CURRENT DEVELOPMENTS

Spotlight on IFRS

Q1 2022

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Quarterly update

Each quarter, we provide a summary of newly effective and forthcoming standards as well as other significant accounting and financial reporting developments. This edition covers current developments in the quarter ended on March 31, 2022.

Your company, your employees and your customers are likely to be facing challenges in these uncertain times. COVID-19, natural disasters, geopolitical events and inflation are just some of the major issues driving global economic uncertainty today. This evolving uncertainty creates a variety of issues and risks, including changes in consumer demand, disrupted supply chains, staff shortages, increased market volatility and changes to the way we work. Our *Financial reporting in uncertain times resource centre* will help you understand the potential accounting and disclosure implications. This new resource – which features a range of articles, blogs and podcasts – expands on and replaces the materials previously found in our COVID-19 financial reporting resource centre.

Our 2022 guides to condensed interim financial statements comprise *Illustrative disclosures* and a *Disclosure checklist* to help you prepare financial statements in accordance with IFRS Standards. Preparers should carefully evaluate and consider the impact of external events on their 2022 interim financial reporting and provide an update of relevant company-specific disclosures since the last annual reporting date.

A number of new requirements are effective from January 1, 2022. Further information on these new requirements is provided in the section 'Requirements effective in 2022'.

There has also been significant proposals related to disclosure requirements on sustainability. Internationally, new proposals on the first IFRS Sustainability Disclosure Standards mark the next step towards equal prominence for sustainability and financial reporting. The proposals – covering general requirements as well as climate-related disclosures – aim to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on. This is a critical milestone in the journey towards a consistent global baseline of investor-relevant sustainability reporting. The standards will drive transparency and enable investors to make better informed choices, making companies accountable for sustainability reporting in the same way as they are for financial reporting.

Also, on March 21, 2022, the US Securities and Exchange Commission (SEC) published its climate rule proposal *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. The proposed rules are intended to provide more consistent, comparable and reliable information so that investors can better evaluate the impact of climate-related matters on a registrant. They would require expansive disclosures, including some in the financial statements and thus subject to audit; in addition to greenhouse gas emissions disclosures that would be subject to assurance. The proposals, if finalized, would also apply to foreign filers who file a Form 20-F with the SEC. However, the proposals have also asked for feedback on whether they should also apply to Canadian filers who file a Form 40-F with the SEC.

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Major projects and new standards

Insurance contracts (IFRS 17)

In May 2017, the IASB issued the new insurance contracts standard IFRS 17 which brings fundamental changes to insurance accounting.

IFRS 17 introduces a single:

- measurement model based on a current fulfillment value that incorporates available information in a way that is consistent with observable market information; and
- revenue recognition principle to reflect services provided.

Benefits of the new standard include increased transparency about the profitability of new and in-force business which will provide more insight into an insurer's financial health. Other effects may include greater volatility in financial results and equity due to the use of current discount rates and assumptions around future cash flows.

Other changes include:

- separate presentation of underwriting and finance results, providing information surrounding the sources of profit and quality of earnings;
- premium volumes will no longer drive the 'top line' as investment components and cash received are no longer considered to be revenue; and
- accounting for options and guarantees will be more consistent and transparent.

Implementation of IFRS 17 requires the coordination of several functions, including finance, actuarial, and IT as well as the introduction of new or upgraded systems, processes and controls. Read our *web article 1* and *web article 2* about the published guidance by the Global Public Policy Committee (GPPC) which seek to help insurers' audit committees fulfil their responsibilities for IFRS 17 implementation.

To help support implementation and reduce the potential for diversity in practice, both the IASB and the Canadian Accounting Standards Board have set up Transition Resource Groups (TRGs) – with the Canadian TRG focusing on Canadian-specific issues. Our online magazine *Insurance – Transition to IFRS 17* tracks the activities of IASB's TRG and contains our summary of and observations on the topics discussed.

To address concerns and implementation challenges the IASB, after several months of redeliberations, published amendments to IFRS 17 in June 2020 (the June 2020 amendments).

The following are the key areas of amendments:

- Effective date: January 1, 2023 is the effective date for application of IFRS 17 and exemption from applying IFRS 9 *Financial Instruments* for qualifying insurers;
- Scope for certain credit cards that provide insurance coverage and loans that meet the definition of an insurance contract;
- Measuring the contractual service margin
  - Accounting policy choice for interim reporting;
  - Insurance contract services now include both insurance and investment services;
  - Accounting for assets and liabilities before the related group of contracts is recognized;
- Transitioning to IFRS 17
  - Contracts acquired in their settlement period;
  - Assets for insurance acquisition cash flows;
  - Transition reliefs and minor amendments;
- Accounting for direct participating contracts
  - Risk mitigation option expanded to non-derivative assets at fair value through profit or loss and reinsurance contracts held and extended to provide relief prospectively from the transition date;
  - Applying the OCI option and risk mitigation option together;

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- Accounting for reinsurance contracts held
  - Accounting for recovery of losses on initial recognition;
- Presentation and disclosure requirements
  - Presentation in the statement of financial position;
  - Treatment of income taxes chargeable to the policyholder.

