CURRENT DEVELOPMENTS

Spotlight on IFRS

Q4 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 December 31, 2022.

Climate-related matters continue to top the list of priorities for investors and other stakeholders with their greater focus on consistency of financial and non-financial information across the annual report. However, they also recognize the challenges companies face from the current macroeconomic environment, such as inflation, rising energy prices, the Ukraine-Russia conflict and the continued threat of COVID-19. Our latest *IFRS Today* podcast offers clear and concise points for companies to consider when preparing their year-end financial statements.

Refer to our financial reporting resource centres that are designed to help companies prepare financial statements: *Financial reporting in uncertain times resource centre* which features a range of articles, blogs and podcasts to explore the potential accounting and disclosure implications, and the *Climate change financial reporting resource centre* which provides additional resources to help you identify the potential financial statement impacts for your business of climate-related risks and opportunities.

Interest rates continue to rise in Canada and many other countries. This may impact the measurement of assets, liabilities and net interest expense, and trigger impairment losses. Refer to our *webpage* where we highlight some of the key financial reporting areas that may be affected by rising interest rates.

In October 2022, the IASB issued *Non-current Liabilities with Covenants* (Amendments to IAS 1) (the 2022 amendments), which further amends the *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) that were issued in January 2020 (the 2020 amendments). The 2022 amendments clarify, among other items, 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. Refer to our *web article* for more information.

Proposals from the International Sustainability Standards Board (ISSB), which are ambitious and would have a significant impact on companies, continue to develop at a fast pace. We're delighted to announce the launch of our dedicated *Sustainability reporting resource centre*, which provides practical guidance to help companies get ready for the new standards, capturing the latest thinking together with our insight.

The January 2023 implementation date of IFRS 17 *Insurance Contracts* in now here. It is important that insurers continue to consider the pre-transition disclosures on the impact of these standards in their year-end financial reporting prior to implementation. Investors, regulators and other stakeholders will expect these to provide timely and useful information. Refer to our *seven-step action plan* which helps companies prepare for reporting in 2022 and 2023.

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*.

Refer to our 2022 *Guides to financial statements* – which include *Illustrative disclosures*, *Supplements to illustrative disclosures*, *Annual illustrative disclosures for sectors*, and *Disclosure checklists* – which will help you prepare financial statements in accordance with IFRS Standards.

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Major projects and new standards

Insurance contracts (IFRS 17)

The effective date for IFRS 17 is here. Insurer's and non-Insurers (see below) will be applying IFRS 17 for the first time as of January 1, 2023. As a reminder, IFRS 17 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.

Companies have been working through their implementation of IFRS 17 over months and years. After the effective date, companies are likely to continue with some activities to get to a 'business as usual approach'. Audit committees may still be interested in the key areas highlighted in our *web article 1* and *web article 2* about the published guidance by the Global Public Policy Committee (GPPC).

The IASB and the Canadian Accounting Standards Board have set up Transition Resource Groups (TRGs) – with the Canadian TRG focusing on Canadian-specific issues – to help support implementation and reduce the potential for diversity in practice. These groups may continue to discuss application issues that arise post-implementation. 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.

Amendments to IFRS 17 (the June 2020 amendments)

To address concerns and implementation challenges the IASB 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;
- Accounting for reinsurance contracts held:
  - Accounting for recovery of losses on initial recognition;

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- Presentation and disclosure requirements:
  - Presentation in the statement of financial position;
  - Treatment of income taxes chargeable to the policyholder.

For additional information, refer to our resources: webpage *IFRS – Insurance* (with links to in-depth analysis), *podcast*, *web article* and publication *Insurance Contracts – First Impressions*.

Initial application of IFRS 17 and IFRS 9 — comparative information (Amendments to IFRS 17)

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 derecognized 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*.

