CURRENT DEVELOPMENTS

Spotlight on IFRS

Q3 2024

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Quarterly update

KPMG Spotlight on IFRS: The Accounting and Financial Reporting milestones in the quarter ended on September 30, 2024.

There continues to be increasing reporting expectations from multiple jurisdictions, along with continued demand from investors for transparent and comprehensive climate reporting. It has amplified the complexity for global companies in applying and adhering to numerous new reporting requirements.

In response to some of these challenges and to promote global consistency and comparability in climate and other sustainability-related disclosures, in May 2024 the International Sustainability Standards Board (ISSB) and European Financial Reporting Advisory Group (EFRAG) issued a joint publication of *Interoperability Guidance*. Further, the ISSB continues to recognize the importance of working with other standard setters to achieve a coherent global reporting landscape.

Following our discussions in the Spotlight on IFRS – June 2024, there have been developments in sustainability reporting in California and European Union (EU).

The most notable progress in the third quarter was made on the amendments to California's climate laws. The proposals on the GHG emissions and climate risk disclosure laws were signed by the California Governor and enacted into law on September 27, 2024, providing some reporting relief but maintaining their 2026 effective dates.

Additionally, there has been a continuous flow of guidance from the EU. This includes the release of *frequently asked questions (FAQ)* to assist companies within scope of the Corporate Sustainability Reporting Directive (CSRD), the opening of the new European Sustainability Reporting Standards (ESRSs) *Q&A platform*, and the introduction of the Corporate Sustainability Due Diligence Directive (CSDDD) that sets corporate sustainability due diligence obligations.

It is important for companies to monitor the issuance of various laws and reporting requirements that may apply to them and continue to move forward with their adoption and implementation.

We have a number of resources to help you with sustainability related financial reporting topics as follows:

- *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 ISSB Standards.
- *IFRS Today* webpage - which includes podcasts and articles on emission schemes, net-zero commitments, climate related matters and other changes in the financial reporting landscape that are relevant for all companies.
- *Financial reporting in uncertain times resource centre* - which features a range of articles, blogs, and podcasts to explore the potential accounting and disclosure implications.
- *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.

In terms of IFRS® Accounting Standards, the IASB is continuing to move forward on a number of projects, amendments and IFRS Interpretation Committee Agenda Decisions. In addition, although not effective in 2024 or 2025, companies should be aware that the IASB published new Accounting Standards IFRS 18 *General Presentation and Disclosure* and IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, and also issued new amendments to IFRS 9 and IFRS 7 – *Classification and Measurement of Financial Instruments*. The latest information on the new standards and amendments are provided in the below sections, *Major projects and new Accounting Standards* and *Other developments.*

In addition, refer to our *Guides to financial statements* – which includes an update to annual financial statements for disclosure requirements effective in 2024.

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Sustainability (ESG[1]) reporting update

In this section, we focus primarily on recent sustainability disclosure standard setting activities, sustainability-related regulatory updates and the potential impact of sustainability matters on financial statements.

Sustainability disclosure standards and regulatory update

ISSB developments

The ISSB was established in response to demand for globally consistent, comparable and reliable sustainability reporting, and it published its first two IFRS® Sustainability Disclosure Standards in June 2023.

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (general requirements standard) and IFRS S2 *Climate-related Disclosures* (climate standard) were designed to be applied together and alongside future topic- or industry-specific standards.

The general requirements standard sets the foundation for sustainability reporting, defining the scope and objectives of reporting and providing core content, presentation and practical requirements. It requires a company to disclose material information about sustainability-related risks and opportunities that could reasonably be expected to affect its prospects – across all relevant disclosure topics – not just on climate and includes suggested reference materials for topics other than climate. The climate standard replicates the core content requirements and expands on them with climate-specific requirements.

These standards are effective for fiscal years beginning on or after January 1, 2024. However, individual jurisdictions decide whether and when to adopt the standards into local requirements. Consultation activities are underway in Canada regarding adopting the standards (see below for commentary on the work of the Canadian Sustainability Standards Board and the Canadian Securities Administrators).

The ISSB acknowledges the difficulties and challenges in implementing the new standards due to the existence of multiple standards and frameworks from different standard setters. To address this, the ISSB is collaborating with other standard setters to support interoperability.

Connected information

Companies will need to ensure that the information they provide enables investors to understand the connections across their general purpose financial reports, including the financial statements, sustainability-related financial disclosures and the MD&A.

Sustainability-related information is to be reported for the same period and at the same time as the annual financial statements, subject to transition relief.

For a discussion on connectivity in reporting, refer to this *article* by the International Accounting Standards Board (IASB) Chair Andreas Barckow and ISSB Chair Emmanuel Faber.

Suite of optional transition reliefs

In response to practical concerns in adopting the new standards, transition reliefs are available in the first year of adoption.

The full complement of transition reliefs would allow companies in the first year of adoption 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 Greenhouse Gas (GHG) Protocol to measure emissions if they are currently using a different approach.

[1] Environmental, Social, and Governance.

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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.

Future focus of the ISSB

The ISSB finalized its agenda priorities for the next two years. Its time will be divided among the following activities:

- supporting the implementation of IFRS S1 and IFRS S2 through various activities, such as creating educational materials and collaborating with regulators and jurisdictions looking to adopt ISSB™ Standards;
- enhancing Sustainability Accounting Standards Board (SASB) standards; and
- focusing on new areas where guidance is most urgently needed. Current priority areas under consideration include biodiversity, ecosystems and ecosystem services (BEES) and human capital. Other proposed projects on human rights and integration in reporting will not begin in the next two years.

For more information about developments in this area, read our web article *What's next for the ISSB*.

Interoperability

Global companies are facing challenges of applying various jurisdictional sustainability disclosure requirements. In May 2024, the ISSB and the EFRAG jointly published *Interoperability Guidance*, a detailed, bottom-up analysis of the climate-related disclosure requirements in IFRS S2 and corresponding requirements in ESRSs (for additional information on ESRSs, refer to the below section *Applying ESRSs*). The guidance provides:

- high level commentary on interoperability of some general principles of reporting (including presentation and materiality);
- a table showing corresponding climate-related disclosure requirements; and
- analysis notes on additional or different requirements between ISSB™ Standards and ESRSs.

The guidance is an important milestone that highlights significant synergies and allows global companies to move forward with gathering data and preparing disclosures.

The ISSB is also working closely with Global Reporting Initiative (GRI) to support interoperability of ISSB™ Standards with GRI Standards. For more information about developments in this area, read our web article *Joint guidance on interoperability.*

Also, in May 2024, CDP[2] published its *2024 corporate questionnaire*. The questionnaire aligns with the ISSB's climate standard. As a result, the questionnaire includes new and updated questions, along with guidance to help companies provide information in alignment with the ISSB standard. The reporting window opened in June and the scoring deadline for disclosers ends on October 9, 2024.

To assist jurisdictions in adopting the ISSB™ Standards, ISSB released in May *the Inaugural Jurisdictional Guide.* This guide aims to provide transparency enabling investors and market participants to track jurisdictional progress towards comparable sustainability-related information. Together with this guide, the ISSB also launched a comprehensive *Regulatory Implementation Programme* to foster collaboration with global regulators and standard setters by providing practical tools and educational materials.

