CURRENT DEVELOPMENTS

Spotlight on IFRS

Q4 2024

kpmg.ca

Quarterly update

KPMG Spotlight on IFRS: The Accounting and Financial Reporting milestones in the quarter ended on December 31, 2024.

There continues to be demand from investors for transparent and comprehensive sustainability reporting and standard setters are actively working on finalizing standards and creating educational materials to assist companies in preparing their disclosures.

In November 2024, the International Sustainability Standards Board (ISSB) released *educational materials* to help companies identify and disclose material information on sustainability-related risks and opportunities. The ISSB also launched a dedicated *webpage* on connectivity, providing educational materials on how to apply the IFRS® Accounting Standards and IFRS® Sustainability Disclosure Standards together to report complementary, connected information.

The Canadian Sustainability Standards Board (CSSB) released its first two Canadian Sustainability Disclosure Standards (CSDS) in December 2024. These standards remain aligned with the IFRS® Sustainability Disclosure Standards, with the exception of a Canadian-specific effective date and incremental transition reliefs. The Canadian Sustainability Disclosure Standards are applied on a voluntary basis only, as any mandatory application is at the discretion of Canada's provincial and territorial regulators and legislators.

It is important for companies to monitor the issuance of various laws and reporting requirements, including those in California and the European Union (EU) that may apply to them, along with related implementation guidance as adoption nears.

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

- *ISSB Standards* hub which features a range of high-level visual overviews, video blogs, articles and analysis to help companies get ready for the Sustainability Disclosure Standards.
- *The KPMG view – IFRS Standards* webpage which includes podcasts and articles on emission schemes, net-zero commitments, climate related matters and other changes in the financial reporting landscape.
- *Clear on Climate reporting* hub which provides additional resources to help you identify the potential financial statement impacts of climate-related risks and opportunities for your business.

In terms of Accounting Standards, the International Accounting Standards Board (IASB) is continuing to move forward on several 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* and *IFRS 9 – Power purchase agreements*. 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. Also refer to our *Areas of focus for 2024 year ends* podcast for points for companies to consider in preparing their year-end financial statements, including climate-related matters, valuations and impairments, changes to presentation and new disclosures, and the growing importance of connectivity between a company's financial statements and all other publicly available information.

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Sustainability (ESG[1]) reporting update

In this section, we focus primarily on recent significant sustainability disclosure standard setting activities, sustainability-related regulatory updates and the potential impact of sustainability matters on financial statements. Note that this summary may not capture all of the sustainability related reporting guidance and regulations to which a company may be subject.

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 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. See below for commentary on the work of the CSSB and the Canadian Securities Administrators (CSA).

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 resources on connectivity refer to the IFRS webpage *Connecting IFRS Accounting and IFRS Sustainability*.

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

[1] Environmental, Social, and Governance.

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- use the Greenhouse Gas (GHG) Protocol to measure emissions if they are currently using a different approach.

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

Materiality

Materiality judgements are fundamental to sustainability reporting – they determine the volume, type and precision of information to be reported. In November 2024, the ISSB released guidance to help companies make these judgements.

The guidance explains:

- how companies identify sustainability-related risks and opportunities that may reasonably be expected to impact their prospects; and
- how they determine if information regarding these factors is material.

Once sustainability-related risks and opportunities that could reasonably be expected to influence prospects are identified, the guidance recommends a four-step process to aid companies in making materiality judgments about the information to disclose. The four steps include:

- identify information about sustainability-related risks and opportunities that have the potential to influence investors' decision-making;
- assess whether information about those sustainability-related risks and opportunities is material;
- organize the information in the sustainability-related financial disclosures in a way that communicates it clearly and concisely; and
- review the sustainability-related financial disclosures to assess whether all material information has been identified.

The guidance clarifies that the term "materiality" in Sustainability Disclosure Standards does not pertain to the importance or significance of a sustainability-related risk or opportunity. Rather, the Sustainability Disclosure Standards necessitate the disclosure of material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. In considering what might reasonably be expected to affect an entity's prospects, the entity must take into account an external perspective—that is, what an investor might reasonably expect.