Refer to our updated *Insurers – Illustrative disclosures* for illustrative disclosures for before the initial application (a supplement illustrating pre-transition disclosures in the 2022 financial statements required by IAS 8 *Accounting policies, changes in accounting estimates and errors*), and for the period of initial application (annual period beginning on January 1, 2023 when IFRS 17 and IFRS 9 are applied for the first time).

IFRS 17 for non-insurers

From 2023, IFRS 17 will apply to all companies. This is because the new standard applies to all contracts that may meet the definition of an insurance contract, regardless of the issuer, and therefore all companies could be affected, not just insurers.

The definition of an insurance contract has changed from IFRS 4 *Insurance Contracts*. Some contracts issued by companies could meet the definition of an insurance contract, even if they are not called insurance contracts – e.g. mobile device replacement contracts or extended warranties.

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It is important for a company to determine now whether it issues any insurance contracts in the scope of IFRS 17 as the requirements of IFRS 17 may be challenging for companies to meet.

For additional information, refer to our *web article* and our *IFRS 17 for non-insurers guide*.

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.
- 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.

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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 Q4 2022

Pursuant to the plan for redeliberations, at its October, November, and December 2022 meetings, the IASB continued to redeliberate the proposals. The exposure draft and information about project updates are available on the IASB's *Rate-regulated Activities project page*.

In particular, the IASB discussed:

- the proposed definition of an 'allowable expense' and the treatment of allowable expenses based on benchmark figures from a peer group of companies.
- the accounting for regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives. The IASB also discussed the advice from the Consultative Group for Rate Regulation (CGRR) on how the IASB might respond to feedback on these proposals.
- the interaction between the IASB's July 2022 tentative decision on regulatory returns on an asset not yet available for use and a company's capitalization of borrowing costs to construct that asset.
- the accounting for inflation adjustments to a company's regulatory capital base.
- the accounting for allowable expenses or performance incentives included in a company's regulatory capital base.
- the advice from the CGRR on the accounting for inflation when a regulatory agreement adjusts the regulatory capital base for inflation.
- the use of the concept of whether a company's regulatory capital base has a direct (no direct) relationship with its property, plant and equipment in the IASB's redeliberations of the proposed model.

The IASB will continue to redeliberate the project proposals at 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 continue to redeliberate the proposals. The topics discussed in itsprevious meetings include:

- subtotals and categories in the statement of profit or loss;
- classification in categories;
- companies with specified main business activities (i.e. companies that invest or provide financings as a main business activity);
- subtotals and categories related to associates and joint ventures;
- roles of primary financial statements and notes;
- principles of aggregation and disaggregation;
- principles for presentation;
- unusual income and expenses;

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- management performance measures and related disclosures;
- amendments to the statement of cash flows; and
- presentation and disclosure of operating expenses.

Project updates in Q4 2022

The IASB did not discuss the project at its meetings in Q4 2022, and will continue to redeliberate the project proposals at its future meetings.

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 Q4 2022

At its December 2022 meeting, the IASB discussed the requirements for presentation of issued financial instruments applying IAS 32, specifically concerns raised by stakeholders about the following:

- The limited information a company provides in its financial statements about the equity instruments it has issued.
  - The IASB considered whether the principles and requirements in IAS 1, including the decisions to be made as part of the IASB's *Primary Financial Statements* project, provide an adequate basis for companies to determine whether to provide additional information.
  - The IASB did not make any decisions on this matter, and will further explore potential presentation requirements.
- The subset of financial liabilities subsequently measured at fair value through profit or loss (FVTPL) under IFRS 9. In particular, the recognition of the changes in the carrying amount of such a financial liability in profit or loss when the financial liability contains a contractual obligation to pay the holder an amount based on the company's performance or changes in the company's net assets. Stakeholders observed that this accounting results in counter-intuitive outcomes because gains are recognised when a company performs poorly and losses are recognised when a company performs well.
  - The IASB tentatively decided against adding to the presentation requirements in IAS 32 for financial liabilities.