For additional information about the amendments, refer to our *web article* and listen to our *podcast*.

Our updated guide *Insurers - Illustrative disclosures* provides a comprehensive illustration for financial statements for an annual period beginning on January 1, 2023 when IFRS 17 and IFRS 9 are applied for the first time (including the impact of the June 2020 amendments).

For additional information, refer to our webpage *IFRS – Insurance* and updated publication *Insurance Contracts – First Impressions*.

When transitioning to IFRS 17 and IFRS 9 at the same time, significant accounting mismatches may arise between financial assets and insurance contract liabilities in the comparative information as the two standards have different requirements for the comparative information that will be presented on initial application.

To alleviate these issues, in July 2021 the IASB published an exposure draft *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* for a narrow-scope amendment to IFRS 17. The proposed amendment would create an optional 'classification overlay' approach to provide insurers with an option to present comparative information about financial assets on a basis that is more consistent with how IFRS 9 will be applied in future reporting periods, without unnecessarily disturbing the implementation processes for both IFRS 17 and IFRS 9.

The optional approach would:

- apply to both insurers that restate and those that do not restate comparative information for IFRS 9.
- apply to financial assets that are connected to insurance contract liabilities and to which IFRS 9 has not been applied in the comparative periods.
- allow an insurer to classify those financial assets in the comparative periods in a way that aligns with how the insurer expects those assets would be classified on initial application of IFRS 9.
- apply for comparative periods that have been restated for IFRS 17 – i.e. from the date of transition to the date of initial application of IFRS 17.
- apply on an instrument-by-instrument basis.

The optional approach would enhance the usefulness of comparative information by:

- enabling insurers to avoid significant mismatches and inconsistencies that do not reflect economic mismatches; and
- enhancing the comparability between periods by providing information about the classification of financial assets that is expected to be consistent with that presented for periods from the initial application of IFRS 9.

Following the feedback received on the July 2021 exposure draft, the IASB has completed its redeliberations and decided to:

- remove the restriction proposed in the exposure draft that would have allowed the classification overlay to be applied only to a financial asset held for an activity connected with contracts in the scope of IFRS 17. Instead, the classification overlay would apply to *all* financial assets regardless of whether they are, or were, held in respect of insurance activities. This means that an insurer can choose to apply this approach to all financial assets on an instrument-by-instrument basis.
- expand eligibility for the classification overlay approach to those insurers that have adopted IFRS 9 before adopting IFRS 17. This would allow them to reduce any accounting mismatches relating to financial assets that are derecognised in the comparative period.

In December 2021, the IASB has issued the narrow-scope amendment *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (Amendment to IFRS 17). This amendment is applicable when an insurer initially applies IFRS 17.

For additional information, refer to our *web article 1* and *web article 2*.

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Update on rate-regulated activities project

Some companies are subject to regulations that say how much and when they can charge their customers. Although some national accounting bodies provide specific guidance on accounting for the effects of rate regulation, IFRS does not contain any equivalent comprehensive guidance. IFRS 14 *Regulatory Deferral Accounts* provides only temporary relief to first-time adopters of IFRS that are subject to rate regulation.

Companies use different accounting models to report the effects of this rate regulation. Some of these models reflect incomplete information about how rate regulation affects a company's underlying financial position, performance and cash flows.

In January 2021, the IASB published its exposure draft *Regulatory Assets and Regulatory Liabilities*. The exposure draft proposes a new accounting model under which a company subject to rate regulation that meets the scope criteria would recognize regulatory assets and liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the company is permitted to earn by the rate regulator, often reducing reported volatility in financial performance.

The key proposal in the exposure draft is that a company that is subject to rate regulation should report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

To achieve this, the exposure draft proposes an 'overlay' approach under which a company would, first, continue to apply the requirements of existing IFRS Standards – for example, to recognize and measure revenue from contracts with customers. Then, a company would recognize:

- a regulatory asset – when it has an enforceable present right to add an amount in determining the regulated rate to be charged to customers in future periods; and
- a regulatory liability – when it has an enforceable present obligation to deduct an amount in determining the regulated rate to be charged to customers in future periods.

Movements in regulatory assets and liabilities would give rise to regulatory income and expense. Broadly speaking, the total revenue recognized under existing IFRS Standards plus regulatory income minus regulatory expense under the proposed new IFRS Standard would align with the total allowed compensation determined by the rate regulator.

The company would present regulatory income minus regulatory expense separately in the statement of financial performance, immediately below revenue. Regulatory assets and liabilities would be presented separately from other assets and liabilities.

