CURRENT DEVELOPMENTS

Spotlight on IFRS

Q1 2023

kpmg.ca

Table of contents

03 Quarterly update

04 Major projects and new standards

04 Sustainability (ESG) reporting update
06 Update on rate-regulated activities project
08 Update on financial instruments projects
10 General presentation and disclosure

13 Other developments

13 Uncertain times – Impact on impairment
14 Supplier finance arrangements
15 Sale and leaseback – new guidance
15 Global minimum top-up tax under BEPS 2.0
16 Amendments to IFRS 9
17 Issued financial guarantee contracts
17 IFRIC Agenda decisions

18 Requirements effective in 2023

18 Insurance contracts (IFRS 17)
18 Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
19 Definition of Accounting Estimate (Amendments to IAS 8)
19 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes

20 Appendix 1: Requirements effective in 2024 and beyond

21 Appendix 2: IASB work plan

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, 2023.

Sustainability matters, including climate-related continue to top the list of priorities for investors and other stakeholders with greater focus on consistency of information across the annual report. However, they also recognize the challenges companies face from the current macroeconomic environment, such as inflation, high energy prices, the Ukraine-Russia conflict and instability and uncertainty in the banking sector. Our latest *IFRS Today* podcast offers clear and concise points for companies to consider when preparing their year-end financial statements.

The ambitious proposals from the International Sustainability Standards Board (ISSB) continue to develop at a fast pace. We expect the first two standards to be finalized in June 2023. These standards will have a significant impact on companies. We recommend leveraging our dedicated *Sustainability reporting resource centre*, which features a range of high-level visual overviews, video blogs, articles and analysis to help companies get ready for the new standards.

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 *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.

A number of new requirements are effective from January 1, 2023. Further information on these new requirements is provided in the section *Requirements effective in 2023*.

Refer to our *Guides to financial statements* – which includes an update to interim financial statements for disclosure requirements effective in 2023.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Major projects and new standards

Sustainability (ESG[1]) reporting update

Today, general purpose financial reports are typically comprised of financial statements and management's discussion and analysis. With the introduction of sustainability disclosure standards, financial reports will also soon include sustainability-related financial disclosures. In this section, we focus primarily on the potential impact of sustainability matters on financial statements and the forthcoming sustainability disclosure requirements. For additional background and information, as well as a discussion on the connectivity in reporting, refer to this *article* by the IASB Chair Andreas Barckow and ISSB Chair Emmanuel Faber.

Sustainability in the financial statements

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.

In March 2023 the IASB added a narrow-scope maintenance project to its work plan to explore how companies can provide better information about climate-related risks in their financial statements. This project was initiated in response to feedback received on the IASB's most recent Agenda Consultation, and also builds on educational materials published by the IASB in 2020. In addition, this project will continue to support the connectivity between the work of the International Sustainability Standards Board (ISSB) and the IASB, and support the connectivity within general purpose financial reports.

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.*

Green initiatives and carbon credits

To drive the move to a greener economy, companies across many different sectors have announced commitments to reduce greenhouse gas emissions and, in some cases, net-zero targets. This brings both challenges and opportunities as companies embark on new arrangements and operational changes to meet these commitments and targets.

These new green initiatives vary significantly by industry, company and by geography. Some initiatives may be driven by regulatory changes such as the introduction of emissions trading schemes (e.g. in Canada: (Federal) Clean Fuel Regulation, Alberta Technology Innovation and Emissions Reduction (TIER) Regulation, Ontario Emissions Performance Standard, Quebec Cap-and-Trade System and BC Renewable and Low Carbon Fuel Requirements Regulation), or a price on carbon emissions in the form of a 'carbon tax'. Other initiatives may be driven by industry pressure (e.g. in the airline industry), and still others may be entirely voluntary in nature - which often results in the generation of carbon credits[2].

The accounting implications for these initiatives highly depends on the specific facts and circumstances of the arrangement itself, as well as the perspective or involvement of the company

[1] Environmental, Social, and Governance.

[2] ISSB initially proposed using the general term 'carbon offset', which it defined as: "An emissions unit issued by a carbon crediting programme that represents an emission reduction or removal of a greenhouse gas emission. Carbon offsets are uniquely serialised, issued, tracked and cancelled by means of an electronic registry. However, in responding to feedback, the ISSB is using the general term 'carbon credit'.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

in the green initiative. In addition, many of the arrangements result in items for which there is limited specific guidance within accounting frameworks, leaving many companies looking to broad concepts and principles, or application of certain guidance by analogy.