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– However, the IASB tentatively decided to require companies to disclosure the total gains or losses recognized in profit or loss in each reporting period that arise from measuring financial liabilities at FVTPL.

The discussion paper and information about project updates are available on the IASB's *Financial Instruments with Characteristics of Equity* project page.

The IASB will discuss other topics set out in the project plan at its future meetings.

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.

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.

Between October 2020 and April 2021, to assess the viability and operability of the Model, the IASB carried out outreach with financial institutions (mainly banks) that manage interest rate risk using dynamic risk management strategies, and received feedback on core elements that are central to the Model.

The key areas for improvement in the Model that were identified from the outreach include:

– target profile;

– designation of expected cash flows and impact on imperfect alignment; and

– recognition of fair value changes in other comprehensive income.

Since April 2021, at its meetings, the IASB has discussed potential refinements to the Model to address the three main challenges identified from the outreach.

At its May 2022 meeting, the IASB decided to move the project to the standard-setting programme.

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Project updates in Q4 2022

At its November 2022 meeting, pursuant to its project plan, the IASB discussed the following two topics:

- Whether equity should be included as an eligible item in the determination of the current net open risk position.
  - The IASB tentatively decided that equity is not an eligible item for the purpose of the Model.
- Whether the tentative decision previously taken during the development of core elements of the Model requiring the notionals to be aligned between the asset profile and the target profile is still necessary.
  - The IASB tentatively decided that notional alignment of designated assets and liabilities is no longer required.

The discussion paper and information about project updates are available on the IASB's *Dynamic Risk Management* *project page*.

At its future meeting, the IASB will continue its deliberations on the areas and topics identified in the project plan.

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Other developments

Classification of debt with covenants as current or non-current

In January 2020 the IASB issued *Classification of Liabilities as Current or Non-current* (Amendments to IAS 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 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 meant 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 the IASB tentatively decided in June 2021 to amend IAS 1 once more, and in November 2021 published the exposure draft *Non-current Liabilities with Covenants* setting out additional and revised proposals. The comment period ended in March 2022.

Project updates in Q4 2022

In October 2022, the IASB issued *Non-current Liabilities with Covenants* (Amendments to IAS 1) (the 2022 amendments), which further amends the 2020 amendments.

The final requirements under the amendments to IAS 1 include the following:

- Under the existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The IASB removed the existing requirement for a right to be unconditional and instead now requires that a right to defer settlement must exist at the reporting date and have substance.
- A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with conditions (covenants) specified in a loan arrangement. The IASB reconfirmed 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.

  Covenants with which the company must comply *after* the reporting date (i.e. future covenants) do *not* affect a liability's classification at that date. However, when non-current liabilities are subject to future covenants, companies will need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.
- The amendments clarify how a company classifies a liability that can be settled in its own shares – e.g. convertible debt. When a liability includes a counterparty conversion option that involves a transfer of the company's own equity instruments, the conversion option is recognized as either equity or a liability separately from the host liability under IAS 32. The IASB clarified that when a company classifies the host liability as current or non-current, it can ignore only those conversion options that are recognised as equity.
- The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with early application permitted. The 2022 amendments specify transition requirements for companies that may have early-adopted the previously issued but not yet effective 2020 amendments.

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Companies need to consider whether their upcoming annual financial statements will need to include disclosures under IAS 8 of the possible future impacts.

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

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*.

The comment period for the exposure draft ended on January 12, 2022.

Project updates in Q4 2022

At its October 2022 meeting, the IASB discussed the next steps for the project based on the feedback received on the exposure draft, and decided the following:

- to use the proposed methodology for developing disclosure requirements;
- to develop a 'middle ground' approach to drafting disclosure requirements that would involve the following:
  - provide context-setting, non-prescriptive overall disclosure objectives that describe the overall information needs of users of financial statements;
  - not include a cross reference to IAS 1 paragraph 31 at the beginning of the disclosure section of each IFRS Accounting Standard;
  - require companies to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements;
  - support specific disclosure objectives with explanations of the assessments that users make that rely on information disclosed applying the specific disclosure objective; and
  - use prescriptive language when referring to items of information that a company should disclose to meet a specific disclosure objective, subject to the requirements of IAS 1 paragraph 31.
- to document the approaches for developing and drafting disclosure requirements (Guidance for the Board) and publish the document as a separate document on the IFRS Foundation website.
- To not proceed with any further work on the disclosure requirements in IFRS 13 and IAS 19.