Refer also to our *Sustainability reporting resource centre* – which features a range of high-level visual overviews, video blogs, articles and analysis.

Canadian ESG reporting developments

CSSB developments

The Canadian Sustainability Standards Board (CSSB) was formed to develop and support the adoption of sustainability disclosure standards in Canada.

In March 2024, the CSSB released exposure drafts of its first two proposed Canadian Sustainability Disclosure Standards (CSDSs): Exposure Draft CSDS 1, which covers general disclosure requirements and Exposure Draft CSDS 2, which covers climate-specific disclosures.

These proposed standards are aligned with IFRS S1 and IFRS S2, with the exception of a Canadian-specific effective date and incremental transition relief.

The proposed incremental transition relief is as follows:

[2] CDP is an organization that runs the global environment disclosure system to support companies and different regions.

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- Relief from disclosures about sustainability-related risks and opportunities beyond climate is extended for an additional year.
- Amendments to relief for disclosing comparative information to align with the relief noted above; and
- Relief from disclosure of Scope 3 emissions has been extended to two years (up from the one-year relief that exists in the IFRS® Sustainability Disclosure Standards).

Importantly, the proposed standards would remain voluntary in Canada until regulators and/or legislators determine whether the CSDSs should be mandated. The proposed voluntary effective date is for annual reporting periods beginning on or after January 1, 2025, a one-year deferral from the effective date approved by the ISSB.

The comment period on the CSSB's proposed standards along with its proposed criteria for modifications framework closed in June 2024. The CSSB continues to deliberate the responses.

Refer to our *CSSB - Sustainability reporting resource centre* – which features the latest updates specific to the proposed Canadian disclosure standards.

CSA developments

In parallel with the CSSB's exposure drafts release, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on their revised climate-related disclosure rule following the finalization of CSDS 1 and 2. The CSA stated that they anticipate adopting only those provisions of the standards that are necessary to support climate-related disclosures.

The CSA issued their original proposed rule, proposed National Instrument 51-107 Disclosure of Climate-related Matters (NI 51-107) in October 2021. Since publication of the proposed climate-related disclosure rule, important international developments have occurred, including the Securities and Exchange Commission (SEC)'s finalization of their rule and the issuance of IFRS S1 and S2.

The CSA will consider these developments in addition to where the CSSB lands on its final standards prior to publishing its revised rule.

OSFI's Guideline B-15: Climate Risk Management

In March 2023, the Office of the Superintendent of Financial Institutions (OSFI) published Guideline B-15: Climate Risk Management, which sets out OSFI's expectations for the management of climate-related risks. Guideline B-15 will be effective for annual reporting periods beginning on or after January 1, 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.

Subsequent to publishing Guideline B-15 in 2023, OSFI updated Guideline B-15 in March 2024 and introduced new Climate Risk Returns that will collect standardized climate-related data on emissions and exposures from FRFIs. OSFI will continue to review and amend Guideline B-15 as practices and standards evolve.

Legislation prohibiting "Greenwashing" (Bill C-59)

Bill C-59 received Royal Assent in June 2024, making amendments to the Competition Act regarding environmental or social claims in marketing material. Bill C-59 applies broadly to environmental and social claims made in the public domain (e.g., in an ESG or Sustainability Report, website materials, social media, investor presentations, etc.) and requires that any claim is substantiated by an "adequate and proper test" (undefined in the Act) or in the case of a company or brand claim, by way of an "internationally recognized methodology" (also undefined in the Act).

The Competition Bureau launched a public consultation to gather feedback, which the submission period closing on September 27, 2024.

Fighting against forced labour and child labour

Bill S-211, Canada's new Act on fighting against forced labour and child labour took effect on January 1, 2024. Canadian and foreign businesses impacted by the Act are required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

New plastics reporting requirements

In April 2024, the Government of Canada issued a section 46 notice to amend the Environmental Protection Act by creating a Federal Plastics Registry. The goal of the Registry is to collect information to support actions to prevent plastic pollution. This amendment will require companies to provide information about the lifecycle of plastics in Canada. Reporting requirements will be phased in starting with the 2024 calendar year information to be submitted in September 2025.

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US ESG reporting developments

SEC activity

In March 2024, the SEC issued its final Climate Disclosure rule – *The Enhancement and Standardization of Climate-Related Disclosures for Investors* – initially proposed in March 2022. The final rule will generally apply to all U.S. SEC registrants, including Foreign Private Issuers but excluding Canadian issuers reporting under the MJDS.

Key changes from the proposed rule include:

- Scope 3: Eliminating Scope 3 disclosures for all registrants.
- Materiality: Using the standard materiality definition, with a specific disclosure threshold for the financial statement disclosures; The use of the 1% threshold has been significantly limited.
- Scopes 1 and 2: Limiting disclosure requirements to Large Accelerated Filers and Accelerated Filers and only when those emissions are material; Exempting Smaller Reporting Companies and Emerging Growth Companies.
- Compliance: Extending certain phase-in periods

Certain requirements of the final rule come into effect for Large Accelerated Filers beginning in calendar year 2025. Financial statement disclosures and most climate risk disclosures will be the first required disclosures; other disclosures, including GHG emissions, follow one year later and assurance on GHG emissions three years after that. Other filers trail by one to two years to the extent requirements apply.

Following numerous legal challenges filed after the release of the final rule, the SEC issued an order in April 2024 staying its final rule pending the completion of judicial review. In its order issuing the stay, the SEC stated that it is not departing from its view that the climate rule is consistent with applicable law and within its long-standing authority to require the disclosure of information important to investors in making investment and voting decisions. In the subsequent court filing, the SEC stated it will address a new effective date for the climate rule when the stay is lifted.

Although the stay pauses the need for companies to calculate the effect of certain climate-related events or conditions on the financial statements, the remaining provisions of the rule are required for other reporting regimes (e.g., California laws and European standards).

Further, the US government has published Principles for Responsible Participation in Voluntary Carbon Markets (VCMs) to "inform and support ongoing efforts to address the challenges and opportunities associated with VCMs." This is expected to shape the future development of regulation over the voluntary markets.

California laws

In October 2023, the California Governor signed three climate disclosure laws that will shape climate disclosure practices beyond the state's borders. Two laws will require disclosures of GHG emissions and disclosures on climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk and will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The third law requires disclosures about voluntary carbon offsets and emissions reduction claims and applies to US and international companies that undertake specified activities in California or make certain claims.

Since the laws were originally signed in October 2023, there have been several rounds of proposed amendments, including a proposal by the Governor's administration to extend the effective date of both the disclosure laws over GHG emissions and climate risk to 2028. Ultimately, these laws will maintain their 2026 effective dates. However, the date for California Air Resources Board (CARB) to develop and adopt regulations that implement the GHG emissions law will be deferred by six months to July 1, 2025 and reporting at the consolidated parent company level for GHG emissions will be permitted and allow CARB to determine the reporting lag for scope 3 GHG emissions. California legislators have proposed amendments that would defer the effective date of the carbon offsets law disclosure requirements to July 1, 2025, but contrary to an earlier version of the proposals, would not remove renewable energy certificates from the scope of the law.

The California laws represent a new dimension, with state-level requirements that have national and international implications. Progress on amendments to California climate laws are further discussed in our *US Hot Topic* webpage.