It is possible that some companies in the utility sector would not meet the scope criteria, whereas some outside the utility sector would be captured. A company would fall within the scope of the proposals if it meets the following conditions:

- the company is a party to a regulatory agreement;
- the regulatory agreement determines the regulated rate that the company can charge for goods or services supplied to its customers; and
- the regulated rate is determined in a such a way that some or all the total allowed compensation for goods or services supplied in one period is charged to customers in a different period.

The proposed standard provides some guidance for these conditions. If a company meets these criteria, then it would be required to apply the accounting model in the exposure draft. Unlike the approach in IFRS 14, the new accounting model would not be optional.

Companies covered by the proposals who did not apply IFRS 14 would recognize new assets and liabilities, and new items of income and expense. The impact on financial performance will depend on the facts and circumstances of the company but common cases would include the following:

- If recognition of income under IFRS Standards previously lagged total allowed compensation permitted by the regulator, then a company would see an increase in net assets on transition to the new standard.

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- If a company previously experienced material short-term timing differences between recognition of income under IFRS Standards and total allowed compensation permitted by the regulator, volatility in reported earnings would be reduced.

Companies that applied IFRS 14 would transition to the new requirements. There is no option to automatically carry forward existing IFRS 14 accounting.

The IASB received 128 comment letters on the exposure draft when the comment period closed in July 2021.

In December 2021, the IASB discussed a plan for redeliberations to address the feedback received in the comment letters.

Project updates in Q1 2022

Pursuant to the plan for redeliberations Based on the feedback received on its exposure draft, at its February 2022 meeting, the IASB redeliberated the scope of the proposals in the exposure draft relating to:

- determining whether a regulatory agreement is within the scope of the proposals; and
- the definition of a regulator.

The IASB will continue to redeliberate the project proposals at a future meetings.

Read our *web article* and *New on the Horizon* publication which contain detailed analysis and insights.

General presentation and disclosures

In December 2019, the IASB published the exposure draft *General Presentation and Disclosures* that aims to improve how information is communicated in the financial statements, with a focus on financial performance. The proposals would result in a new IFRS Standard, replacing IAS 1 *Presentation of Financial Statements*, and would amend some other IFRS Standards.

The proposals would introduce significant changes to the structure of a company's income statement, more discipline and transparency in presentation of management's own performance measures (commonly referred to as 'non-GAAP measures,') and less aggregation of items into large, single numbers.

Presentation choices in the cash flow statement would also be reduced, improving comparability.

The IASB proposes requiring:

- additional subtotals in the income statement, including 'operating profit';
- disaggregation to help a company to provide relevant information;
- disclosure of some management-defined performance measures – that is, performance measures not specified by IFRS Standards; and
- limited changes to the statement of cash flows to improve consistency in classification by removing options.

Based on the feedback received on its exposure draft, the IASB began to redeliberate proposals relating to:

- subtotals and categories in the statement of profit or loss;
- management performance measures;
- amendments to the statement of cash flows, including the scope of amendments and some of the specific proposals;
- principles of aggregation and disaggregation and their application in the primary financial statements and notes;
- the classification and presentation of income and expenses from associates and joint ventures in the statement of profit or loss;
- the presentation of operating expenses in the statement of profit or loss and disclosure in the notes;
- unusual income and expenses; and
- income and expenses classified in the investing category.

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Project updates in Q2 2022

At its January, February and March 2022 meetings, the IASB redeliberated proposals in the exposure draft relating to:

- management performance measures—disclosures
- principles for presentation and the required line items in primary financial statements.
- some of the proposals for companies with specified main business activities; and
- the location and cross-referencing of management performance measures.

The IASB will continue to redeliberate the project proposals at a future meeting.

The exposure draft and other materials are available on the IASB's Primary Financial Statements *project page*. Read our *web article* and *New on the Horizon* publication which contains detailed analysis and insights.

Update on financial instruments projects

Financial instruments with characteristics of equity

IAS 32 *Financial Instruments: Presentation* sets out how an issuer distinguishes between a financial liability and equity and works well for many, simpler financial instruments. However, classifying more complex financial instruments under IAS 32 – e.g. those with characteristics of equity – can be more challenging, leading to diversity in practice. In response, in June 2018 the IASB has published a discussion paper *Financial Instruments with Characteristics of Equity* (FICE) that sought to improve IAS 32.

In September 2019 in the light of the feedback received on the discussion paper, the staff provided the IASB five alternatives for the direction of the FICE project. From the alternatives, the IASB tentatively decided on making clarifying amendments to IAS 32, which would focus on addressing practice issues by clarifying particular underlying principles in IAS 32.

In October 2019, the IASB discussed the project plan and outlined a preliminary list of practice issues that could be addressed in the scope of the project:

(a) classification of financial instruments that will or may be settled in the issuer's own equity instruments – e.g. application of the fixed-for-fixed condition to particular derivatives on own equity and the classification of mandatorily convertible financial instruments;

(b) accounting for obligations to redeem own equity instruments – e.g. accounting for written put options on non-controlling interests (NCI puts);

(c) accounting for financial instruments that contain contingent settlement provisions – e.g. financial instruments with a non-viability clause;

(d) the effect of laws and regulations on the classification of financial instruments;

(e) reclassification between financial liability and equity instruments – e.g. when circumstances change, or contractual terms are modified; and

(f) classification of particular financial instruments that contain obligations that arise only on liquidation of the company – e.g. perpetual financial instruments.