The IASB will publish the Guidance for the Board and a project summary.

The exposure draft, comment letters and information about project updates are available on the IASB's *Disclosure Initiative—Targeted Standards-level Review of Disclosures* *project page*.

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

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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.

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.

The comment period for the exposure draft ended on March 28, 2022, and the IASB discussed at its July meeting the feedback received.

Project updates in Q4 2022

At its November meeting, the IASB discussed how to proceed on the project, specifically the following:

- Project approach;
- Scope of the proposals in the exposure draft;
- Disclosure objective and requirements to meet the information needs of users of financial statements; and
- Examples added to disclosure requirements and other comments.

The exposure draft, comment letters and information about project updates are available on the IASB's *Supplier Finance Arrangements* *project page*.

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

Sustainability (ESG[1]) reporting update

International Sustainability Standards Board developments

The International Sustainability Standards Board (ISSB) has been actively redeliberating its *proposals* on (1) general sustainability-related matters and (2) climate-related matters and is moving closer to finalizing the standards.

The ISSB held meetings in October, November and December 2022.

The focus of the ISSB's *October 2022 meetings* was to provide clear direction about how key topics will feature in the final standards - facilitating interoperability with jurisdictions including the EU, making early decisions on topics including greenhouse gas (GHG) emissions and materiality to allow the ISSB time to develop guidance and support for companies, and discussing the path forward for industry-specific materials. The ISSB agreed to remove the definition of 'enterprise value' from its proposals to resolve confusion, and confirmed it will keep Scope 3 emission disclosure requirements.

[1] Environmental, Social, and Governance.

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The ISSB's *November 2022 meetings* focused on facilitating transparent disclosures on climate resilience and transition plans and targets, and building momentum towards finalizing the standards as early as possible in 2023 by addressing topics including:

- financial effects and connected information;
- updating estimates in comparative information;
- using other guidance to report on topics other than climate; and
- timing of sustainability reporting.

The ISSB confirmed that companies will be required to:

- use scenario analysis when describing their assessment of climate resilience; and
- revise comparative information to reflect updated estimates in some but not all circumstances.

In addition, the ISSB confirmed that companies 'shall consider' disclosure topics and metrics in the industry-based Sustainability Accounting Standards Board (SASB) standards and will provide future guidance on materials companies 'may consider'. With respect to timing of sustainability reporting, the ISSB will require companies to report sustainability-related financial disclosures at the same time as the financial statements but may be subject to short-term transitional relief.

Finally, in its *December 2022 meetings*, the ISSB's focus turned to explaining materiality by adapting existing IFRS Foundation guidance and describing the scope of 'sustainability' along with confirming details on GHG emissions reporting, industry-specific materials and next steps for agenda consultation.

The ISSB agreed to:

- provide support for disclosing Scope 3 emissions;
- clarify requirements for Scope 2 emissions – requiring location-based disclosures;
- require specific global warming potentials from the Intergovernmental Panel on Climate Change (IPCC) when measuring emissions, but allow companies to choose appropriate emissions factors; and
- require disclosure of financed emissions for certain financing activities but not for facilitated emissions.

The ISSB agreed that the climate proposal would require industry-specific disclosures, but for now it would classify the content in Appendix B of the proposed standard as illustrative examples.

Beyond the ISSB meetings, in November 2022 the CDP[2] *announced* it will incorporate the ISSB's final climate standard into its environmental disclosure platform.