For further details on ESG developments in the US – refer to our *US Quarterly Outlook* publication.

EU developments

The EU's CSRD places extensive sustainability reporting requirements (sustainability statements) on in-scope companies. To meet the reporting requirements of the CSRD, companies apply the EFRAG's ESRSs. The ESRSs apply for years beginning on or after January 1, 2024 (reporting in 2025) for certain large companies, with a phased effective date for other companies in subsequent years.

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There are potentially considerable reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activities in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods.

The European Commission (EC), EU's executive arm, released 90 *frequently asked questions (FAQ) providing clarification on interpreting certain provisions of* the CSRD. The FAQs cover:

- which companies are in scope of the CSRD;
- details around the assurance requirements of CSRD disclosures; and
- practical arrangements for publishing CSRD disclosures.

While the guidance is helpful, it is also important for companies to continue to track the transposition of the CSRD into legislation in the countries where they may be in scope.

Applying the ESRSs

In May 2024, EFRAG published ESRS *implementation guidance* covering some of the more challenging aspects of the ESRSs. It is non-authoritative guidance to support companies applying ESRSs, including performing a double materiality assessment and navigating the value chain requirements.

In addition to implementation guidance, EFRAG has launched the *ESRS Q&A Platform* – publishing answers to technical implementation questions submitted by preparers and other stakeholders. To date, EFRAG has published *a collection of 68 technical explanations* to questions across environment, social, governance and cross-cutting topics. Further batches will continue to be published by EFRAG.

To support the first wave of companies in applying the ESRSs, the European Securities and Markets Authority (ESMA) has issued a *statement* highlighting:

- the guidance already available or under development that companies are expected to consider; and
- the key areas to assess when preparing sustainability statements under ESRSs for the first time.

As mentioned in the above section *ISSB developments,* the ISSB and EFRAG jointly published a detailed, bottom-up analysis of the climate-related disclosure requirements in IFRS S2 and corresponding requirements in ESRSs. See above for commentary on the analysis.

For more information about developments in this area, refer to our *web article* and *ESRS resource centre.*

Corporate Sustainability Due Diligence Directive (CSDDD)

In July 2024, the CSDDD entered into force. It establishes corporate sustainability due diligence obligations – related to adverse environmental and human rights impacts – for companies operating in the EU, including non-EU companies with significant operations in the EU. These new requirements apply not only to the operations of the company, but also to the operations of subsidiaries and business partners in a company's chain of activities that meet certain employee, revenue and/or royalty thresholds.

Compliance and reporting requirements are effective on a phased approach based on different scoping criteria. Companies that meet the highest scoping criteria will have to comply with the non-reporting related due diligent obligations starting from July 26, 2027 with reporting in 2029.

Despite being an EU directive, the CSDDD may have implications for Canadian companies.

For further details on this global implication of due diligence acts in the EU – refer to our *hot topic* publication

Comparing sustainability reporting requirements

There is commonality among the EU requirements, ISSB requirements and the SEC requirements, including that the Task-force on Climate-related Financial Disclosures (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. In addition to points of detail, this includes the greater scope and scale of the ESRSs with their wider stakeholder focus.

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

Sustainability in the financial statements

Climate change is driving broader stakeholder scrutiny of financial reporting, with regulators, investors and the public focusing on how companies report on climate-related matters including net-zero commitments, emissions and green schemes. As they are demanding clarity about climate, KPMG has launched its *Clear on climate reporting hub* to provide insights and guidance to help companies and their

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stakeholders understand how to be clear on climate in financial reporting.

The hub includes:

- *high-level guidance* on the actions companies need to take;
- FAQs to help identify the potential financial statement impacts of various transactions and arrangements; and
- videos and podcasts that explore the issues further – including by sector.

Climate-related disclosures in the financial statements

As the impact of climate change intensifies, investors and regulators are increasingly seeking greater transparency of climate-related information in financial statements.

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, and republished in *July 2023*. In September 2023, the IASB decided that the objective of the project is to explore whether and, if so, how targeted actions could improve the reporting of financial information about climate-related and other uncertainties in the financial statements.

The IASB published an exposure draft in July 2024, which proposes eight examples illustrating how an entity applies the requirements in the Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB's proposed examples aim to:

- improve transparency of information in financial statements; and
- strengthen the connection between financial statements and other parts of a company's reporting, such as sustainability disclosures.

The eight illustrative examples focus on areas such as materiality judgements, disclosures about assumptions and estimation uncertainties, and disaggregation of information.

The principles and requirements illustrated in these examples apply equally to other types of uncertainties beyond climate-related uncertainties.

The deadline for submitting comment letters is November 28, 2024.

For additional information about the potential financial statement impacts from climate-related risks, refer to our *web article*.

Net-zero commitments

Many companies are making 'net-zero' and similar climate-related commitments. Users of the financial statements, regulators and the public are raising questions about the financial reporting impacts of such commitments – in particular when do such commitments require the recognition of a liability?

When determining whether to recognize a liability, companies should consider the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). The requirements in IAS 37 lead to two tests that must be met before a liability can be recognized: (1) the company's public statement must create a constructive obligation (i.e., a valid expectation) and (2) the criteria to recognize a liability for the constructive obligation must be met. Importantly, a public statement does not automatically create a constructive obligation and thus may not lead to the recognition of a liability. The IFRS Interpretations Committee (the Committee) discussed the application of these two tests to a specific fact pattern. For more detail, see the discussion on the March 2024 decision by the Committee on climate related commitments including the two tests in the section *IFRS Interpretations Committee agenda decisions*.

The assessment may require significant judgment based on the specific facts and circumstances. Therefore, in order to provide a coherent, connected and integrated picture, companies are encouraged to review the following key considerations for actions:

- review their net-zero action plan;
- understand the financial reporting impacts of net-zero commitments, which often depend on the detail in the supporting action plan;
- tell a connected story through enhanced disclosures and explain which planned actions do and do not trigger a liability at the reporting date; and
- monitor standard-setting developments.

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See our *web article, talkbook* and *podcast* for additional resources available.

Accounting for emissions and green schemes

Today, emissions and green schemes impact most companies. The number and variety continue to grow, as does the complexity of the related accounting issues.

The Accounting Standards do not always provide easy answers as there is no single standard that addresses the accounting for emissions and green schemes. Understanding the company's role (company buying carbon credits, company selling them, an investor or an intermediary) and the arrangements will be crucial to determine the appropriate accounting.

Further, to present a comprehensive narrative about emissions and green initiatives, it is essential for companies to provide a coherent, connected and integrated picture across their financial statements, MD&A and sustainability-related disclosures.

Refer to our *digital hub* for additional guidance to answer key accounting questions for each role.

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Major projects and new Accounting Standards

General presentation and disclosure

In April 2024, the IASB issued a new Accounting Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 will replace IAS 1 *Presentation of Financial Statements*.

