serve the needs of business, governments, public-sector agencies, not-for-profits and through the firms' audit and assurance practices, the capital markets. As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. KPMG is committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

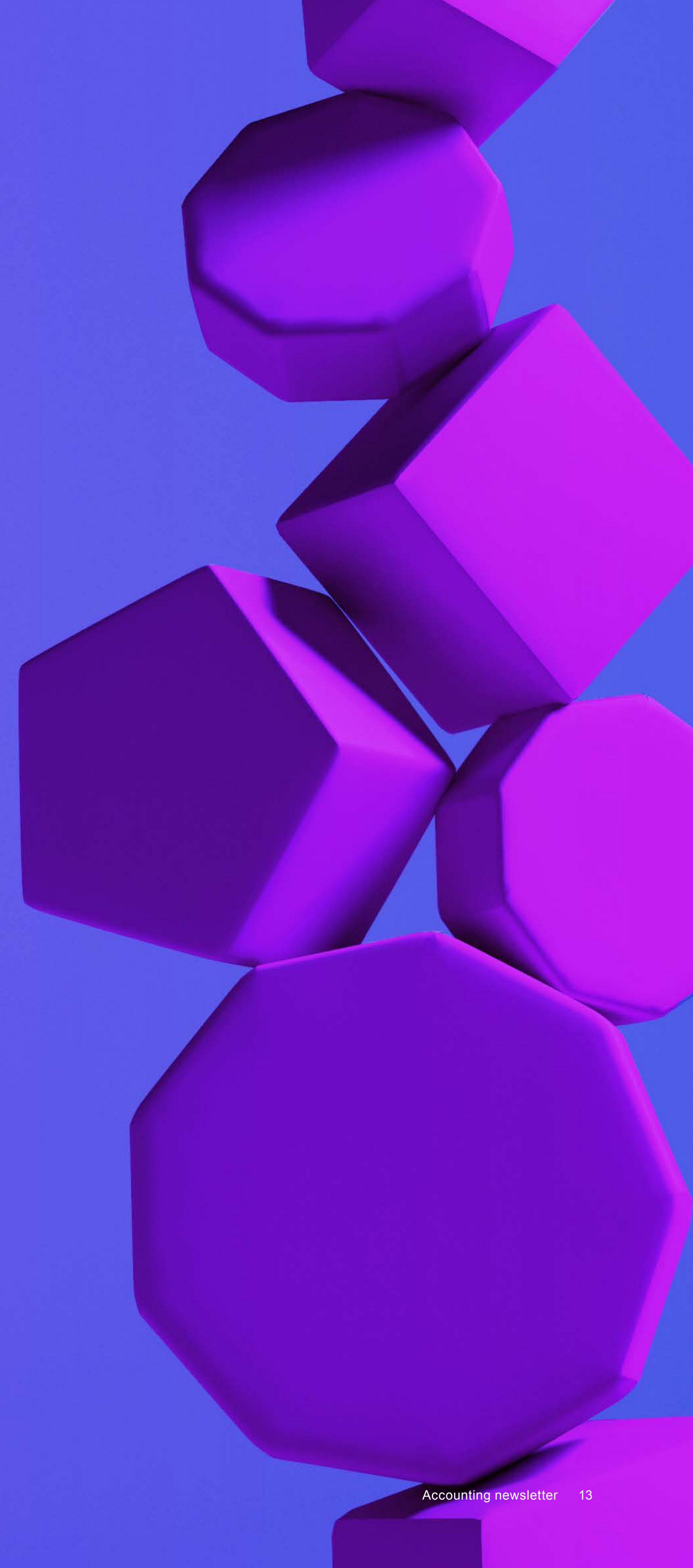
Our values are: Integrity: We do what is right; Excellence: We never stop learning and improving; Courage: We think and act boldly; Together: We respect each other and draw strength from our differences; For Better: We do what matters. Our Values guide our behavior day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, and all of our stakeholders.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change.

At KPMG Lower Gulf, we believe that ESG is core to sustainable growth. KPMG's Global ESG Plan details its commitments across four ESG categories: planet, people, prosperity, and governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future.

Through KPMG's ESG Plan, we aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the SDGs, so all our communities can thrive and prosper.

Disclaimer: The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.



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