For additional information about accounting for Carbon offsets and credits under IFRS Accounting Standards, refer to our web articles on *Accounting for green initiatives – investing in credits* and *Carbon offsets and credits under IFRS Accounting Standards*. In addition, for a discussion of some of the initiatives and financial reporting implications related to these initiatives in the airline industry, refer to our *podcast.*

Sustainability disclosures

International Sustainability Standards Board developments

As part of its drive towards globally consistent, comparable and reliable sustainability reporting, the ISSB is developing IFRS Sustainability Disclosure Standards.

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

- The exposure draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information,* which sets out general sustainability-related disclosure requirements.
- The exposure draft IFRS S2 *Climate-related Disclosures*, which specifies climate-related disclosure requirements, (collectively, the “proposed standards”).

These proposed standards are being developed at a much faster pace than IFRS Accounting Standards, and are expected to be finalized in June 2023. Individual jurisdictions will decide whether and when to adopt but a rapid route to full adoption is expected in a number of jurisdictions.

Under the proposed standards, companies would report on all relevant sustainability topics (not just on climate-related risks) across four content areas that are consistent with the Task Force on Climate-Related Financial Disclosures (TCFD) – i.e. governance, strategy, risk management, and metrics and targets.

Reporting under the proposed standards 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.

Project updates in Q1 2023

In Q1 2023, the ISSB wrapped up its redeliberation process, making the last major decisions before finalizing the proposed standards.

The ISSB also met in early April 2023 and decided to provide additional transition relief, allowing companies to report on only climate-related risks and opportunities (as set out in IFRS S2) in the first year of application. Full reporting on sustainability-related risks and opportunities, beyond climate, would commence in the second year of reporting. The one-year transition relief would not change the effective date of IFRS S1 as companies will need to apply IFRS S1 in the first year to meet general disclosure requirements where they relate to climate.

The proposed standards will be effective from January 1, 2024, subject to local jurisdictions adoption and must be applied together.

The full complement of transition relief for the first year of reporting under the proposed standards would allow companies to not:

- Provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
- Provide annual sustainability-related disclosures at the same time as the related financial statements;
- Provide comparative information;
- Disclose Scope 3 greenhouse gas emissions; and
- Use the GHG Protocol to measure emissions, if they are currently using a different approach.

In addition, companies that only report on climate-related risks and opportunities in the first year of reporting will have relief from providing comparative information about their sustainability-related risks and opportunities beyond climate in their second year of reporting.

The ISSB also addressed the following in its Q1 2023 meetings:

- Proportionality: A key objective of the ISSB was to find ways for all types of companies to apply the sustainability disclosure standards. In addition to the transition reliefs noted above, the ISSB is leveraging existing accounting concepts, including the concept of reasonable and supportable information at the reporting date without undue cost or effort, and addressing practical guidance that they expect to provide.
- Sources of guidance: The ISSB gave explicit permission for companies to refer to Global Reporting Initiative (GRI)

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

or European standards in deciding what information to disclose on sustainability topics that are not yet covered by international standards. The ISSB previously confirmed that companies shall consider Sustainability Accounting Standards Board (SASB) standards.

- Scenario analysis: Companies will be required to use scenario analysis when describing their assessment of climate resilience. The ISSB is taking a scalable approach where the type of analysis needed will depend on the company's exposure to climate-related risks and its available skills and resources.
- Financial effects and connected information: Companies will need to disclose the current and anticipated financial effects of sustainability-related risks and opportunities using reasonable and supportable information – both qualitative and quantitative. If companies cannot provide the required level of detail, they would need to explain why not and provide additional qualitative information and quantitative information that is as granular as possible. Companies will also need to explain the connection between their sustainability-related financial information and financial statements.

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

European Union developments

The European Council (EC) is in the process of consulting with EU bodies and the member states on the draft European Sustainability Reporting Standards (ESRSs) submitted by the European Financial Reporting Advisory Group (EFRAG). Final approval of the standards is expected by June 30, 2023.

The EFRAG's second set of draft ESRSs, which include sector-specific standards, are expected to be adopted by the EC by June 30, 2024.