For more information about developments in this area, read our web article *Assessing materiality*.

Future focus of the ISSB

The ISSB has shifted its focus to its research projects on risks and opportunities related to Biodiversity, Ecosystems, and Ecosystem Services (BEES) and human capital along with its goal of enhancing the SASB Standards.

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 European Financial Reporting Advisory Group (EFRAG) jointly published *Interoperability Guidance*, a detailed, bottom-up analysis of the climate-related disclosure requirements in IFRS S2 and corresponding requirements in the European Sustainability Reporting Standards (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 Sustainability Disclosure 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 Sustainability Disclosure Standards with GRI Standards. For more information about developments in this area, read our web article *Joint guidance on interoperability.*

To assist jurisdictions in adopting the Sustainability DisclosureStandards, 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* –

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which features a range of high-level visual overviews, video blogs, articles and analysis.

Canadian ESG reporting developments

CSSB developments

The CSSB released its first two Canadian Sustainability Disclosure Standards on December 18, 2024. CSDS 1 *General Requirements for Disclosure of Sustainability-related Financial Information* and CSDS 2 *Climate-related Disclosures* expanded upon the transition reliefs proposed in their respective exposure drafts. Other than a later effective date and incremental transition reliefs, CSDS 1 and CSDS 2 are aligned with IFRS S1 and IFRS S2.

The Canadian Sustainability Disclosure Standards are currently voluntary and will be effective for annual reporting periods beginning on or after January 1, 2025. Canada's provincial and territorial regulators and legislators will determine whether CSDS 1 and CSDS 2 should be mandated, and if so, who will need to apply the standards and over what time frame.

The following transition reliefs are included in the Canadian Sustainability Disclosure Standards:

- Disclosure of information about non-climate-related sustainability risks and opportunities is not required in the first two annual reporting periods;
- Companies are not required to publish their sustainability-related financial disclosures at the same time as their general-purpose financial reports for the first three annual reporting periods.
    - In year 1, up to 9 months of relief (with the duration of relief dependent on interim reporting requirements);
    - In year 2 and 3, published within 6 months of a company's year-end;
- Disclosures of Scope 3 greenhouse gas emissions are not required for the first three annual reporting periods;
- Companies are allowed to continue their existing measurement method for Scope 1, 2 or 3 greenhouse gas emissions (i.e. measurement other than the GHG Protocol Corporate Standard) in the first annual reporting period; and
- Companies are not required to use quantitative climate-related scenario analysis for the first three annual reporting periods;
- Comparative information is not required in the first annual reporting period. Furthermore, if transition reliefs applied comparative information is not required in the first year of application following relief.

Refer to our *CSSB - Sustainability reporting resource centre* – which features the latest updates specific to the Canadian Canadian Sustainability Disclosure Standards.

CSA developments

In parallel with the release of CSDS 1 and CSDS 2, the CSA issued a *statement* noting that they plan to take a climate-first approach and continue to work towards a revised climate-related disclosure rule that will consider the CSSB Standards and may include modifications deemed appropriate for the Canadian capital markets.

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 Competition Act) or in the case of a company or brand claim, by way of an "internationally recognized methodology" (also undefined in the Competition Act).

The Competition Bureau launched a public consultation to gather feedback receiving a significant number of submissions. The Competition Bureau released its draft guidelines on

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environmental claims in late December and will now hold a *public consultation* on the draft guidelines until the end of February 2025.

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.

Government of Canada

In October 2024, the Government of Canada announced a plan to deliver Made-in-Canada sustainable investment guidelines, referred to as the "taxonomy". The Government of Canada also announced its plan to amend the Canada Business Corporations Act to require large federally incorporated private corporations to disclose climate-related financial information.

The disclosure requirements and implementation timeline have not yet been provided. It is not yet known whether these requirements will eventually be extended to provincially incorporated private companies.

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*.

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.

While the SEC's Climate Disclosure rule is not expected to progress, California is working to entrench its climate reporting.