It is important to note that this new Accounting Standard does not add or change any recognition or measurement requirements - in other words, companies' net profit will not change. So what does this mean for companies' financial reporting? What will change is how they present their results on the face of the income statement and disclose information in the notes to the financial statements. In summary, there are three primary elements of IFRS 18 that will change the way companies present and disclose their financial performance:

- A more structured income statement:
  - It introduces two new formally defined and required subtotals on the face of the income statement – 'operating profit' and 'profit or loss before financing and income tax'. However, companies providing financing to customers as their ***only*** main business activity (e.g., banks) typically do not present the latter subtotal.
  - All companies are required to classify income and expenses into three new distinct categories based on a company's main business activities – operating, investing and financing. Categories for income tax expense and profit or loss from discontinued operations remain as separate categories.
  - Operating expenses are analyzed directly on the face of the income statement – classified either by nature, by function, or on a mixed basis. Any items presented by function require more detailed disclosures about their nature in the notes.
- Management-defined performance measures (or MPMs) are now disclosed and subject to audit:
  - MPMs are defined as a subtotal of income and expenses used in public communications outside of the financial statements that reflect management's view of the company's financial performance. As such, while there may be some overlap with a company's previous non-GAAP measures, MPMs and non-GAAP measures are not the same thing. For each MPM presented, companies will need to explain in a single note to the financial statements why the measure provides useful information, how it is calculated and reconcile it to an amount determined under the Accounting Standards.
- New guidance regarding when additional disaggregation is needed for items presented on the face of the primary financial statements or in the notes:
  - IFRS 18 includes enhanced guidance on how companies group information in the financial statements. IFRS 18 also mandates meaningful descriptions for line items. Therefore, companies are discouraged from labelling items as 'other'.

The new Accounting Standard is effective from January 1, 2027 and applies retrospectively. Early application is permitted.

Read our *web article* which provides an overview of the new Accounting Standard. You can also use *our high-level guide*. Our *First Impressions* publication provides our detailed insights and comprehensive analysis, with illustrative examples.

Reducing disclosures for subsidiaries

IFRS 19 *Subsidiaries without Public Accountability: Disclosures* was issued by the IASB in May 2024. It is a voluntary standard that applies to subsidiaries without public accountability, but whose parents prepare consolidated financial statements under the Accounting Standards.

For in-scope companies, IFRS 19 simplifies disclosures on various topics, including leases, exchange rates, income taxes, statement of cash flows, etc.

Although the effective date of IFRS 19 is January 1, 2027, the

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application of the Accounting Standard is optional, even if a company is in the scope. Early adoption is also permitted.

However, the effective date is caveated with some important comments:

- The current version of IFRS 19 does not reflect any reduced disclosure requirements for any of the newer changes made to the Accounting Standards since February 28, 2021. The IASB issued a 'catch-up' exposure draft in July 2024 to consult on reducing the disclosure for new or amended disclosure requirements added or amended in other Accounting Standards; and
- On the application of IFRS 19 in filings with the SEC, companies that may meet the IFRS 19 eligibility requirements also need to be aware of additional disclosures that may be required for financial statements that are intended for use by investors in the US public capital markets. Similar concerns may be raised by Canadian regulators in the coming months. Companies should monitor updates and communications from regulatory bodies pertaining to the application of IFRS 19.

Read our *web article* which provides an overview of the new Accounting Standard including some FAQs.

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, Accounting Standards do not contain any equivalent comprehensive guidance. IFRS 14 *Regulatory Deferral Accounts* provides only temporary relief to first-time adopters of the 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 criteria would recognize regulatory assets and liabilities. This accounting model would align the total income recognized in a period under the 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 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 Accounting Standards plus regulatory income minus regulatory expense under the proposed new Accounting 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

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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 the 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 the 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. In accordance with the plan, aspects of the proposals were redeliberated throughout 2022, 2023 and into 2024.

Project updates in Q3 2024

The IASB continued to redeliberate the proposals in Q3 of 2024. 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 at the July 2024 meeting:

- Measurement and presentation of items affecting regulated rates on a cash basis:
  - not to extend to items affecting regulated rates on other bases the application of the measurement requirement for items affecting regulated rates only when related cash is paid or received (i.e. on a cash basis);
  - to provide an exemption for entities from discounting the estimated future cash flows arising from a regulatory asset or liability under certain conditions, including if the entity is unable to estimate the amount and timing of those future cash flows, having considered all reasonable and supportable information that is available without undue cost or effort. Entities that choose to apply this exemption are required to disclose this fact and the carrying amounts of regulatory assets and liabilities to which the exemption has been applied;
  - to include expected credit losses affecting regulated rates only when there is no reasonable expectation that the entity would receive the related cash; and
  - to extend the application of the presentation requirement for items affecting regulated rates on a cash basis to items affecting regulated rates on other bases.
- Transition – retrospective application:
  - to allow entities already applying the Accounting Standards to apply this standard retrospectively either in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or by using a modified retrospective approach;
  - Comparative information – regardless of which transition approach is elected:
    - to require entities to restate comparative information for the period immediately preceding the period in which this standard was first adopted; and
    - with respect to comparative information for any earlier periods presented, to allow entities either to restate or to present unadjusted with clear disclosure on the comparative information prepared on a different basis.
  - A first-time adopter to the Accounting Standards:
    - to permit a first-time adopter to use a modified retrospective approach;
    - to require a first-time adopter to present comparative information in accordance with the requirements in IFRS 1 *First-time Adoption of International Financial Reporting Standards*; and
    - to retain the amendments proposed in the exposure draft of IFRS 1 including alignment of the terminology and requirements in the deemed cost exemption.
- Transition reliefs:
  - to disclose the quantitative information for the comparative period;
  - to permit to disclose, for the current period or for any earlier periods presented, the quantitative information of the amount of the adjustment for each financial statement line item affected and for basic and diluted earnings per share if IAS 33 *Earnings per Share*

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applies to the entity.

- Entities using the modified retrospective approach:
  - to disclose the fact that the approach used, which transition reliefs it has applied and how it has applied them;
  - for entities whose regulatory capital base has a direct relationship with its property, plant and equipment, to limit the requirements for regulatory returns on assets not yet available for use to assets that are not yet available for use at the beginning of the comparative period; and
  - to permit the use hindsight and use the regulatory interest rate at the beginning of the comparative period as the rate to discount future cash flows.
- A first-time adopter to the Accounting Standards:
  - to permit a first-time adopter to apply any transition reliefs;
  - for a first-time adopter that applies the exemption available for entities holding items of property, plant and equipment, right-of-use assets or intangible assets used in operations subject to rate regulation, not to apply the transition relief, but to apply prospectively the requirements for regulatory returns on assets not yet available for use, but to apply prospectively the requirement; and
  - to disclose which transition reliefs it has applied and how it has applied them.

- Past business combinations:
  - to require the entity to apply the transition requirements to regulatory assets and regulatory liabilities to those acquired or assumed in a past business combination;
  - to require entities applying the transition requirements to take the net adjustment to equity which includes adjustments related to regulatory assets acquired and regulatory liabilities assumed in a past business combination; and
  - to omit the proposal which specified how a first-time adopter accounts for the derecognition of goodwill-related regulatory balances.

The IASB decided that re-exposure of the proposals is not required and tentatively decided that the standards will be effective from January 1, 2029, with earlier application permitted.

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 June 2019, the IASB released a discussion paper to respond to those challenges. After considering the feedback received on that discussion paper, the IASB has developed proposals meant to clarify and improve IAS 32's classification principles and requirements without undertaking an entire re-write of the Accounting Standard, and to add additional disclosure requirements to meet the requests of users.