SEC – ESG reporting update

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

Canadian Sustainability Standards Board developments

The Canadian Sustainability Standards Board (CSSB) aims to be operational in Q2 2023. The CSSB's mandate is to develop and support the adoption of international sustainability standards in Canada.

OFSI's Guideline B-15: Climate Risk Management

In March 2023, the Office of the Superintendent of Financial Institutions (OFSI) published Guideline B-15: Climate Risk Management, which sets out OFSI's expectations for the management of climate-related risks. Guideline B-15 will be effective fiscal year-end 2024 for Domestic Systemically Important Banks (DSIBs) and Internationally Active Insurance Groups (IAIGs) headquartered in Canada. For all other in-scope Federally Regulated Financial Institutions (FRFIs), Guideline B-15 will become effective fiscal year-end 2025.

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.

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 Accounting Standards do not contain any equivalent comprehensive guidance. IFRS 14 *Regulatory Deferral Accounts* provides only temporary relief to first-time adopters of IFRS Accounting Standards 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

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

criteria would recognize regulatory assets and liabilities. This accounting model would align the total income recognized in a period under IFRS Accounting 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 Accounting 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 Accounting Standards plus regulatory income minus regulatory expense under the proposed new 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 will 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 Accounting 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 Accounting 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 redeliberation to address the feedback received in the comment letters.

Project updates in Q1 2023

Pursuant to the plan for redeliberation, at its February 2023 meeting, 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.

The IASB made the following tentative decisions:

- the recognition threshold for regulatory assets and regulatory liabilities:
  - to recognize a regulatory asset or a regulatory liability whose existence is uncertain if its existence is more likely than not;
  - not to base the recognition threshold on the probability of a flow of economic benefits;
  - not to set a recognition threshold based on the level

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

    of measurement uncertainty, except for those regulatory assets and regulatory liabilities whose measurement depends on a regulatory benchmark;
  - to retain the proposed symmetric recognition threshold for regulatory assets and regulatory liabilities; and
  - to require an entity to recognize a regulatory asset or regulatory liability—whose measurement depends on a regulatory benchmark determined after the financial statements are authorised for issue—when the regulator determines the benchmark.
- Enforceability and recognition:
  - to reconfirm a proposed single assessment of the existence of enforceable present rights and obligations for the individual regulatory assets or regulatory liabilities.
  - to clarify that rights and obligations can be enforceable even if their existence is uncertain.
  - to consider the principles in paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers* that relate to an entity's right to payment for performance completed to date. Similar assessment would be performed to assess the existence of enforceable present rights for regulatory returns on an asset not yet available for use, and for assessing the existence of enforceable present rights or obligations for long-term performance incentives.
- Performance incentives: amounts relating to performance incentives should form part of or reduce the total allowed compensation for goods or services supplied in the period in which the entity's performance gives rise to the incentive. These amounts would include those that result from an entity's performance of construction work.

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.

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 2023

At its February 2023 meeting, the IASB discussed the following sweep issues on classification and presentation topics in the project plan. The IASB tentatively agreed:

- To amend the foundational principle that clarifies when the fixed-for-fixed condition is met. The clarification is meant to help address the classification of certain convertible bonds, specifically where the

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

holder had a choice between two fixed conversion ratios with different types of its own shares. The amended principle states that the fixed-for-fixed condition is met if the entity knows how many functional currency units it will exchange per type of own share if the option is exercised.

- To replace the terms 'reclassified' and 'reclassification' in paragraph 32 of IAS 32 with alternative wording to address the need for consistency in the use of the term 'reclassification'. In addition, the IASB tentatively agreed to require an entity to make a reclassification between financial liabilities and equity instruments at the date of the change in circumstances that necessitated the reclassification. The IASB also indicated their intention to ask a question in the forthcoming exposure draft regarding practical considerations of this requirement.
- To simplify the previously discussed proposals related to determining whether rights and obligations arising from a legal requirement are considered when assessing the classification of a financial instrument. Specifically, the IASB tentatively decided to require an entity to consider only enforceable contractual terms that give rise to rights and obligations in addition to, or more specific than, those established by the applicable law.
- To clarify further the requirements related to obligations for an entity to redeem its own equity instruments and to ensure consistency between these requirements and the requirements on accounting for financial instruments containing contingent settlement provisions in paragraph 25 of IAS 32. Specifically, the IASB tentatively decided the following:
  - An entity is required to recognize gains or losses in profit or loss when remeasuring the financial liabilities;
  - An entity should use the same approach for initial and subsequent measurement of financial liabilities that contain an obligation for an entity to purchase its own equity instruments (in the scope of paragraph 23 of IAS 32) – specifically, an entity would ignore the probability and estimated timing of the holder exercising the written put option in initial and subsequent measurement;
  - For financial instruments containing contingent settlement provisions (in the scope of paragraph 25 of IAS 32), an entity would also use the same approach for initial and subsequent measurement of these financial liabilities – specifically, an entity would ignore the probability and estimated timing of the contingent event in the initial and subsequent measurement; and
  - To remove from paragraph 23 of IAS 32 the reference to IFRS 9 *Financial Instruments* regarding subsequent measurement.
- To delete the second sentence of paragraph 41 of IAS 32, to better align the existing guidance with that tentatively agreed with the tentative decision in December 2022 regarding the presentation of financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in the entity's net assets.