For more information about developments in this area, refer to our new *Sustainability reporting resource centre* – which features a range of high-level visual overviews, video blogs, articles and analysis.

European Union developments

In November 2022, the European Parliament and European Council (EC) approved and adopted the Corporate Sustainability Reporting Directive (CSRD), which amends and significantly expands the existing EU requirements for sustainability reporting. In December 2022, the CSRD was published in the Office Journal of the EU and will enter into force in early 2023. Member states will then have 18 months to transpose it into national law, and may make revisions as part of that process.

Notwithstanding that the CSRD is an EU Directive, there are considerable ESG reporting implications for *non-EU based companies*, including Canadian companies.

Also in November 2022, the European Financial Reporting Advisory Group (EFRAG) submitted its first set of draft European Sustainability Reporting Standards (ESRSs) to the EC for approval. This submission included updates based on feedback to the proposed ESRSs that were exposed for public consultation in April 2022. The next step is for the EC to consider whether revisions are necessary ahead of expected final approval by June 30, 2023.

The EFRAG will now turn its attention to its second set of draft ESRSs, which include draft sector-specific standards; the final standards are expected to be adopted by the EC by June 30, 2024.

[2] CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

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SEC – ESG reporting update

For recent ESG developments at the Securities and Exchange Commission (SEC) – including regulatory updates on the proposed climate rules, staff comment letters, and enforcement actions – refer to our *US Quarterly Outlook* publication.

Canadian Sustainability Standards Board developments

The Canadian Sustainability Standards Board (CSSB) is in the early stages of development and aims to be operational by April 1, 2023. The call for applicants for chair was made in October 2022 followed by the call for member applicants in November 2022.

In December, the CSSB was *appointed* an inaugural member of the Sustainability Standards Advisory Forum (SSAF), which will work with the ISSB towards a comprehensive global baseline of sustainability-related disclosure for capital markets. CPA Canada will serve as interim member prior to the establishment of the CSSB.

CSA regulatory update

In October 2022, the Canadian Securities Administrators (CSA) *stated* that it continues to actively consider international developments and how they may impact or inform its proposed climate-related disclosure rule published in October 2021, including revisiting comment letters it received with feedback on the two international proposals, as well as reviewing Canadian stakeholder feedback that was submitted directly to the SEC and ISSB.

In November, the CSA published a *biennial report on its continuous disclosure review program*. The report highlighted common deficiencies that were identified over the past two years, including overly promotional disclosure pertaining to environmental, social and governance matters. The report stated that “We have observed an increase in issuers making potentially misleading, unsubstantiated or otherwise incomplete claims about business operations or the sustainability of a product or service being offered, conveying a false impression commonly referred to as ‘greenwashing’.”

Comparing sustainability reporting proposals

There is commonality among each of the proposals issued by the ISSB, the SEC and the EFRAG, including that the TCFD framework forms a shared input. However, there are also areas where they are not aligned, which may create practical challenges for companies trying to design coherent and consistent reporting that meets the needs of both global investors and jurisdictional requirements.

Refer to our *guide* which compares the proposals and gives our insight on some of the practical challenges companies may encounter as they prepare for the new sustainability reporting standards.

Climate-related disclosures in the financial statements

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 Accounting 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.

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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*.

Global minimum top-up tax under BEPS 2.0

To address concerns about uneven profit distribution and the tax challenges of the digitalization of the economy, various agreements have been reached globally, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate of 15 percent (referred to as “GloBE”).

These jurisdictions are expected to use the Organisation for Economic Co-operation and Development’s (OECD) draft legislative framework and detailed guidance to amend their local tax laws. Once changes to local tax laws are enacted or substantively enacted, companies may be subject to the top-up tax.

The GloBE rules apply to multinational groups that have consolidated revenues of EUR 750 million or more in at least two out of the last four years. Multinational groups in the scope of the rules will be required to calculate their GloBE effective tax rate for each jurisdiction where they operate. If the blended GloBE effective tax rate for all companies in a specific jurisdiction is below the 15 percent minimum rate, then they will be liable to pay a top-up tax for the difference. In many cases, the group company liable for the top-up tax will differ from the group company that triggered it.