California laws

In a movement to improve transparency and standardize climate-related disclosures, California passed the following laws, signed by the Governor in October 2023.

- GHG emissions law – SB-253, the Climate Corporate Data Accountability Act, mandates the disclosure of GHG emissions. California Air Resources Board (CARB) is expected to clarify the filing date in 2026 from which GHG emissions will need to be reported and the period to which the reporting will relate. Limited assurance on Scopes 1 and 2 will be required from 2026 graduating to reasonable assurance in 2030. Scope 3 assurance date remain to be determined.
- Climate risks law – SB-261, the Greenhouse gases: climate-related financial risk Act, mandates the disclosure of climate-related financial risks and measured adopted to reduce and adapt such risks. The first report on climate risks is due on or before January 1, 2026 (as enacted) – i.e. before the first reporting of GHG emissions.

The above laws were amended by SB-219, which was signed into law by the Governor in late September 2024. Contrary to earlier proposals, these amendments do not delay the reporting effective dates for SB-253 and SB-261, but they do defer by six months (to July 1, 2025) the date for CARB to develop and adopt regulations that implement SB-253.

- Carbon offset law – AB1305, the Voluntary carbon markets disclosures Act, mandates disclosures about voluntary carbon offsets and emissions reduction claims. A proposed amendment would delay the effective date for reporting to July 1, 2025.

SB-253 and SB-261 apply to US businesses that meet specified revenue thresholds and do business in California; amendments to these laws were signed into law by the Governor in September 2024.

AB-1305 applies to US and international companies that undertake specified activities in California or make certain claims; amendments to this law – including a proposal to delay the effective date to July 1, 2025 – remain under discussion.

Ultimately, initial reporting is now set for 2026: GHG emissions from a date to be determined in 2026, and climate risks on or before January 1, 2026. In December 2024, CARB announced leniency for good faith efforts in the initial period of GHG emissions reporting and launched a public consultation for stakeholder feedback related to implementation of the laws.

Progress on amendments to California climate laws are further discussed in our *US Hot Topic* webpage.

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

EU developments

The Corporate Sustainability Reporting Directive (CSRD) is a regulation introduced by the EU aimed at enhancing and standardizing sustainability reporting among companies.

The CSRD entered into force on January 5, 2023 and Member States had a deadline of July 6, 2024 to transpose it into national law. Many Member States have a draft available and several have finalized their transposition. However, many Member States did not meet the deadline. In September 2024, the European Commission (EC) sent formal infringement notices to Member States delinquent in transposing the CSRD, giving them two months to respond and complete their transposition. Companies that have subsidiaries in Member States where the CSRD is not yet transposed should monitor forthcoming developments closely.

The EC has proposed an 'omnibus initiative' that would amend the CSRD (and ESRSs), the Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Taxonomy without changing the core content of the legislation with an aim to simplify often-overlapping obligations. Further clarity is expected in the coming weeks.

The 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.

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 securities regulator (ESMA) has indicated that sustainability reporting will be a priority for 2024 annual reports.

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*. To learn more about the ESRSs in general, download our in-depth guide, *ESRS Foundations*.

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.

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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 *US Hot Topic webpage*.

Non-EU parent company reporting standards

The EFRAG is finalizing proposals for the non-EU parent company standards and expecting to issue an exposure draft for public comment in Q1 2025. In the public consultation, EFRAG plans to inquire whether non-EU parent companies should have the option to exclude information on the impact of sales of goods or provisions of services outside the EU. This option would apply to all topical standards other than E1, climate change.

To learn more about ESRSs, refer to our *guide*.

Comparing sustainability reporting requirements

There is commonality among the EU requirements, ISSB™ guidance 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 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 a company 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-

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related uncertainties.

The exposure draft comment period closed on November 28, 2024. the IASB will discuss the feedback received at future meetings.

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

The impact of climate-related matters on impairment testing of non-current assets

Climate-related matters can have a significant impact on the impairment testing of non-current assets. As such, investors and regulators are increasingly seeking more robust disclosures that explain whether and how they are reflected in the recoverable amount.