The IASB issued its exposure draft in December 2023, which included proposals to address the following key areas:

- how to apply the 'fixed-for-fixed' condition;
- when to reclassify instruments between equity and financial liabilities;
- how to reflect contingent settlement provisions in the classification of a financial instrument;
- how to account for obligations to purchase 'own equity' instruments;
- whether and when laws or regulations affect the presentation of a financial instrument;
- what factors to consider in determining whether a shareholders' right to decide can be treated as that of the issuing company.

Some companies could see changes in the classification of their financial instruments under the proposals. The proposals are retrospective, with restatement of the most recent comparative period. Additional transition provisions are also included in the exposure draft. The exposure draft was open for comment until March 29, 2024 and the IASB discussed a summary of feedback received on the exposure draft at the May and July 2024 meetings. No decisions or updates were made in Q3 2024.

The exposure draft and project updates are available on the IASB's *Financial Instruments with Characteristics of Equity project page*. For additional information on this project, refer to our *web article*.

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Dynamic risk management

Although IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* 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 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.

The IASB has explored and developed the key areas that are critical to an accounting model (DRM Model) which was tentatively decided to be developed based on cash flow hedge accounting mechanics. The DRM Model will allow investors to comprehend the impact of a company's DRM from changes in interest rate and to evaluate the effectiveness of such risk management.

To assess the viability and operability of the DRM Model, during 2020 the IASB carried out outreach with financial institutions (mainly banks) that manage interest rate risk using DRM strategies.

In 2021, the IASB received feedback on core elements that are central to the DRM Model and tentatively decided to make some refinements to address the following key areas for improvement in the DRM Model that were identified from the outreach:

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

The project was added to the standard-setting programme in May 2022, and the IASB is working toward publishing an exposure draft which is expected to be issued in the first half of 2025.

Project updates in Q3 2024

The IASB continued to redeliberate the proposals in Q3 of 2024. The discussion paper and information about project updates are available on the IASB's *Dynamic Risk Management* project page.

The IASB made the following tentative decisions at the July 2024 meeting:

- An entity would apply the DRM Model only if:
  - the entity's business activities expose the entity to interest rate repricing risk;
  - the entity implements a DRM strategy with a dual objective aiming to mitigate the variability of the net interest income and the economic equity value based on an aggregated repricing risk over a predetermined period;
  - a systematic process is used to determine the net repricing risk exposure arising from a specified managed rate and the entity's risk mitigation activities are frequently adjusted; and
  - the entity has free access to a liquid market and is able to raise capital or invest excess fundings at the prevailing benchmark interest rate.
- The prospective DRM exposure draft will include a specific question for insurers to collect additional insights on their risk management strategies and activities.
- Applying the DRM Model will be optional for entities with applicable risk management activities.

Further, the IASB made the following tentative decisions at the September 2024 meeting:

- Interest rate risk management strategy:
  - to disclose information about the entity's DRM strategy so that the users of financial statements would understand:
    - factors driving the entity's exposure to repricing risk;
    - its level and ways to identify, aggregate, monitor and manage the repricing risk; and
    - its managed rate, mitigating periods and repricing time periods.
  - to require the following qualitative disclosure about how to manage its repricing risk if the entity engages in risk management activities pertinent to the DRM model, yet opts not to apply the DRM model;
    - factors driving the entity's exposure to repricing risk;
    - its ways to identify, aggregate, monitor and manage the repricing risk; and
    - how the risk management activities that were carried out by the entity were reported in the financial statements.
- Amount, timing, and uncertainty of its future cash flows:

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- to disclose qualitative and quantitative information on designated derivatives' terms and conditions and how these affect the amount, timing, and uncertainty of future cash flows.
- to provide a sensitivity analysis that illustrates potential variability in the net interest income or fair value of underlying items used to determine its current net open risk position (CNOP) due to changes in interest rates that were reasonably possible at the reporting date.

- Effect on financial position and performance:
  - to disclose the items used to determine CNOP;
  - to disclose information about the designated derivatives including the carrying amount, line items in the financial statements containing them, the change in fair value, and the nominal amounts;
  - to provide information about the DRM model's performance including:
    - how the entity represents the impact of unforeseen changes in its CNOP;
    - the aggregate misalignment, the misalignment effect in the current reporting period, and the financial statements' line items where this effect is recognized; and
    - the future expected protection against net interest income variability if recognizing the DRM adjustment in profit or loss, based on the designated and benchmark derivatives.
  - to provide a separate reconciliation, between continuing and discontinued DRM models, of the DRM adjustment from the opening to the closing balances, presenting separately:
    - the gains or losses recognized as part of the DRM adjustment during the period;
    - the amount of the DRM adjustment recognized;
    - the amount of any reduction in the DRM adjustment recognized due to a capacity shortfall at the reporting date and its expected impact on profit or loss during the reporting period.
- Discontinuation of the DRM model:
  - to discontinue applying the DRM model when there is a change in the entity's risk management strategy (i.e., if the managed interest rate risk or the way the entity manages that risk changes);
  - to recognize the DRM adjustment in profit or loss for the underlying items that continue to exist in the CNOP or future transactions that continue to be anticipated to occur;
  - unless an entity changes its risk management strategy, not to permit:
    - to discontinue applying the DRM model;
    - to eliminate underlying items included in its CNOP when these continue to meet the qualifying criteria; or
    - to de-designate a designated derivative.

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Other developments

Uncertain times – The impact of external events on interim financial statements

Many companies are likely to be facing challenges as a result of external events – e.g. natural disasters, geopolitical events, climate-related effects, or inflationary pressures – which may cause economic uncertainty.

Depending on the industry and the economic environment in which a company operates, external events could affect the recognition and measurement of companies' assets, liabilities, income, and expenses. Also, as a consequence of these events, companies may be facing going concern difficulties due to liquidity pressures.

IAS 34 *Interim Financial Reporting* generally requires that all events and transactions are recognised and measured as if the interim period were a discrete stand-alone period – i.e. there are generally no recognition or measurement exemptions for interim financial reporting.

Condensed interim financial statements (hereafter referred to as 'interim financial statements') typically focus on changes since the last annual financial statements. In times of economic uncertainty, preparing the interim financial statements is likely to involve more than the usual update since the last annual financial statements. Investors and other users may also expect information above and beyond what is typically disclosed.

Although many disclosures required by other Accounting Standards are not mandatory in interim financial statements, in uncertain circumstances companies may need to provide these disclosures to ensure that the interim financial statements provide relevant information to the users of those statements.

For more information, refer to our *web article*. Also refer to our financial reporting in uncertain times *resource centre* for more detailed guidance on a broad range of topics covering the financial reporting impacts of operating in changing environments, which is relevant to both annual and interim financial statements.

Applying the equity method

To address longstanding application questions on equity accounting under IAS 28 *Investments in Associates and Joint Ventures*, the IASB is proposing to amend the standard in its exposure draft published in September 2024.

The proposed changes to IAS 28 cover a number of different areas, including:

- initial measurement of cost when an existing investment becomes an equity-accounted investee;
- accounting for changes in an investor's interest when the investee continues to be accounted for under the equity method;
- accounting for the purchase of an additional interest in the investment when the investor has reduced its interest to zero due to losses;
- recognition of full gains or losses from all 'upstream' and 'downstream' transactions with equity-accounted investees;
- inclusion of deferred tax in the investment's carrying amount on initial recognition of the investment;
- measuring contingent consideration at fair value; and
- impairment of the investment would be assessed based on the fair value compared to the carrying amount of the investment.