The IASB also discussed the factors tentatively proposed in February 2022 that an entity considers in assessing whether a shareholder decision is treated as an entity decision. No further decisions were made at the meeting.

The IASB also discussed the presentation requirements for equity instruments to meet the needs of users including transparency about whether an entity has issued other instruments classified as equity and clear distinction of returns to ordinary shareholders. To address these needs, the IASB tentatively decided to amend IAS 1 to require an entity to provide visibility to amounts attributable to ordinary shareholders. In addition to the specific additional line items, the IASB also asked the staff to consider further how amounts attributable to ordinary shareholders would be disaggregated.

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 (DRM) activities in their accounting (i.e. when the risk position

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

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.

Project updates in Q1 2023

At its February 2023 meeting, pursuant to its project plan, the IASB discussed the following two topics:

- when determining an entity's current net open risk position, whether financial assets measured at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL) should be included – the IASB decided that only financial assets measured at FVOCI are eligible for designation in the Model; and
- to require an entity to assess whether the current net open risk position at the end of the DRM assessment period can realize the expected benefits represented by the DRM adjustment.

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.

General presentation and disclosure

The IASB published an exposure draft *General Presentation and Disclosures* in December 2019. The exposure draft

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

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

Project updates in Q1 2023

At its January meeting the IASB continued to redeliberate the proposals. The following tentative decisions were made:

- the general requirements on disaggregation
  - to add an exemption to information about the nature of operating expenses included in a function line item in the statement of profit or loss
  - to clarify the requirements to describe disaggregated amounts in a clear and understandable way and be transparent about the meaning of the terms used
  - to add a requirement that any line items presented in the statement of financial performance and statement of financial position are recognized and measured in accordance with IFRS Accounting Standards
  - to require entities to use the label 'other' only if it is unable to find a more informative label.
- to withdraw the proposal to re-label the two categories of other comprehensive income
- In the statement of cash flows related to classification of interest received:
  - to require an entity without a specified main business activity to classify interest received as 'cash flows arising from investing activities'; and
  - to require an entity with a specified business activity to classify some cash flows such as 'dividends received', 'interest paid' and 'interest received', within a single category of the statement of cash flows.

The IASB continued to redeliberate the proposals in March 2023 and made the following tentative decisions:

- disclosure of operating expenses by nature in the notes;
  - to change the specific disclosure requirement for operating expenses by nature to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each function line item in the statement of profit or loss.
  - to confirm the proposal to disclose the information described above in a single note.
  - to provide application guidance clarifying that the amounts described above are not required to be expense amounts.
  - if part of the amount disclosed above has been included in the carrying amount of assets, to require an entity to provide a qualitative explanation, including

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

an identification of the assets in which the amounts have been included..

- to expand the scope of the proposed exemption from the general requirement to disaggregate material information to exempt an entity from disclosing:
  - the amounts of nature expenses (beyond those specifically required) in relation to function line items in the statement of profit or loss; and
  - the amounts included in each function line item in the statement of profit or loss in relation to nature expenses that are required to be disclosed by an IFRS Accounting Standard.
- management performance measures;
  - to further develop the application guidance on the reasonably and supportable information needed to rebut the previously-introduced rebuttable presumption that a subtotal of income and expenses included in an entity's public communications outside the financial statements represents management's view of an aspect of the entity's financial performance.
  - to require disclosure if an entity decides to modify its management performance measures.
  - to require disclosure of management performance measures also in interim financial reports.
- categories in the statement of profit or loss;
  - to require an entity to use its judgement to determine in which category in the statement of profit or loss to classify foreign exchange differences on a liability that arises from a transaction that involves operating activities in addition to the raising of finance.
  - to require an entity to classify in the financing category of the statement of profit or loss all income and expenses arising after initial recognition from hybrid contracts that meet the following criteria:
    - with host liabilities that arise from transactions that do not involve only the raising of finance; and
    - that are measured at amortised cost in their entirety.
- entities with specified main business activities;
  - to confirm the accounting policy choice proposed for the classification of income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity;
  - to clarify that the proposed requirements for entities that invests in financial assets as a main business activity would apply regardless of whether the entity has any other specified main business activity.