Companies should connect assumptions used in the impairment test and information provided outside the financial statements, such as other parts of the annual report. When there are inconsistencies between the information in the front part of the annual report and the assumptions used to calculate the recoverable amount, companies may need to be clear on the reason for the difference.

In addition, if there is a high level of estimation uncertainty, such as future carbon prices, then additional disclosures, such as sensitivity analyses, may be required.

For additional information on the impact of climate-related matters on impairment testing of non-current assets and how to drive clarity in the financial statements, 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.

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. Companies are encouraged to monitor updates and communications from regulatory bodies pertaining to the application of IFRS 18. Thus far in Canada, the Ontario Securities Commission and the Alberta Securities Commission have commented in their respective Corporate Finance 2024 annual reports on the interaction between MPM's and non-GAAP measures (as defined by securities law). Both regulators suggest that companies consider the non-GAAP measures currently disclosed outside the financial statements, because if those measures meet the definition of an MPM they will be included in the financial statements and subject to audit under IFRS 18.

Read our *web article* and our *high-level guide* that provide an overview of the new Accounting Standard. Our *First*

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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 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
- Companies should monitor updates and communications from regulatory bodies pertaining to the application of IFRS 19. On the application of IFRS 19 in filings with the US 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. In Canada, the *Ontario Securities Commission* has commented in its Corporate Finance 2024 annual report that in certain situations, if the acceptability or application of IFRS 19 in a securities regulatory filing is unclear, companies and their advisors are encouraged to consult with staff in advance of filing financial statements that apply IFRS 19.

The 'catch up' exposure draft comment period closed in July 2024 and the IASB discussed feedback received at the October and December 2024 meeting.

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

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allowed compensation determined by the rate regulator.

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

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

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

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

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

- If recognition of income under 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.

In July 2024, following the completion of redeliberations of the proposals in the exposure draft, the IASB confirmed that sufficient consultation and analysis were undertaken to begin the balloting process. No decisions or updates were made in Q4 2024.

The IASB tentatively decided that the standards will be effective from January 1, 2029, with earlier application permitted. The IASB expects to publish the new Accounting Standard in the second half of 2025. Information about project updates is available on the IASB's *Rate-regulated Activities project page*.

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

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May, July, and October 2024 meetings. No decisions or updates were made in Q4 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.*

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 Q4 2024

The IASB continued to redeliberate the proposals in Q4 of 2024.

The IASB made the following tentative decisions related to transition requirements and consequential amendments at the October 2024 meeting:

- to require a company to apply the DRM model prospectively with an option to early adopt, along with the required disclosures.
- to permit a company transitioning from hedging relationships under IFRS 9 to discontinue its existing hedging relationships on the date of initial application (i.e. the first day of the annual reporting period in which the proposed requirements are first applied). To also include a requirement for a company to designate the underlying financial assets and liabilities under the DRM model on that date.
- to require a company transitioning from hedging relationships in accordance with IAS 39 to apply the following:
  - IFRS 9's amortization of adjustments method for fair value hedges; and
  - IFRS 9's hedging discontinuation provision for cash flow hedges.
- to permit a company transitioning to the DRM model to prospectively revoke, on the date of initial application, the designation of financial assets or liabilities under the fair value option in IFRS 9. To also include a requirement to designate the financial assets or liabilities in a DRM relationship on that date.
- to permit a company transitioning to the DRM model to be exempt from providing disclosures of the amount of adjustments for each affected line item and basic and diluted EPS as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- to require a company transitioning to the DRM model to provide specific disclosures in the financial statements regarding:
  - the effect of transitioning to the DRM model; and
  - the effect of revoking financial assets or liabilities that were previously designated under the fair value option in IFRS 9.
- to add the DRM requirements to a new chapter in IFRS 9.
- requirement for prospective application of the DRM model for first-time adopters of IFRS.

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- reduced disclosure requirements regarding the DRM model to not be included in IFRS 19 at this stage.

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

The next step is for the IASB is to begin the balloting process for the exposure draft that is expected to be published in H1 2025.