The proposals also result in several new disclosure requirements, including:

- a reconciliation of the carrying amount of equity-accounted investments detailing the reconciling items;
- gains or losses from other ownership changes and downstream transactions; and
- information on any contingent consideration arrangements.

Refer to our *web article* and IASB's *Equity Method project page* for more details on the proposals.

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The proposals would apply prospectively, except for the recognition of gains and losses on transactions with equity-accounted investees, which would be applied retrospectively.

The exposure draft is open for comment until January 20, 2025.

Business combinations – Disclosures, goodwill, and impairment

In response to investors requests for improved information on business combinations (as defined in the Accounting Standards) and concerns over the impairment tests under IAS 36 being costly and complex, in March 2024, the IASB issued its exposure draft *Business Combinations – Disclosures, Goodwill and Impairment*.

The proposed changes to IFRS 3 *Business Combinations* would:

- result in companies providing information to investors about the performance of an acquisition by requiring both quantitative and qualitative information about expected synergies – e.g. total revenue synergies – as well as information on the benefits expected start date and their duration.
- allow investors to directly assess the performance of acquisitions, rather than using goodwill impairment as a proxy indicator.

The proposals would also result in increased disclosures for ‘strategic’ business combinations including disclosure of specific acquisition-date key objectives and related targets and progress to meeting those targets in the acquisition year and subsequent periods.

While the proposals do not reintroduce an amortization model for goodwill, the proposed changes to the IAS 36 value-in-use testing requirements aim to simplify and clarify the impairment test.

The exposure draft comment period closed in July 2024 and the IASB will discuss feedback at future meetings.

For more information, refer to our *web article*, and also refer to IASB’s *Business Combinations—Disclosures, Goodwill and Impairment project page.*

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

The IASB has issued amendments to IFRS 9 and IFRS 7 in May 2024. These amendments related to classification of financial assets and accounting for settlement by electronic payments respond to feedback received from a post-implementation review (PIR) of the classification and measurement requirements in IFRS 9.

Amendments to IFRS 9 - Classification of financial assets

Over the past years, questions have arisen regarding how to classify some financial assets, especially on the application of the solely payments of principal and interest (SPPI) test. The amendments to IFRS 9 address the classification of the following financial assets:

- financial assets with contingent features such as ESG linked features;
- financial assets with non-recourse features; and
- contractually linked instruments (CLIs).

The amendments introduced additional disclosure requirements for the following:

- investments in equity instruments that are measured at fair value through other comprehensive income; and
- financial instruments with contingent features.

Classifying financial assets with an ESG-linked feature

The 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 amendments address a specific call for clarification on whether contractual cash flows of some 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) – represent SPPI, which is a condition for measurement at amortized cost. The new amendments introduce an additional SPPI test which applies to all contingent features, not just ESG-linked features.

Under the amendments, financial assets with contingent features that are not directly related to a change in basic lending risks or costs (for example, where the cash flows change depending on whether the borrower meets an ESG target) could now meet the SPPI criteria, as long as the following conditions are met:

- The contractual cash flows, both before AND after the contingent event meet the SPPI criterion;

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- The contractual cash flows are NOT significantly different from an identical financial asset without such a contingent feature.

Financial assets with non-recourse features

The amendments include clarifications on determining whether a financial asset is non-recourse such that it is primarily exposed to an underlying asset's performance risk rather than the debtor's credit risk. The amendments 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.

Classifying contractually linked instruments (CLI)

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

Disclosures on investments in equity instruments

The amendments require additional disclosures for equity instruments that are measured at fair value and whose gains or losses are presented in other comprehensive income (FVOCI). Companies would be required to disclose the change in the fair value separately related to (1) investments derecognized during the reporting period and (2) investments held at the end of the reporting period.

There is no change to the measurement or presentation requirements for such investments in equity instruments.

Disclosures on financial instruments with contingent features

The amendments require companies to provide additional disclosures for all financial assets and financial liabilities that:

- have contingent features that are not directly related to a change in basic lending risks or costs; and
- are not measured at fair value through profit or loss.

For such financial instruments, companies should disclose:

- a qualitative description of the nature of the contingent event;
- quantitative information about the possible changes to contractual cash flows; and
- the gross carrying amount of financial assets and the amortized cost of financial liabilities are not measured at fair value through profit or loss.

Amendments to IFRS 9 - Accounting for electronic payments

The question on when to recognize or derecognize a trade receivable or payable 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.

Following the amendments to IFRS 9, companies that recognize or derecognize financial assets or financial liabilities on the payment initiation date could see a change to their accounting as a general requirement is added that really reiterate the following requirements:

- financial instruments are recognized when an entity becomes a party to a contract;
- a financial asset is derecognized when rights to the cash flows expire, or the asset is transferred; and
- a financial liability is derecognized when it is settled, which is the date on which the liability is extinguished.

However, the amendments allow 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 and, after initiating the payment,

- it has no practical ability to withdraw, stop or cancel the payment instruction;
- it has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- the settlement risk associated with the electronic payment system is insignificant.

Note that the exception does not apply to payments by cheques. Companies can choose to apply the exception for electronic payments on a system-by-system basis. Given the widespread use of electronic payment systems and the variety of terms, determining whether the exception criteria are met for each one may require significant time and effort. If the derecognition exception criteria are not met, determining the settlement date may also present challenges and companies may be required to change their existing systems and processes.

The amendments will be effective from January 1, 2026. Companies can early adopt all these amendments or can

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separately early adopt only the SPPI assessment and its related disclosures.

For more information, refer to our web articles – *classification of financial assets* and *accounting for electronic payments*.

Other potential amendments to IFRS 9 – Power purchase agreements

In July 2023, the IASB decided to undertake a project to clarify how companies apply the own-use exemption in IFRS 9 to physical Power Purchase Agreements ("PPA"). The objective is to determine whether narrow-scope amendments may be made to IFRS 9 to reflect the impact of PPAs in which the underlying item cannot be stored economically and is required to be consumed or sold within a short period of time (i.e., renewable electricity contracts). The IASB also noted that the same application questions were also raised for purchases of renewable energy through virtual PPAs.

Therefore, in May 2024, the IASB issued its exposure draft *Contracts for Renewable Electricity*, which proposes narrow-scope amendments to IFRS 9 to reflect the impact of Power Purchase Agreements ("PPA").

With proposed amendments, the IASB focuses on the application of the own-use exemption for purchasers of physical PPAs and hedge accounting requirements using a PPA as a hedging instrument.

Application of the own-use exemption for purchasers of PPAs

To apply the own-use exemption to a physical PPA, IFRS 9 currently requires companies to assess whether the contract is for receipt of electricity in line with the company's expected purchase or usage requirements. However, due to the unique characteristics of electricity (including the difficulty to store it) and its market structure, a purchasing company may not be able to use the electricity within a short period and the electricity may have to be sold back to the market.

The proposed amendments would allow a company to apply the own-use exemption to certain PPAs depending on:

- their purpose, design, and structure;
- the reasons for past and expected sales of unused electricity; and
- whether such sales are consistent with the company's expected purchase or usage requirements.

The proposals would require companies to apply the proposed amendments retrospectively (without requiring prior periods to be restated).