At its December 2020 meeting, the IASB decided to move the FICE project from the research programme to the standard-setting programme.

Project updates in Q1 2022

At its February and March 2022 meetings, the IASB discussed the following.

- The classification of a financial instrument with a contractual obligation to deliver cash (or to settle it in such a way that it would be a financial liability) at the discretion of the issuer's shareholders. It tentatively decided to explore a factors-based approach to help a company apply its judgement when assessing whether a decision of shareholders is treated as a decision of the entity.
- The reclassification of financial instruments issued by a company as financial liabilities or equity instruments. The IASB will consider proposals for potential reclassification principles in the next steps.

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Dynamic risk management

Although IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 provide models for macro hedge accounting, these contain restrictions that limit companies' ability to reflect some common dynamic risk management activities in their accounting (i.e. when the risk position being hedged changes frequently and is hedged by an open portfolio of changing assets and liabilities). Moreover, some of these models deal specifically with interest rate risk management rather than other types of risk. Without an accounting model that reflects the broader use of dynamic risk management activities, some have asserted that it can be difficult to faithfully represent these activities in financial statements.

In response to these issues, in April 2014 the IASB published the discussion paper *Accounting for Dynamic Risk Management – a Portfolio Revaluation Approach to Macro Hedging* as the first due process document for the project.

Based on the feedback received from respondents on the discussion paper, the IASB decided to prioritize the consideration of interest rate risk and consider other risks at a later stage in the project. It also decided that the project would remain as a research project, and that a second discussion paper would be published before issuing an exposure draft.

In November 2017, the IASB tentatively decided that the dynamic risk management accounting model should be developed based on cash flow hedge accounting mechanics.

Some of the key areas discussed by the IASB in past meetings were the following:

- the role of the asset profile within the Dynamic Risk Management Accounting model (the Model); in particular, the application of qualifying criteria to the asset profile, as well as designation of items within the asset profile and documentation requirements.
- the role of the target profile within the Model; in particular, what is a target profile, how it is determined, consistency of the asset profile and target profile and the time horizon of the target profile.
- the application of qualifying criteria to the target profile, as well as designation of items within the target profile, core demand deposits and the documentation requirements.
- derivative financial instruments, including designation and de-designation of derivatives.
- the information that should be provided in situations of imperfect alignment (i.e. when the asset profile, in conjunction with the designated derivatives, are not aligned with the target profile).
- misalignments that could result in an accounting outcome inconsistent with the purpose of the Model, economic relationship between the target profile and the combination of the asset profile and designated derivatives.
- how derivatives designated within the Model should be presented in financial statements.
- negative balances within the target profile.
- documentation of and changes in risk management strategy.

The IASB received feedback from stakeholders on the core elements of the Model between October 2020 and April 2021. At its April 2021 meeting, the IASB discussed the feedback received on topics that significantly affect the viability and operability of the Model, including:

- interest rate risk management strategies;
- target profile;
- designation of expected cash flows and impact on imperfect alignment; and
- recognition of fair value changes in other comprehensive income.

Project updates in Q1 2022

At its February 2022 meeting, the IASB discussed feedback on and an initial analysis of the two potential alternative mechanics of the Model – which amounts to recognise and where to recognise them in financial statements.

The IASB will continue its discussion about the mechanics of the Model that would provide more useful information.

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Other developments

Classification of debt with covenants as current or non-current

In January 2020 the IASB issued amendments to IAS 1[1] (the 2020 amendments) and clarified how to classify debt and other financial liabilities as current or non-current in particular circumstances. In its December 2020 tentative agenda decision, the IFRIC clarified that classifying debt with future conditions as current or non-current would be based on a *hypothetical test* at the reporting date – a test that the lender does not require until a later date. The tentative agenda decision illustrates how a company would apply the 2020 amendments using three different term loan examples.

The tentative agenda decision clarifies that when the right to defer settlement of a liability for at least 12 months after the reporting date is subject to future conditions related to financial position, a company (borrower) would need to perform a hypothetical test for compliance at the reporting date:

– if the loan agreement requires the test for compliance at a later date; and
– using its financial information as at the reporting date.

This means that a company would classify its debt as non-current only when it complies at the reporting date with *all* conditions – i.e. those conditions that exist at the reporting date and those that are due to be tested within 12 months after that date.

Respondents to the tentative agenda decision provided information about situations that the IASB did not specifically consider when developing the 2020 amendments. In response to the new information received, at its June 2021 meeting the IASB tentatively decided, among other decisions, to amend IAS 1 once more.