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

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.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Other developments

Uncertain times – Impact on impairment

In many countries, inflation is at levels not seen in decades. In response, central banks have raised interest rates and economic activity overall is slowing down. At the same time, long-term government bond yields increased significantly and many companies have been experiencing the effects of soaring commodity prices and labour costs (and in some cases, a significantly lower share price). All of these factors are indicators of possible impairment if they are expected to have (or have already had) a significant adverse effect.

For many companies it is highly likely that indicators of impairment exist. If so, those companies using a discounted cash flow (DCF) model to estimate the recoverable amount of their assets or cash-generating units (CGUs) would need to consider how to reflect the impact of higher inflation and interest rates. The impacts may be significant – e.g. affecting key inputs to the model such as the forecasted revenues, profitability and the discount rate. These impacts may be a key area of focus for regulators and we highlight some of the key points to consider below.

Impact on future revenues, costs and profit margins

A good starting point is to consider the impact of inflation on the estimated future costs of materials, services and labour during the forecast period (typically the next five years). Costs of materials and commodities (including energy prices) have increased significantly due to supply chain issues and the sanctions imposed on Russia in response to the Russia-Ukraine conflict.

In an inflationary environment, companies often seek to increase prices to compensate for increases in the costs of production. However, a company's ability to pass on cost increases and maintain its profit margins typically depends on the nature of its products (or services) and its competitive position. Companies that are not price makers may find it challenging to maintain their profit margins over time when inflation is high. Further, consumers may change their spending habits as their disposable income falls due to high inflation – e.g. they may either opt for cheaper products or decrease their spending.

Forecasting capital expenditure

In an inflationary environment, a company's capital expenditure cannot be assumed to be equal to its depreciation expense. Rather, it will exceed it if a company is to maintain its assets in real terms.

Impact on the long-term growth rate

The long-term growth rate comprises the following.

- Inflationary growth: In an inflationary economic environment, companies with no real growth should still exhibit growth in cash flows at the rate of the long-term price changes in their products/services and costs.
- Real growth: The real long-term growth rate can be positive or negative, depending on the relative strengths or weaknesses and risks associated with the subject asset or CGU.

Distinguishing between real growth and inflationary growth is important when forecasting future cash flows. This is because real growth requires expansionary investment in the business, whereas inflationary growth requires no further cash investment beyond the amount necessary to maintain the company's assets in real terms.

Impact on the discount rate

The increase in long-term interest rates in 2022 may have significantly reduced the recoverable amount of assets (e.g. real estate) or CGUs. Companies often use the weighted average cost of capital (WACC) formula as a starting point to estimate the appropriate discount rate when determining enterprise value. This formula is a weighted average of the

© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

cost of debt and equity, both of which are affected by changes in the risk-free rate. The risk-free rate is generally derived from the yield on government bonds that are in the same currency and have the same or a similar duration as the cash flows of the asset or CGU. The yields on these bonds have increased significantly in 2022 and continue to increase in the first quarter of 2023.

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 IFRS® interpretations Committee's (Committee) 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. However, in response to stakeholder feedback, the IASB has tentatively decided to accelerate the proposed effective date by one year so that companies will be required to apply the amendments for annual reporting periods beginning on or after January 1, 2024.

Project updates in Q1 2023

The IASB expects to issue the amendments in Q2 2023. In its February meeting, the IASB discussed practical matters related to implementing the proposals by January 1, 2024. At the meeting, the IASB tentatively decided:

- to permit earlier application and, if an entity applies the amendments for an earlier period, to require the entity to disclose that fact
- not to require an entity to disclose comparative information for preceding periods in the annual reporting period it first applies the amendments;
- not to require an entity to disclose, in its first annual financial statements after the amendments become effective, information as at the beginning of that annual reporting period on:
    - the carrying amount of recognized financial liabilities that are part of a supplier finance arrangement for which suppliers have already received payment from the finance providers; and
    - the range of payment due dates of both financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of such an arrangement; and
- not to require the disclosures outlined in the amendments for any interim financial reports within the annual period in which an entity first applies the amendments.