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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 lingering inflationary impacts – 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.

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.

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;
- 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

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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 a company 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 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*.

Amendments to IFRS 9 – Power purchase agreements

Nature-dependent electricity contracts, often referred to as Power Purchase Agreements ("PPA"), help companies secure

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electricity supply from renewable sources such as wind and solar power. Under these contracts, the amount of electricity produced can fluctuate due to unpredictable factors such as weather conditions. In light of the increased use of PPAs and common challenges faced by companies entering into such contracts, the IASB observed that existing accounting standards may not adequately capture the impact of these contracts on a company's financial performance and cash flows. The IASB also noted that application questions were also raised for purchases of renewable energy through virtual PPAs.

On December 18, 2024, the IASB issued amendments to IFRS 9 and IFRS 7 which include the following:

- clarification on the application of the own-use exemption for purchasers of PPAs;
- the ability to apply hedge accounting using a PPA as a hedging instrument, subject to certain conditions; and
- new disclosure requirements aimed to help investors gain a better understanding of the effect of PPAs on a company's financial performance and cash flows.

Note that the amendments only apply to PPAs in which a company is exposed to variability in the underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions.

Application of the own-use exemption for purchasers of PPAs

It is not always clear whether a company that purchases electricity through PPAs can apply the own-use exemption under IFRS 9. If the own-use exemption does not apply, PPAs would need to be accounted for as derivatives measured at fair value through profit or loss (FVTPL), which can potentially create significant volatility in the income statement.

To apply the own-use exemption to a physical PPA, the current IFRS 9 standards requires companies to assess whether the contract is for receipt of electricity in line with the company's expected purchase or usage requirements. Due to the unique characteristics of electricity (including the difficulty to store it) and its market structure, a 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. While this occurs due to the market structure and not from price fluctuations, it has been unclear as to whether a company can apply the own-use exemption under existing requirements.

The amendments allow a company to apply the own-use exemption to certain PPAs if the company has been, and expects to be, a net-purchaser of electricity for the contract period.

The amendments apply retrospectively using facts and circumstances at the beginning of the reporting period of initial application (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 amendments 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 amendments apply prospectively to new hedging relationships on or after the date of initial application. They also allow companies to discontinue an existing hedging relationship if the same hedging instrument is designated in a new hedging relationship applying the amendments.

New disclosure requirements

The amendments also require disclosures of further information such as:

- contractual features exposing the company to variability in electricity volume and risk of oversupply;
- estimated future cash flows from unrecognized contractual commitments to buy electricity in appropriate time bands;
- qualitative information about how the company assessed whether a contract might become onerous; and
- qualitative and quantitative information about the costs and proceeds associated with purchases and sales of electricity, based on the information used to determine whether the company is a net-purchaser of electricity for the contract period.

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The amendments will be effective from January 1, 2026, with earlier application permitted.

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 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* and our *web article*.

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*.

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:

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- 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.

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 discussed feedback received at the October and December 2024 meetings. No decisions or updates were made in Q4 2024.

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

Amendments to IAS 37 – Provisions

To address the challenges companies are encountering when accounting for provisions, the IASB is proposing to clarify the related requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and withdraw related interpretations, including IFRIC 21 *Levies*.

The IASB issued its exposure draft in November 2024, which included proposals to address the following three key areas:

- how to determine if a present obligation exists and when to recognize a provision;
- which costs to include in measuring a provision; and
- which discount rate to use in discounting a long-term provision.

When to recognize a provision

One of the challenges in applying IAS 37 is determining when to recognize a provision, specifically how to determine if a company has a present obligation and what constitutes a 'past

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event'. These questions have become more prominent with the rise of climate-related commitments and threshold-based obligations. In response, the proposals to amend IAS 37 include:

- three new tests to determine whether a present obligation exists, including:
  - *Obligation test*: does the company have an *obligation*?
  - *Transfer test:* is the obligation to *transfer* an economic resource?; and
  - *Past event test*: is it a present obligation as a result of a *past event*?
- specific guidance for threshold-based obligations; and
- new illustrative examples to replace IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* and IFRIC 21.