In November 2021, the IASB published the exposure draft *Non-current Liabilities with Covenants*. The proposals in the exposure draft change the 2020 amendments to specify that only covenants with which a company must comply *on or before* the reporting date affect the classification of a liability as current or non-current. In contrast, covenants with which the company must comply within twelve months *after* the reporting date (or beyond) would have no effect on the classification of a liability. In other words, covenants to be tested after the reporting date would be ignored for classification purposes.

IAS 1 would be amended further to clarify that a company does not have a right to defer settlement, and would therefore classify a liability as current, if the liability could become repayable within twelve months:

– at the discretion of the counterparty or a third party – e.g. when a loan is callable by the lender at any time without cause; or
– depending on an uncertain future event or outcome that is unaffected by the company's future actions – e.g. when the liability is a financial guarantee or insurance contract.

[1] *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*[2] New requirements effective for annual reporting periods beginning on or after January 1, 2022 also include Reference to the Conceptual Framework (Amendments to IFRS 3 *Business Combinations*).

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Companies would be required to present a separate line item in the balance sheet for non-current liabilities that are subject to future covenants and provide additional disclosure to enable users of financial statements to assess the risk that the liability could become repayable within twelve months. Disclosures would include:

- information about the covenants – e.g. their nature and the date on which the company must comply with them;
- whether the company would have complied with them at the reporting date; and
- whether and how the company expects to comply with them in the future.

The proposals would amend some of the requirements of the 2020 amendments before those requirements become effective. The IASB is therefore proposing to defer the effective date of the 2020 amendments to no earlier than January 1, 2024 (date to be decided after exposure) to avoid companies potentially having to change their assessment of the classification of debt twice within a short period.

In view of these developments, companies should carefully consider if early adoption of the 2020 amendments is appropriate.

Although the 2020 amendments will be revisited, while they are still in place, companies will need to consider including IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosures for issued but not yet effective requirements in their next annual financial statements.

Project updates in Q1 2022

The comment period for the exposure draft ended on March 21, 2022. The IASB will consider the feedback on its proposals before deciding whether to finalize the proposed amendments.

For more information about the amendments, refer to our *web article 1* and *web article 2*.

Disclosure initiative – targeted standards-level review of disclosures

Concerns are common among stakeholders about disclosures in financial statements prepared under IFRS Standards. Often described as the ‘disclosure problem’ – where financial statements provide too much irrelevant information, too little relevant information and ineffective communication – stakeholders have indicated that a ‘checklist approach’ to providing disclosures is one of the reasons why the problem persists. How disclosure requirements in IFRS Standards are developed and drafted can also be contributing factors.

To attempt to address these concerns, the IASB is proposing a new approach to the way it develops and drafts the disclosure requirements in IFRS Standards, with the intention of providing information that is more useful to decision making. This proposed new approach would introduce overall and specific disclosure objectives for each standard, as well as items of information that a preparer would consider disclosing to enable it to meet those objectives.

The aim is to help preparers to focus on disclosing material information rather than adopting a checklist approach and providing ‘boilerplate’ information. Preparers would need to exercise judgement in determining what information should be disclosed to meet both the overall and specific disclosure objectives of the particular standard in their particular circumstances.

As a pilot, the IASB has applied this draft guidance in developing proposed disclosure requirements for IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*. In March 2021, the IASB published the exposure draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*.

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Project updates in Q1 2022

The comment period for the exposure draft ended on January 12, 2022. The IASB will discuss comment letter feedback and its plans for redeliberating the project proposals at future meetings.

For more information about the exposure draft, refer to our *web article*.

Lease liability in a sale and leaseback

Under IFRS 16 *Leases*, a lessee does not generally include variable lease payments in the measurement of a lease liability, unless they depend on an index or a rate. However, questions have arisen in practice about how to measure the right-of-use asset and lease liability in a sale-and-leaseback transaction with variable lease payments.

Initially, the IFRIC addressed the issue in its agenda decision and recommended that the IASB consider amending IFRS 16 to address subsequent accounting. In November 2020, the IASB published the exposure draft *Lease Liability in a Sale and Leaseback*. The exposure draft specifies the method a seller-lessee uses in initially measuring the right-of-use asset and lease liability arising in a sale and leaseback transaction and how the seller-lessee subsequently measures that liability. The proposed method would require the seller-lessee to initially measure the lease liability at the present value of the expected lease payments, which by definition will include both fixed payments and variable payments at market rates.

In light of the concerned feedback received on the exposure draft, at its September 2021 meeting the IFRIC discussed possible ways forward to provide input to the IASB on project direction.

At its December 2021 meeting, the IASB considered the IFRIC's advice and tentatively decided to change the amendments in the exposure draft. The changes will clarify that the lease payments included in the lease liability recognized will be those payments that result in no gain or loss recognition related to portion of the asset retained.