Top-up tax differs from income taxes that arise under ‘traditional’ tax regimes. Traditional income taxes are generally based on a company’s taxable profit; top-up tax will arise only if a group pays an insufficient amount of income taxes at a jurisdictional level. This has led to questions such as the following:

- Is top-up tax in the scope of IAS 12 *Income Taxes*?
- Do the GloBE model rules create additional temporary differences?
- Does a company need to remeasure its existing temporary differences in relation to deferred tax recognized?
- How will companies determine the rate for measuring the deferred tax impacts of top-up tax?

In November 2022, the IASB discussed the concerns raised by stakeholders on how changes due to the GloBE should be accounted for under IFRS Standards and agreed to undertake urgent narrow-scope standard setting.

On January 9, 2023, the IASB issued an exposure draft *International Tax Reform—Pillar Two Model Rules* which proposes to amend IAS 12 to:

- provide a temporary mandatory exception from deferred tax accounting for top-up tax; and
- require companies to provide new disclosures to compensate for the potential loss of information resulting from the temporary exception in its annual financial statements for periods beginning on January 1, 2023.

When the final amendments are issued, the exception would apply immediately and until such time as the IASB decides either to remove it or to make it permanent.

The proposed new disclosure requirements will apply once the amendments become effective (i.e. they do not affect 2022 annual reports). However, investors expect companies to assess the potential impacts of the GloBE before changes to the respective tax laws are finalized. They also want to know how companies will be affected and may expect relevant information in companies’ financial statements. Therefore, companies need to consider the disclosure implications now – i.e. before the local tax laws are enacted or substantively enacted.

The proposed disclosure requirements in the exposure draft may be particularly relevant for 2022 annual reports for group companies that expect to be liable for the top-up tax. Further, paragraph 17(c) of IAS 1 includes overarching requirements to provide additional disclosures when necessary to enable users to understand the impact of particular transactions, other events and conditions on the company’s financial position and performance. These overarching requirements apply for both interim and annual financial statements.

If companies expect GloBE to affect them and that information is relevant to the users of financial statements, then they should consider providing qualitative disclosures, where possible.

The comment period for the exposure draft closes on March 10, 2023.

For more information, refer to our *web article*.

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IFRIC agenda decisions

Companies applying IFRS Accounting Standards are required to reflect the explanatory material included in final agenda decisions made by the IFRIC. Bookmark our IFRIC agenda decisions *web page* to keep up to date with the latest discussions.

November 2022 tentative agenda decision

Definition of a Lease—Substitution Rights (IFRS 16)

At its November 2022 meeting, the IFRIC published its *tentative* agenda decision *Definition of a Lease—Substitution Rights* (IFRS 16).

The tentative agenda decision relates to a request that illustrated the challenge of applying existing accounting standards to new technology – batteries to be used in electric vehicles. Specifically, the request was about the application of the lease definition to a contract to supply batteries that includes a substitution clause.

In the fact pattern presented:

- Under a ten-year contract, the supplier provides multiple batteries that will be used in buses operated by the customer. The supplier can substitute a battery for an alternative battery at any time.
- The supplier’s decision as to when to substitute a battery depends on two factors. Firstly, the rate at which the performance of the battery deteriorates over time. Secondly, the amount of compensation the supplier has to pay to the customer for taking a bus out of service to change the battery. The supplier expects that substitution will not be economically beneficial until a battery is three or more years older.

The request asked the following questions:

- Does the lease definition get applied to the contract as a whole or to the individual batteries?
- How does the substitution right impact the assessment of whether there is a lease?

The IFRIC concluded that:

- Each battery needs to be considered separately because each battery can be used independently of the others.
- The substitution right was not substantive throughout the period of use and therefore, if the other parts of the lease definition are met, there is a lease of the batteries.