Hedge accounting requirements for purchasers and sellers of PPAs

Virtual PPAs and PPAs that do not meet the own-use exemption are accounted for as derivatives and measured at FVTPL. Applying hedge accounting could help companies to reduce profit or loss volatility by reflecting how these PPAs hedge the price of future electricity purchases or sales.

Buyers and sellers of PPAs face challenges when applying cash flow hedge accounting under IFRS 9 because of a mismatch between the fair value of the hedging instrument (PPA) and the hedged transaction, which could lead to the hedging relationship not qualifying for hedge accounting.

Subject to certain conditions, the proposals would permit companies to designate a variable nominal volume of forecasted sales or purchases of renewable electricity as the hedged transaction, rather than a fixed volume based on highly probable estimates. This would facilitate an economic offset between the hedging instrument and the hedged transaction, enabling companies to apply hedge accounting.

The proposals would apply prospectively but offer the option to re-designate – without discontinuation – existing cash flow hedging relationships during the first annual reporting period in which the proposals are applied.

The proposals would also result in increased disclosure requirements that would include the key terms and conditions of the contract (such as duration, pricing, maximum or minimum quantities and whether they include renewable energy certificates) and other information such as the net volume purchases, the average market price of electricity, the fair value of the contracts or the expected volume of electricity to be sold or purchased over the remaining duration.

The exposure draft was open for comment until August 7, 2024. The IASB met on August 28, 2024 to review a summary of feedback on the exposure draft. Although the general direction of the proposals was supported, the following areas on the proposals were asked for further clarification:

- the scope of contracts for renewable electricity to which the amendments would apply;
- the own use requirements; and
- the disclosure requirements.

The IASB made the following tentative decisions at the September 2024 meeting to address the feedback on the

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exposure draft:

- to finalize the proposed amendments' scope which will apply to contracts that:
  - refer to natural-dependent electricity generated from sources relying on uncontrollable natural conditions;
  - can be settled either net or gross; and
  - that expose an entity to fluctuations in cash flows, which are contingent on the contracted amount of such nature-dependent electricity.
- to finalize the proposed requirements to apply own-use exemption:
  - to require an entity to apply additional considerations for these electricity contracts only if:
    - the entity is exposed to the risk of an excess supply of electricity in any delivery interval;
    - the entity lacks the practical capability to avoid selling any surplus electricity at the time determined by the market where electricity was purchased;
  - to assess whether the entity will be a net purchaser over a reasonable amount of time when applying the own-use requirements. An entity is considered a net purchaser if the entity purchases sufficient electricity in the market to offset sales of any excess in the same market. The evaluation should take into account the following considerations:
    - the seasonality of the nature-dependent source generating the electricity and the business cycle of the entity to determined what is deemed 'a reasonable amount of time,' which must not exceed 12 months;
    - all reasonable and supportable information, inclusive of forward-looking information, as of the assessment date; and
    - whether the entity has been a net purchaser over a reasonable amount time (not to exceed 12 months).

The final amendments are expected to be released in Q4 2024.

Refer to our web article and IASB's *Power Purchase Agreements* project page for more details.

Global minimum top-up tax under BEPS 2.0

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

- Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries.
- Pillar Two aims to ensure that large multinational groups pay at least the minimum rate of 15 percent on income arising in each jurisdiction in which 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 May 2023, the IASB issued amendments to IAS 12 which provide a temporary mandatory relief from deferred tax accounting for top-up tax: companies are effectively exempt from providing for and disclosing deferred tax related to top-up tax. However, they need to disclose that they have applied the relief. The amendments were effective immediately upon their release in 2023.

The rules and regulations surrounding the calculation of top-up tax and the mechanisms for collection are complex.

In our *web article,* the following key issues are summarized to help companies prepare their financial statements:

- *Disclosures*: To compensate for the potential loss of information resulting from the mandatory deferred tax accounting relief, companies are required to provide relevant disclosures in their financial statements from December 31, 2023 onwards.
- *Impairment assessment*: Companies may need to reflect the impact of upcoming changes in tax laws in their impairment assessments.

  Interim reporting: To determine how to reflect the current top-up tax and what information to disclose, companies need to consider the status of Pillar Two implementation in the countries where the group operates at the interim reporting date. This is because different countries are at different stages of implementing the legislation.
- *Recharges of Pillar Two taxes*: Companies within a group may enter into 'recharge arrangements' for Pillar Two taxes that are levied on one company, but triggered by another company. The Accounting Standards do not specifically address the accounting for these recharge arrangements in a company's separate financial

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statements, and companies will need to develop an accounting policy, to be applied consistently.

Update on GloBE in Canada

On June 20, 2024, the legislation (Bill C-69) to enact the global minimum tax measures in Canada received royal assent. The legislation implements two key measures of the OECD's Pillar Two global minimum tax in Canada. These measures are the income inclusion rule as well as a domestic minimum top-up tax that is intended to be a qualified domestic minimum top-up tax as defined in the GloBE Model Rules. These rules will apply to fiscal years of qualifying multinational groups beginning on or after December 31, 2023 in line with the OECD's recommended timing.

On August 12, 2024, draft legislation related to the new *Global Minimum Tax Act* including new provisions for the Undertaxed Profits Rule (UTPR) was released for public consultation. These rules will apply to fiscal years of qualifying multinational groups beginning on or after December 31, 2024. The consultation period ended on September 11, 2024.

For additional information on the administrative and legislative developments in jurisdictions around the world related to the implementation of Pillar Two please refer to *BEPS 2.0: state of play.*

Other legislative changes

On June 20, 2024, Bill C-59 also received Royal Assent. Bill C-59 also included a number of tax and legislative changes such as the share-buyback tax and clean technology tax credits. These changes could have an impact on a company's financial reporting or sustainability reporting (see the section on *Greenwashing legislation* above). For additional information, please see our *web article*.

IFRS Interpretations Committee agenda decisions

Companies applying 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 2024 final agenda decision

Climate-related commitments (IAS 37)

At its March 2024 meeting, the Committee voted to finalize its agenda decision on climate-related commitments about the circumstances in which a company recognizes a provision for the costs of fulfilling a commitment to reduce or offset its greenhouse gas emissions.

The Committee confirmed that the company would apply a two-part test under IAS 37:

- whether the company's statement has created a constructive obligation (i.e., a valid expectation); and
- whether the company recognizes a provision for its constructive obligation: the key to the criteria is identifying the past event (i.e., the company will recognize a provision only when it emits the pollutants in the future).

The IASB agreed to publish the agenda decision in its April 2024 meeting.

For more information, refer to our *podcast* and the *March 2024 IFRIC update.*

June 2024 final agenda decision

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)

At its June 2024 meeting, the Committee voted to finalize its agenda decision (with some suggested changes) on the application of the requirements in paragraph 23 of IFRS 8 *Operating Segments* to disclose for each reportable segment specified amounts related to segment profit or loss.

The agenda decision focused on two key issues:

1. A requirement to disclose the specified amounts in paragraph 23 of IFRS 8 for each reportable segment if those amounts are:
   - included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM), even if they are not separately provided to or reviewed by the CODM; or
   - regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.
2. A requirement in paragraph 23(f) of IFRS 8 to disclose 'material' items of income and expense disclosed in accordance with paragraph 97 of IAS 1 where a company:
   - applies paragraph 7 of IAS 1 and assesses whether an item of income and expense is material in the context of its financial statements as a whole;
   - considers both qualitative and quantitative factors; and

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- applies the requirements in paragraphs 30-31 of IAS 1 when considering how to aggregate information.