Project updates in Q1 2022

At its February 2022 meeting, the IASB tentatively decided to:

- require companies to apply the amendments retrospectively in accordance with IAS 8; and
- provide no specific transition exemption for first-time adopters.

Also the IASB tentatively decided to require companies to apply the amendments for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.

For more information about the exposure draft refer to our *web article*.

Supplier finance arrangements

In response to investors' calls for more transparency of the impact of supplier finance arrangements on the financial statements, the IASB is proposing additional disclosure requirements for companies that enter into these arrangements. In October 2021, the IASB published the exposure draft *Supplier Finance Arrangements*, proposing amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*.

The proposals do not address the classification and presentation of the related liabilities and cash flows. Rather, the proposals intend to complement the IFRIC's agenda decision *Supply Chain Financing Arrangements – Reverse Factoring* published in December 2020.

The IASB's proposals apply to supplier finance arrangements, which have the following characteristics:

- a finance provider (the factor) pays amounts a company (the buyer) owes its suppliers;
- the company agrees to pay the finance provider at the same date as, or a date later than, suppliers are paid; and
- the company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

However, the proposals do not apply to arrangements for financing receivables or inventory.

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The proposals introduce a new disclosure objective in IAS 7 for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows.

The proposals also add supplier finance arrangements as an example to existing disclosure requirements in:

- IFRS 7 for factors a company might consider in providing select quantitative liquidity risk disclosures about its financial liabilities; and
- IAS 7 for non-cash changes in liabilities arising from financing liabilities.

Companies may need to start collating additional information to satisfy the proposed new disclosure requirements.

The amendments would be applied retrospectively by applying IAS 8. The IASB has not yet proposed an effective date but earlier application would be permitted.

Project updates in Q1 2022

The comment period for the exposure draft ended on March 28, 2022. The IASB will consider the feedback on its proposals before deciding whether to finalize the proposed amendments.

For more information about the exposure draft refer to our *web article*.

Sustainability reporting

The demand for sustainability information (or environmental, social, and governance (ESG) information) continues to grow as business models are increasingly exposed to social and environmental issues, including climate-change related regulation. Although a variety of sustainability frameworks and standards already exist, investors are now calling for convergence and a single framework that will bring consistency and comparability.

In September 2020, the IFRS Foundation Trustees published the consultation paper *Consultation Paper on Sustainability Reporting* to seek input on the need for a global set of internationally recognized sustainability standards, and gauging support for their role in developing such standards. Following the strong support received on their consultation paper and endorsement from Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO), in March 2021, the IFRS Foundation Trustees have set out the strategic direction for a new International Sustainability Standards Board (ISSB) to develop global sustainability reporting standards.

As world leaders met in the November 2021 United Nations Climate Change Conference (COP26) to address the critical and urgent issue of climate change, the IFRS Foundation Trustees announced the formation of the new standard-setting board, the ISSB. The new ISSB will aim to develop sustainability disclosure standards that are focused on enterprise value.

The IFRS Foundation Trustees are aiming to put sustainability reporting on the same footing as financial reporting by establishing a sister body to the IASB. The goal is to drive globally consistent, comparable and reliable sustainability reporting using a building blocks approach. This approach will allow national and regional jurisdictions to build on that global baseline to set supplemental standards that serve their specific jurisdictional needs.

Project updates in Q1 2022

The ISSB released its first two proposed standards on March 31, 2022:

- The exposure draft *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements exposure draft) sets out general sustainability-related disclosure requirements.
- The exposure draft *Climate-related Disclosures* (Climate exposure draft) specifies climate-related disclosure requirements.

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These standards are being developed at a much faster pace than IFRS Accounting Standards, and the first standards could be finalized within the year. Individual jurisdictions will decide whether and when to adopt but a rapid route to full adoption is expected in a number of jurisdictions. Companies need to monitor their jurisdictions' response to standards issued by the ISSB and prepare for their potentially rapid implementation.

Some public and private companies may choose to adopt them voluntarily – e.g. in response to investor or societal pressure – and so reporting could be as soon as 2022 year ends.

Under the proposals, companies would report on all relevant sustainability topics (not just on climate-related risks) across four content areas that are consistent with Task Force on Climate-related Financial Disclosures (TCFD) – i.e. governance, strategy, risk management, and metrics and targets. Companies would provide globally consistent disclosures that focus on how sustainability topics affect enterprise value.

Reporting would be connected to the financial statements and released at the same time. Therefore, companies will need processes and controls in place so that they can provide sustainability information of the same quality, and at the same time, as their financial information.

The proposals are open for comment until July 29, 2022; the subsequent standards may be issued as soon as the second half of 2022. For more information about developments in this area, refer to our *web article* and webpage *Sustainability reporting*.

Climate-related disclosures

All companies are facing climate-related risks and opportunities. Some are affected more than others. As the impact of climate change intensifies, investors and regulators are increasingly seeking greater transparency of climate-related information in financial statements.