This case could set an important precedent in a rapidly expanding industry sector.

The tentative agenda decision is open for comments until February 6, 2023.

For more information, refer to the *November 2022 IFRIC update* and watch our *IFRS Today video*.

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Requirements effective in 2022

New requirements effective for annual reporting periods beginning on or after January 1, 2022[3].

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 recognized 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 recognize bigger and potentially more provisions.

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 recognized 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*.

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[3] 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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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 *Leases* 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 subsequent amendments to IFRS 17[4]	*Web article* (with links to in-depth analysis)
January 1, 2023	Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*)	*Web article*
January 1, 2023	Definition of accounting estimates (Amendments to IAS 8)	*Web article*
January 1, 2023	Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)	*Web article*
January 1, 2024	Classification of liabilities as current or non-current (Amendments to IAS 1) and Non-current Liabilities with Covenants (Amendments to IAS 1)	*Web article*
January 1, 2024	Lease liability in a sale and leaseback (Amendments to IFRS 16)	*Web article*
NA*	Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)	

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

[4] Amendments to IFRS 17 and Initial application of IFRS 17 and IFRS 9 – comparative information (Amendments to IFRS 17)

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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. More information about the projects is available on the IASB's *work plan page*.

Standard-setting projects	Next milestone	Expected date	KPMG's guidance
Business combinations – disclosures, goodwill and impairment	Exposure draft	-	
Disclosure initiative – targeted standards-level review of disclosures	Project summary	March 2023	*Web article*
Dynamic risk management	Exposure draft	-	
Financial instruments with characteristics of equity	Exposure draft	H2 2023	
Management commentary	Decide project direction	-	*Web article*
Primary financial statements	IFRS Accounting Standard	-	*Web article* *New on the Horizon*
Rate-regulated activities	IFRS Accounting Standard	-	*Web article*
Disclosure initiative – subsidiaries without public accountability: disclosures	IFRS Accounting Standard	-	*Web article*
Second comprehensive review of the IFRS for SMEs accounting standard	Exposure draft feedback	Q2 2023	

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Research projects	Next milestone	Expected date	KPMG's guidance
Business combinations under common control	Decide project direction	-	*Web article*
Equity method	Decide project direction	-	
Extractive activities	Decide project direction	Q2 2023	
Post-implementation review of IFRS 15	Request for Information	Q2 2023	
Post-implementation review of IFRS 9 – impairment	Request for information	Q2 2023	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Amendments to the classification and measurement of financial instruments	Exposure draft	March 2023	
International tax reform – pillar two model rules	Exposure draft	Q2 2023	*Web article*
Lack of exchangeability (amendments to IAS 21)	IFRS Accounting Standard amendment	Q2 2023	*Web article*
Provisions – targeted improvements	Decide project direction	-	
Supplier finance arrangements	IFRS Accounting Standard amendment	Q2 2023	*Web article*

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Application questions	Next milestone	Expected date	KPMG's guidance
Definition of a lease – substitution rights (IFRS 16)	Tentative agenda decision feedback	March 2023	

Sustainability	Next milestone	Expected date	KPMG's guidance
Climate-related disclosures	IFRS Sustainability Disclosure Standard	-	*Sustainability reporting resource centre* *Web article*
General sustainability-related disclosures	IFRS Sustainability Disclosure Standard	-	*Sustainability reporting resource centre* *Web article*
IFRS sustainability disclosure taxonomy	Feedback on staff request for feedback	November 2022	

Other projects	Next milestone	Expected date	KPMG's guidance
IFRS taxonomy update – 2022 general improvements and common practice	Proposed IFRS taxonomy update feedback	February 2023	
IFRS accounting taxonomy update – amendments to IFRS 16 and IAS 1	Proposed IFRS taxonomy update feedback	January 2023	
ISSB consultation on agenda priorities	Request for information	Q2 2023	

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