The agenda decision is expected to clarify that under IFRS 8, there is no requirement to disaggregate by each reporting segment every item of income and expense presented in its statement of profit of loss or disclosed in the notes.

The Committee concluded that the principles and requirements in the Accounting Standards provide an adequate basis for a company to apply the disclosure requirements in paragraph 23 of IFRS 8 and decided not to add a standard-setting project to the work plan. At its July 2024 meeting, the IASB discussed, and did not object to, this agenda decision.

For more information, refer to the *June 2024 IFRIC update*

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Requirements effective in 2024

The below are new amendments to Accounting Standards effective for annual reporting periods beginning on or after January 1, 2024. The implementation and the effective dates of Sustainability Disclosure Standards are subject to local regulation and the latest information can be found in the section *sustainability disclosures*.

Classification of liabilities as Current or Non-Current (Amendments to IAS 1)

Under the amendments to IAS 1 the classification of certain liabilities as current or non-current may change (e.g. convertible debt). In addition, companies may need to provide new disclosures for liabilities subject to covenants.

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.

After reconsidering certain aspects of the 2020 amendments, 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.

However, when non-current liabilities are subject to future covenants, companies will now 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 also 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 recognised as either equity or a liability separately from the host liability under *IAS 32 Financial Instruments: Presentation*. The IASB has now 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. They also specify the transition requirements for companies that may have early-adopted the previously issued but not yet effective 2020 amendments.

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

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The core requirement to include variable lease payments in a lease liability arising from a sale-and-leaseback transaction remains a significant departure from the general model in IFRS 16.

The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019. IFRS 16 will now require a seller-lessee to estimate the variable lease payments it expects to make over the lease term to ensure that the initial gain or loss recognized relates only to the rights transferred to the buyer-lessor.

The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains.

The seller-lessee would reduce the lease liability as if the 'lease payments' estimated at the date of the transaction had been paid. It would recognize any difference between those

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lease payments and the amounts actually paid in profit or loss. It could determine the lease payments to be deducted from the lease liability in a number of ways – e.g. as 'expected lease payments' or as 'equal periodic payments' over the lease term.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with retrospective application required dating from the initial application of IFRS 16.

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

In addition, KPMG's Sale and leaseback *publication* 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.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

In response to investors' calls for more transparency of supplier finance arrangements' impacts on the financial statements, the IASB has amended IAS 7 and IFRS 7. The amendments introduce additional disclosure requirements for companies that enter into these arrangements. However, they do not address the classification and presentation of the related liabilities and cash flows.

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

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

The amendments do not apply to arrangements for financing receivables or inventory.

The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 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, and the company's exposure to liquidity risk.

Under the amendments, companies also need to disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement.

The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in IFRS 7 on factors a company might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

Companies need to collect additional information to meet the new disclosure requirements because some of the information may not always be readily available – i.e. the carrying amount of financial liabilities for which suppliers have already received payment from finance providers. Companies may need to obtain this information from their finance providers directly.

The IASB expects that finance providers will generally be able to make this information available, at least on an aggregated and anonymized basis – e.g. where restrictions may exist.

The amendments are effective for periods beginning on or after January 1, 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

For more information refer to our *web article*.

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Appendix 1: Accounting Standards effective in 2025 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
Newly effective standards		
January 1, 2025	Lack of exchangeability (Amendments to IAS 21)	*Insights into IFRS (2.7.390),* ***Web article***
January 1, 2026	Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	*Financial assets with ESG-linked features* ***Web article*** *Settlement of financial liabilities by electronic payments* ***Web article***
	Annual Improvements to IFRS Accounting Standards (includes Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10, and IAS 7)	***Web article***
January 1, 2027	Presentation and Disclosure in Financial Statements (IFRS 18)	***Web article***
	Subsidiaries without Public Accountability: Disclosure (IFRS 19)	***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.*

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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 Feedback	October 2024	*Web article*
Dynamic risk management	Exposure Draft	H1 2025	
Financial instruments with characteristics of equity	Final Amendments	2026	*Web article*
Management commentary	Revised Practice Statement	H1 2025	*Web article*
Equity method	Exposure Draft Feedback	Q1 2025	*Web article*
Rate-regulated activities	Accounting Standard	H2 2025	*Web article*
Second comprehensive review of the IFRS for SMEs accounting standard	IFRS for SMEs ® Accounting Standard	Q1 2025	

Research projects	Next milestone	Expected date	KPMG's guidance
Intangible assets	Review Research	October 2024	
Amortised Cost Measurement	Review Research	January 2025	
Statement of Cash Flows and Related Matters	Review Research	January 2025	
Post-implementation Review of IFRS 16 Leases	Request for Information	H1 2025	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Translation to a Hyperinflationary Presentation Currency (IAS 21)	Exposure Draft Feedback	Q1 2025	
Updating IFRS 19 Subsidiaries without Public Accountability: Disclosures	Exposure Draft Feedback	Q1 2025	
Climate-related and Other Uncertainties in the Financial Statements	Exposure Draft Feedback	Q1 2025	
Provisions—Targeted Improvements	Exposure Draft	November 2024	
Power Purchase Agreements	Final Amendments	December 2024	

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Maintenance projects	Next milestone	Expected date	KPMG's guidance
Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard	IFRS for SMEs ® Accounting Standard	Q1 2025	

Application questions	Next milestone	Expected date	KPMG's guidance
Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts (IAS 7)	Tentative Agenda Decision Feedback	November 2024	
Guarantees Issued on Obligations of Other Entities	Tentative Agenda Decision Feedback	November 2024	
Recognition of Revenue from Tuition Fees (IFRS 15)	Tentative Agenda Decision Feedback	November 2024	

Other projects	Next milestone	Expected date	KPMG's guidance
IFRS Accounting Taxonomy Update—Contracts for Renewable Electricity	Proposed IFRS Taxonomy Update Feedback	December 2024	
IFRS Accounting Taxonomy Update—Primary Financial Statements	Proposed IFRS Taxonomy Update Feedback	November 2024	
IFRS Accounting Taxonomy Update—Subsidiaries without Public Accountability: Disclosures and Amendments to IFRS 7 and IFRS 9 and Annual Improvements	Proposed IFRS Taxonomy Update Feedback	December 2024	

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Appendix 3: ISSB work plan

These tables are intended to act as an outlook of current ISSB projects that may impact your financial statements in the future. More information about the projects is available on the ISSB's *work plan page*.

IFRS Sustainability standard-setting projects	Next milestone	Expected date	KPMG's guidance
Enhancing the SASB Standards	Exposure Draft	Q1 2025	

IFRS Sustainability research projects	Next milestone	Expected date	KPMG's guidance
Biodiversity, ecosystems and ecosystem services	Review Research	H1 2025	
Human capital	Review Research	H1 2025	

IFRS Sustainability other projects	Next milestone	Expected date	KPMG's guidance
SASB Standards Taxonomy—2024 Updates	SASB Standards Taxonomy Update	October 2024	

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