IFRS Standards do not refer explicitly to climate-related risks or climate-related matters, but they implicitly require relevant disclosures in the financial statements when climate-related matters considered in preparing the financial statements are material. Therefore, companies are required to consider materiality carefully in deciding what information to provide about these matters. Information may be material even though there is no current-period financial impact.

Companies need to:

- consider climate-related risks and opportunities and their financial impacts when preparing financial statements.
- consider materiality from both a quantitative and qualitative perspective in relation to disclosures of key judgements and assumptions related to climate risk.
- provide clear and robust disclosures, especially of the key judgements and estimates affected by climate-related matters.
- ensure consistency of assumptions used in relevant areas of the company's financial statements and that they are in sync to the extent appropriate with information related to climate-related risks discussed elsewhere in the annual report. Consider providing additional explanations in the annual report where inconsistencies arise.
- consider relevant regulatory guidance.

For additional information about the potential financial statement impacts from climate-related risks, refer to our *web article*. For a more comprehensive discussion on potential impacts, including measurement and recognition impacts, see our *Climate change financial reporting resource centre*.

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Climate-related disclosures – SEC proposals

On March 21, 2022, the SEC published its climate rule proposal *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. The proposed rules are intended to provide more consistent, comparable and reliable information so that investors can better evaluate the impact of climate-related matters on a registrant. They would require expansive disclosures, including some in the financial statements and thus subject to audit; in addition greenhouse gas emissions disclosures that would be subject to assurance. The proposals, if finalized, would also apply to foreign filers who file a Form 20-F with the SEC. However, the proposals have also asked for feedback on whether they should also apply to Canadian filers who file a Form 40-F with the SEC.

The proposal is open for comment until around May 20, 2022. For more information about the SEC's climate proposal, refer to our *webpage*.

Cybersecurity disclosures – SEC proposals

On March 9, 2022, the SEC published its cybersecurity rule proposal *Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure*. The proposed rules are intended to provide more consistent, comparable and decision-useful information so that investors can better evaluate a registrant's exposure to cybersecurity risks and incidents and strategies to mitigate those risks and incidents. The proposals, if finalized, would also apply to foreign filers who file a Form 20-F with the SEC. However, the proposals have also asked for feedback on whether they should also apply to Canadian filers who file a Form 40-F with the SEC.

The proposal is open for comment until May 9, 2022. For more information about the SEC's cybersecurity proposal, refer to our *webpage*.

IFRIC agenda decisions

In February 2022, the IFRIC reached its conclusion on the tentative agenda decision *TLTRO III Transactions (IFRS 9 and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance)*. The agenda decision relates to a request about how to account for the third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank (ECB). While the agenda decision relates to a specific type of loan in Europe, the agenda decision includes some guidance related to application of IFRS 9 and IAS 20 to low-interest loans from government and therefore could have broader implications than just the TLTRO. For more information about the agenda decision, refer to the February 2022 *IFRIC update*.

In March 2022, the IFRIC reached its conclusion on the tentative agenda decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7)*. The agenda decision relates to a request about whether a company includes a demand deposit as a component of cash and cash equivalents in the statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. This agenda decision will be considered by the IASB at its April 2022 meeting. Subject to the IASB not objecting, the agenda decision will be published in April 2022 in an addendum to the March 2022 *IFRIC update*.

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Requirements effective in 2022

New requirements effective for annual reporting periods beginning on or after January 1, 2022[2]

Property, plant and equipment – proceeds before intended use (Amendments to IAS 16)

In the process of making an item of PP&E available for its intended use, a company may produce and sell items – e.g. minerals extracted in the process of constructing an underground mine or oil and gas from testing wells before starting production.

To address diversity in practice, the IASB has amended IAS 16 *Property, Plant and Equipment* to provide guidance on the accounting for such sale proceeds and the related production costs.

Under the amendments, proceeds from selling items before the related item of PP&E is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 *Inventories* should be applied in identifying and measuring these production costs.

The amendments apply for annual reporting periods beginning on or after January 1, 2022. The amendments apply retrospectively, but only to items of PP&E made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

For additional information, refer to KPMG's *web article*.

Onerous contracts – cost of fulfilling a contract (Amendments to IAS 37)

The requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specify that a contract is 'onerous' when the unavoidable costs of meeting the contractual obligations – i.e. the lower of the costs of fulfilling the contract and the costs of terminating it – outweigh the economic benefits.

Historically, IAS 37 did not have guidance on how to determine the 'costs of fulfilling the contract' and consequently there was diversity in practice.

The amendments clarify that the 'costs of fulfilling a contract' comprise both:

- the incremental costs – e.g. direct labour and materials; and
- an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

This clarification is unlikely to affect companies that already apply the 'full cost' approach, but those that apply the 'incremental cost' approach will need to recognise bigger and potentially more provisions.

[2] New requirements effective for annual reporting periods beginning on or after January 1, 2022 also include Reference to the Conceptual Framework (Amendments to IFRS 3 *Business Combinations*).