Under the proposals, companies may need to start recognizing some provisions sooner if they expect to exceed a specific threshold. This would require management to make new judgements.

Costs to include in measuring a provision

IAS 37 does not provide specific guidance on which costs to include in measuring a provision, leading to varying approaches across companies. Under the proposals, a company would include all direct costs when measuring any provision. These costs would include:

- incremental costs; and
- an allocation of other costs that relate directly to settling the obligation.

The proposals may cause some provisions that are currently measured using incremental costs to become larger. As such, companies may need new processes to identify all direct costs, as well as an allocation method.

Discount rate to be used when discounting a long-term provision

The approach to determining the discount rate for long-term provisions varies between companies due to the lack of detailed guidance under IAS 37. Consequently, some companies use a risk-free rate, while others adjust the rate for non-performance or their own credit risk.

The IASB proposes to use a risk-free discount rate in measuring a long-term provision and make no further adjustments made. Depending on the company's current accounting policy, some provisions may become larger.

The exposure draft also proposes to add disclosure of the discount rates used in measuring the provision.

The exposure draft is open for comment until March 12, 2025.

Project updates and the exposure draft are available on the IASB's *Provisions—Targeted Improvements* *project page.* Refer to our *web article* and *talkbook* to understand the potential changes and their impact on your company's provisions.

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.*

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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

- 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 lease payments and the amounts actually paid in profit or loss.

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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	January 2025	*Web article*
Dynamic Risk Management	Exposure Draft	Q2 2025	
Financial instruments with Characteristics of Equity	Final Amendments	2026	*Web article*
Management Commentary	Final Revised Practice Statement	Q2 2025	*Web article*
Equity Method	Exposure Draft Feedback	March 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	February 2025	

Research projects	Next milestone	Expected date	KPMG's guidance
Amortised Cost Measurement	Review Research	February 2025	
Intangible Assets	Review Research	February 2025	
Post-implementation Review of IFRS 16 Leases	Request for Information	Q2 2025	
Statement of Cash Flows and Related Matters	Review Research	February 2025	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Translation to a Hyperinflationary Presentation Currency (IAS 21)	Exposure Draft Feedback	Q2 2025	
Updating IFRS 19 Subsidiaries without Public Accountability: Disclosures	Exposure Draft Feedback	January 2025	
Climate-related and Other Uncertainties in the Financial Statements	Exposure Draft Feedback	February 2025	
Provisions—Targeted Improvements	Exposure Draft Feedback	Q2 2025	*Web article*
Addendum to the Exposure Draft Third edition of the IFRS for SMEs® Accounting Standard	IFRS for SMEs® Accounting Standard	February 2025	

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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)	Agenda Decision	January 2025	
Guarantees Issued on Obligations of Other Entities	Tentative Agenda Decision Feedback	March 2025	
Recognition of Revenue from Tuition Fees (IFRS 15)	Tentative Agenda Decision Feedback	March 2025	
Assessing Indicators of Hyperinflationary Economies (IAS 29)	Tentative Agenda Decision Feedback	March 2025	*Web article*
Recognition of Intangible Assets Resulting from Climate-related Expenditure (IAS 38)	Tentative Agenda Decision Feedback	February 2025	

Other projects	Next milestone	Expected date	KPMG's guidance
IFRS Accounting Taxonomy Update—Contracts for Renewable Electricity	IFRS Taxonomy Update	March 2025	
IFRS Accounting Taxonomy Update—Primary Financial Statements	IFRS Taxonomy Update	March 2025	
IFRS Accounting Taxonomy Update—Subsidiaries without Public Accountability: Disclosures, Amendments to IFRS 7 and IFRS 9 and Annual Improvements	IFRS Taxonomy Update	March 2025	

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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	Q2 2025	

IFRS Sustainability research projects	Next milestone	Expected date	KPMG's guidance
Biodiversity, ecosystems and ecosystem services	Review Research	Q2 2025	
Human capital	Review Research	Q2 2025	

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