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*.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Sale and leaseback – new KPMG guidance

IFRS 16 Leases ended sale-and-leaseback transactions as an off-balance sheet financing proposition. However, it did not end their usefulness as a means to monetizing non-financial assets on their balance sheet.

Accounting for these transactions can be complex. Under IFRS 16, assessing whether a transaction qualifies for sale-and-leaseback accounting is a key judgement. Calculating the profit or loss on the sale is also not always intuitive.

KPMG's Sale and leaseback *publication* addresses practical questions you may encounter in applying IFRS 16. It also covers the new amendments to IFRS 16, with detailed worked examples showing how to account for sale-and-leaseback transactions that feature variable payments on initial recognition and subsequently.

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?

Project updates in Q1 2023

On January 9, 2023, the IASB issued an exposure draft *International Tax Reform—Pillar Two Model Rules.* At a special supplementary meeting on April 11, 2023 the IASB decided to finalize the amendments which will introduce:

- a temporary mandatory exception to the accounting for deferred taxes arising from the jurisdictional implementation of global tax rules; and
- targeted new disclosure requirements for affected companies to help users of the financial statements better understand a company's exposure to Pillar Two income taxes arising from that legislation.

When the final amendments are issued, it is anticipated that the exception would apply immediately and until such time as the IASB decides either to remove it or to make it permanent. However, no disclosures would be required in interim periods before 31 December 2023. The final amendments are expected in May 2023.

The proposed new disclosure requirements will apply once the amendments become effective. 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. 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.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

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.

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

Amendments to IFRS 9

In March 2023, the IASB published an exposure draft proposing amendments to the classification and measurement requirements in IFRS 9. These amendments respond to feedback received from a post-implementation review of the classification and measurement requirements in IFRS 9.

Amendments to IFRS 9 - Classification of financial assets

In response to feedback on its post-implementation review (PIR) of the classification and measurement requirements in IFRS 9, the IASB is proposing to amend IFRS 9 and IFRS 7. The proposals include guidance on the classification of financial assets, including those with ESG-linked features.

The proposals address a number of matters arising from the PIR, including:

- the classification and disclosures of financial assets with an ESG-linked feature;
- financial assets with non-recourse features
- the classification of contractually linked instruments (CLIs); and
- disclosures on investments in equity instruments.

Classifying financial assets with an ESG-linked feature

The proposed amendments clarify how a company would assess the solely payments of principal and interest (SPPI) condition for the contractual cash flows arising from a financial asset with contingent features.

The proposals address a specific call for clarification on how to classify financial assets with an ESG-linked feature – e.g. a feature that adjusts the interest rate on an asset by a specified number of basis points depending on whether the borrower achieves a pre-determined ESG or sustainability-related target(s). However, rather than creating an exemption for financial assets that are ESG-linked, the proposals address all contingent features, not just ESG-linked features.

Financial assets with non-recourse features

The proposals include clarifications on determining whether a financial asset is non-recourse such that it is primarily exposed to the underlying asset's performance risk rather than the debtor's credit risk. The proposals aim to clarify the requirement to look through to the underlying assets or cashflows to determine whether the financial asset qualifies as SPPI by providing a list of factors to consider.

Similarly, the proposals include additional disclosures not only for these financial assets but also for all financial assets and financial liabilities that have particular types of contingent cash flows and are not measured at fair value through profit or loss.

Classifying contractually linked instruments (CLI)

To address questions on applying the SPPI requirements to CLIs, the proposals are intended to clarify their key characteristics and how they differ from financial assets with non-recourse features.

Disclosures on investments in equity instruments

The IASB is proposing additional disclosures for equity instruments that are measured at fair value and whose gains or losses are presented in other comprehensive income (FVOCI). It is not proposing any change to the measurement or presentation requirements for such investments in equity instruments.

For more information, refer to our *web article* and the *publication*.

Amendments to IFRS 9 - Accounting for electronic payments

Current accounting practices for the settlement of financial assets or financial liabilities using electronic payment systems could change under the exposure draft issued by the IASB. Under the exposure draft, companies that derecognize receivables or payables on the payment initiation date could see a change to their accounting.