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The amendments apply for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

For additional information, refer to KPMG's *web article*.

Annual improvements to IFRS Standards 2018–2020

As part of its process to make non-urgent but necessary amendments to IFRS Standards, the IASB has issued the Annual Improvements to IFRS Standards 2018–2020.

The amendments to IAS 1 *First-time Adoption of International Financial Reporting Standards* simplify the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts IFRS Standards later than its parent and applies IFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Standards.

The amendments to IFRS 9 clarify that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendments to IFRS 16 remove the illustration of payments from the lessor relating to leasehold improvements. As previously drafted, this example was not clear as to why such payments are not a lease incentive.

The amendments to IAS 41 *Agriculture* remove the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13.

For additional information, refer to KPMG's *web article*.

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Appendix 1: Requirements effective in 2023 and beyond

A reminder of standards and amendments to published standards not yet effective, but available for early adoption are listed in this table.

Effective for periods beginning on or after	Standards and amendments	KPMG's guidance
January 1, 2023	IFRS 17 and Amendments to IFRS 17	*Web article* (with links to in-depth analysis)
January 1, 2023	Classification of liabilities as current or non-current (Amendments to IAS 1)*	*Web article 1* *Web article 2*
January 1, 2023	Definition of accounting estimates (Amendments to IAS 8)	*Web article*
January 1, 2023	Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*)	*Web article*
January 1, 2023	Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 *Income Taxes*)	*Web article*
NA**	Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)	

* Subject to further standard setting, see page 11.

** The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

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Appendix 2: IASB work plan

These tables are intended to act as an outlook of current IASB projects that may impact your financial statements in the future.

Standard-setting projects	Next milestone	Expected date	KPMG's guidance
Financial instruments with characteristics of equity	Exposure draft	TBD	
Management commentary	Exposure draft feedback	April 2022	*Web article*
Primary financial statements	IFRS Standard	TBD	*Web article* *New on the Horizon*
Rate-regulated activities	IFRS Standard	TBD	*In the headlines, issue 2014/20* *Web article*
Disclosure initiative – targeted standards-level review of disclosures	Exposure draft feedback	May 2022	*Web article*
Disclosure initiative – subsidiaries without public accountability: disclosures	Exposure draft feedback	April 2022	*Web article*
Second comprehensive review of the IFRS for SMEs standard	Exposure draft	Q3 2022	

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Research projects	Next milestone	Expected date	KPMG's guidance
Business combinations under common control	Decide project direction	TBD	*Web article*
Dynamic risk management	Decide project direction	May 2022	
Equity method	Decide project direction	April 2022	
Extractive activities	Decide project direction	Q3 2022	
Goodwill and impairment	Decide project direction	H2 2022	
Pension benefits that depend on asset returns	Project summary	April 2022	
Post-implementation review of IFRS 10, IFRS 11 and IFRS 12	Feedback statement	June 2022	*IFRS newsletter: review of IFRS standards 10, 11 and 12*
Post-implementation review of IFRS 9 – classification and measurement	Feedback statement	Q3 2022	*Web article*

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Non-current liabilities with covenants (amendments to IAS 1)	Exposure draft feedback	June 2022	*Web article*
Lack of exchangeability (amendments to IAS 21)	Decide project direction	Q3 2022	*Web article*
Lease liability in a sale and leaseback	IFRS amendment	Q3 2022	*Web article*
Provisions – targeted improvements	Decide project direction	TBD	
Supplier finance arrangements	Exposure draft feedback	June 2022	*Web article*

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Application questions	Next milestone	Expected date	KPMG's guidance
Cash received via electronic transfer as settlement for a financial asset (IFRS 9)	Tentative agenda decision feedback	June 2022	
Demand deposits with restrictions on use arising from a contract with a third party (IAS 7)	Agenda decision	April 2022	
Lessor forgiveness of lease payments (IFRS 9 and IFRS 16)	Tentative agenda decision feedback	Q3 2022	
Negative low emission vehicle credits (IAS 37)	Tentative agenda decision feedback	June 2022	
Principal versus agent: software reseller (IFRS 15)	Tentative agenda decision feedback	April 2022	
Special purpose acquisition companies (SPAC): classification of public shares as financial liabilities or equity (IAS 32)	Tentative agenda decision feedback	Q3 2022	
Transfer of insurance coverage under a group of annuity contracts (IFRS 17)	Tentative agenda decision feedback	June 2022	

Sustainability	Next milestone	Expected date	KPMG's guidance
Climate-related disclosures	Exposure draft feedback	H2 2022	*Web article*
General sustainability-related disclosures	Exposure draft feedback	H2 2022	*Web article*

Other projects	Next milestone	Expected date	KPMG's guidance
Third agenda consultation	Feedback statement	Q3 2022	
IFRS taxonomy update—2021 general improvements and common practice	Proposed IFRS taxonomy update	TBD	

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