The question on when to derecognize a trade receivable when it is settled using an electronic payment system seems relatively simple on the surface. However, it has generated a significant amount of debate because there is diversity in practice for both the receivable and payable sides of the transaction.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

When the Committee considered the issue, its view was that the receivable would be derecognized when the contractual right to receive cash expires. The Committee also indicated that cash would be recognized only when it is received and did not discuss the payer's accounting. However, the Committee's decision was not finalised because the IASB decided to address the issue by proposing amendments to the relevant standards.

The IASB is proposing an exception that would apply only for financial liabilities. The exception would allow a company to derecognize a financial liability before the settlement date, when it uses an electronic payment system that meets specific criteria. In other words, the general requirements (i.e. derecognition on settlement date) would apply for:

- all payables, except for those that meet the proposed criteria; and
- all receivables without exception.

The exposure draft, however, do not change the accounting for regular way contracts. The exposure draft is open for comments until July 19, 2023.

For more information, refer to our *web article* and the *publication*.

Issued financial guarantee contracts

Under a financial guarantee contract, the issuer is required to reimburse a loss incurred by the holder. A common example of a financial guarantee contract is a parent company providing a guarantee over its subsidiary's borrowings.

Because these contracts transfer significant insurance risk, they typically meet the definition of an insurance contract.

With the replacement of IFRS 4 *Insurance Contracts* by IFRS 17 *Insurance Contracts*, the accounting for these contracts may change significantly. Companies now need to apply either IFRS 17 or IFRS 9 Financial Instruments to these contracts.

The impact on the financial statements will differ depending on whether a company applies IFRS 17 or IFRS 9.

The key impacts include:

- the measurement of the contract liability; and
- the timing of profit recognition.

Refer to the *publication* for details.

IFRIC agenda decisions

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

March 2023 tentative agenda decision

Definition of a Lease—Substitution Rights (IFRS 16)

At its November 2022 meeting, the Committee published its *tentative* agenda decision *Definition of a Lease—Substitution Rights* (IFRS 16). The question considered was whether in a specific fact pattern (provision of batteries for electric buses) supplier substitution rights were economically beneficial throughout the period of use. The outcome to the question is critical to whether this contract is recognized as a lease or a service contract. In its March 2023 meeting, the Committee considered feedback on the tentative agenda decision published in November 2022. The matter has been recommended for IASB's annual improvements and will be considered by the IASB in its April 2023 meeting.

For more information, refer to the *March 2023 IFRIC update*.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Requirements effective in 2023

New requirements effective for annual reporting periods beginning on or after January 1, 2023.

Insurance contracts (IFRS 17)

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.

Audit committees may still be interested in the key areas highlighted in our web articles on published guidance by the Global Public Policy Committee (GPPC): *Insurers – Guidance for audit committees on IFRS 17 implementation and Insurers – Further guidance for audit committees on applying IFRS 17*

IFRS 17 for non-insurers

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.

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*.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

Companies make materiality judgements not only when making decisions about recognition and measurement, but also when deciding what information to disclose and how to present it. However, management are often uncertain about how to apply the concept of materiality to disclosure, and find it easier to defer to using the disclosure requirements within IFRS® Accounting Standards as a checklist.

The IASB had previously refined its definition of 'material' and issued non-mandatory practical guidance on applying the concept of materiality. The new definition reads '*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity*'

As the final piece of the materiality improvements, the IASB has issued amendments on the application of materiality to disclosure of accounting policies.The amendments are effective from January 1, 2023.

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

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Definition of Accounting Estimate (Amendments to IAS 8)

Distinguishing between accounting policies and accounting estimates is important because changes in accounting policies are generally applied retrospectively, while changes in accounting estimates are applied prospectively. The approach taken can therefore affect both the reported results and trends between periods.

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments are effective for periods beginning on or after January 1, 2023 and apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

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

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes

Currently, there is diversity in practice when accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both.

For example, a company may be entitled to a tax deduction on a cash basis for a lease transaction that involves recognising a right-of-use (ROU) asset and a corresponding lease liability under IFRS 16 Leases . A temporary difference may then arise on initial recognition of the ROU asset and the lease liability. When applying the IRE to this temporary difference, a company may currently apply one of the following approaches.

The amendments clarify that the exemption does not apply to transactions such as leases and decommissioning obligations. These transactions give rise to equal and offsetting temporary differences.

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

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Appendix 1: Requirements effective in 2024 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, 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* (with links to in-depth analysis)
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.

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

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	-	
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	

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Research projects	Next milestone	Expected date	KPMG's guidance
Business combinations under common control	Decide project direction	-	*Web article*
Equity method	Decide project direction	April 2023	
Extractive activities	Decide project direction	Q3 2023	
Post-implementation review of IFRS 15	Request for Information	June 2023	
Post-implementation review of IFRS 9 – impairment	Request for information	May 2023	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Amendments to the classification and measurement of financial instruments	Exposure Draft Feedback	Q3 2023	
International tax reform – pillar two model rules	Exposure Draft Feedback	April 2023	*Web article*
Climate-related Risks in the Financial Statements	Review research	H2 2023	
Lack of exchangeability (amendments to IAS 21)	IFRS Accounting Standard amendment	Q3 2023	*Web article*
Provisions – targeted improvements	Decide project direction	-	
Annual Improvements to IFRS Accounting Standards—Cost Method (Amendments to IAS 7)	Exposure Draft	H2 2023	
Annual Improvements to IFRS Accounting Standards—Credit Risk Disclosures (Amendments to Illustrative Examples accompanying IFRS 7)	Exposure Draft	H2 2023	
Annual Improvements to IFRS Accounting Standards—Determination of a 'De Facto Agent' (Amendments to IFRS 10)	Exposure Draft	H2 2023	
Annual Improvements to IFRS Accounting Standards—Gain or Loss on Derecognition (Amendments to IFRS 7)	Exposure Draft	H2 2023	
Annual Improvements to IFRS Accounting Standards—Hedge Accounting by a First-time Adopter (Amendments to IFRS 1)	Exposure Draft	H2 2023	
Annual Improvements to IFRS Accounting Standards—Transaction Price (Amendments to IFRS 9)	Exposure Draft	H2 2023	
Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 and IAS 29)	Decide Project Direction	-	

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Supplier finance arrangements	IFRS Accounting Standard amendment	May 2023	*Web article*

Application questions	Next milestone	Expected date	KPMG's guidance
Guarantee over a Derivative Contract (IFRS 9)	Tentative Agenda Decision Feedback	Q3 2023	
Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (IAS 21 and IAS 29)	Decide Project Direction	-	
Homes and Home Loans Provided to Employees	Tentative Agenda Decision Feedback	Q3 2023	
Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)	Tentative Agenda Decision Feedback	Q3 2023	
Definition of a lease – substitution rights (IFRS 16)	Agenda decision	April 2023	

Sustainability	Next milestone	Expected date	KPMG's guidance
Climate-related disclosures	IFRS Sustainability Disclosure Standard	June 2023	*Sustainability reporting resource centre* *Web article*
General sustainability-related disclosures	IFRS Sustainability Disclosure Standard	June 2023	*Sustainability reporting resource centre* *Web article*
International Applicability of the SASB Standards	Exposure Draft	May 2023	
ISSB Consultation on Agenda Priorities	Request for Information	May 2023	
IFRS sustainability disclosure taxonomy	Proposed IFRS Sustainability Disclosure Taxonomy	H2 2023	

Other projects	Next milestone	Expected date	KPMG's guidance
IFRS Accounting Taxonomy Update—Amendments to IAS 12, IAS 21, IAS 7 and IFRS 7	Proposed IFRS taxonomy update	H2 2023	

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Contact us

David Brownridge
Partner
647-777-5385
dbrownridge@kpmg.ca

Hakob Harutyunyan
Partner
416-777-8077
hakobharutyunyan@kpmg.ca

Gabriela Kegalj
Partner
647-777-8331
gabrielakegalj@kpmg.ca

Gale Kelly
Partner
416-777-3757
galekelly@kpmg.ca

Jeff King
Partner
416-777-8458
jgking@kpmg.ca

Allison McManus
Partner
416-777-3730
amcmanus@kpmg.ca

Mag Stewart
Partner
416-777-8177
magstewart@kpmg.ca

Alana Hudson
Senior Manager
416-468-7526
ajhudson@kpmg.ca

Keshav Mahendru
Senior manager
416-777-8746
kmahendru@kpmg.ca

kpmg.ca

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

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.