KPMG

CURRENT DEVELOPMENTS

Spotlight on IFRS

Q1 2025

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Quarterly update

KPMG Spotlight on IFRS: The Accounting and Financial Reporting milestones in the quarter ended on March 31, 2025.

Tariffs, counter-tariffs and continually evolving trade policies are creating challenges for businesses, disrupting supply chains and increasing uncertainty across a broad range of industries. Tariffs between the US and Canada will impact over 80% of Canadian businesses and have significant impacts on entities in targeted industries with vulnerable supply chains. Changing policies and ongoing uncertainty may pose challenges in preparing estimates, assumptions and projected financial information, thus increasing complexity in financial reporting.

Refer to our *financial reporting in uncertain times* resource centre which features a range of articles, blogs and podcasts to explore the financial reporting impacts of operating in an uncertain environment. In addition, our *navigating tariffs* webpage has additional insights and latest developments related to tariffs and broader business considerations.

On sustainability reporting, the European Commission (EC) has introduced significant proposals to lessen the demands of sustainability reporting, while the International Sustainability Standards Board (ISSB) plans to suggest practical amendments to ease implementation. In the US, the US Securities and Exchange Commission (SEC) Acting Chairman asked the court not to schedule arguments related to the Climate Disclosure Rule, and several states are now pursuing their own state-level climate reporting regulations.

Companies with a calendar year end will be required to apply the IFRS® Accounting Standards requirements effective from January 1, 2025 as outlined in section *Requirements effective in 2025*. Refer to our *illustrative disclosures* and *disclosure checklist* for our guides to condensed interim financial statements that reflect Accounting Standards effective from January 1, 2025.

Although not effective in 2025, companies should be aware of the new amendments to IFRS 9 and IFRS 7 – *Classification and Measurement of Financial Instruments* and *IFRS 9 – Power Purchase Agreements,* which are effective January 1, 2026. In addition, the new IFRS Accounting Standards, IFRS 18 *General Presentation and Disclosure* and IFRS 19 *Subsidiaries without Public Accountability: Disclosures,* which are effective January 1, 2027. However, these amendments and new Accounting Standards may require some lead time to prepare for implementation. The latest information on the new amendments and standards are provided in the below sections, *Major projects and new Accounting Standards* and *Other developments.*

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Sustainability 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

In response to stakeholder feedback, in January 2025 the ISSB added a project aimed at simplifying IFRS S2 *Climate-related Disclosures* through a set of narrow-scope amendments. The ISSB expects to release an exposure draft in Q2 2025.

The proposed amendments are particularly relevant for companies with insurance or investment banking activities, and cover the following:

- disclosing Scope 3 Category 15 greenhouse gas (GHG) emissions (i.e. GHG emissions that arise from a company's financial investments);
- using alternative global warming potential (GWP) values;
- applying the jurisdictional relief to use a method other than the GHG Protocol Corporate Standard to measure GHG emissions; and
- using the Global Industry Classification Standard (GICS) when disaggregating financed emissions by industry.

For more information about developments in this area, read our web article *Proposals to simplify IFRS S2.*

Canadian developments

CSSB developments

Late last year the Canadian Sustainability Standards Board (CSSB) released its first two Canadian Sustainability Disclosure Standards, CSDS 1 *General Requirements for Disclosure of Sustainability-related Financial Information* and CSDS 2 *Climate-related Disclosures*. The standards are aligned with the IFRS Sustainability Disclosure Standards with the exception of a later effective date and incremental transition relief.

CSDS 1 and CSDS 2 will be effective for annual reporting periods beginning on or after January 1, 2025, on a voluntary adoption basis in Canada. Canada's provincial and territorial regulators and legislators will determine whether the standards should be mandated, and if so, who will need to apply the standards and over what time frame.

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

CSA developments

In parallel with the release of CSDS 1 and CSDS 2, the Canadian Securities Administrators (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

On February 20, 2025, the Office of the Superintendent of Financial Institutions (OSFI) announced *updates* to Guideline B-15. Key updates include: deferring Scope 3 GHG emissions disclosures for all Federally Regulated Financial Institutions (FRFIs) to fiscal 2028 to align with the CSSB Standards, clarifying expectations for on-balance sheet and off-balance sheet assets under management and setting the implementation date to disclose Scope 3 GHG emissions for the off-balance sheet component of assets under management to fiscal 2029. The updates are expected to be reflected in the next iteration of the guideline to be released in late March 2025.

Legislation prohibiting "Greenwashing" (Bill C-59)

The Competition Bureau (Bureau) released its draft guidelines on environmental claims in December 2024 to clarify expectations and held a public consultation on the draft guidelines which closed on February 28, 2025. The Bureau plans to release written responses submitted for the consultation. For more details on the Bureau's draft guidelines and areas of considerations, refer to our *web article*.

US developments

On February 11, 2025, SEC Acting Chairman Mark T. Uyeda issued a *statement* indicating he had asked the court not to schedule arguments related to the Climate Rule; this will provide time for the SEC to determine its next steps. This action was not unexpected.

In January and February 2025, several states proposed GHG emissions reporting bills similar (although not identical) to California's.

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

EU developments

On February 25, 2025, the EC released an *Omnibus package* of proposals to reduce sustainability reporting and due diligence requirements.

Under the proposals, only large companies with more than 1,000 employees would be in the scope of the Corporate Sustainability Reporting Directive (CSRD) and therefore required to report under the European Sustainability Reporting Standards (ESRS), which the EC estimates would decrease the number of companies in scope by approximately 80%. Further, under the 'Stop the clock' proposal, now agreed by the Council of the EU and the European Parliament, mandatory ESRS reporting for second- and third wave companies will be postponed by two years.

The EC also announced that it intends to amend ESRS to reduce disclosure requirements – e.g. by prioritising quantitative datapoints over narrative text and clearly distinguishing between mandatory and voluntary datapoints. The concept of double materiality would remain, but the EC intends to provide clearer instructions on applying the materiality principle. The EC no longer plans to adopt sector-specific standards.

The EC is working to simplify the EU taxonomy and proposing amendments to decrease the number of companies in scope of the EU taxonomy.

On the Corporate Sustainability Due Diligence Directive (CSDDD), the EC proposes significant changes to reduce the compliance burden on companies. The proposals include delaying initial application by one year, reducing the number of business partners and stakeholders to consider, and less frequent assessments.

These proposals are subject to change as they progress through the various European regulatory channels. In addition, the EC intends to announce further Omnibus proposals as part of its simplification agenda.

Refer to our web article *EU releases Omnibus proposals* for more details.

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-related uncertainties.

The exposure draft comment period closed on November 28, 2024 and the IASB and ISSB discussed the feedback received at the February 2025 joint meeting.

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*.

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*

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 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 requirements from new Accounting Standards and amendments issued between February 2021 and May 2024; 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 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.

Project updates in Q1 2025

At its January and February 2025 meetings the IASB continued to discuss feedback received on the 'catch up' exposure draft, for which the comment period closed in July 2024. After considering the feedback, the following tentative decisions were made at the February 2025 meeting:

- to retain the proposals relating to IFRS 18 and lack of exchangeability; and
- to revise its proposals relating to supplier finance arrangements, Pillar Two taxes and financial instruments classification and measurement by reducing certain disclosure requirements and making editorial changes.

The IASB continued to discuss feedback at its March 2025 meeting and made the following tentative decisions regarding the prospective amendments to IFRS 19:

- to align the effective date of the amendments with the effective date of IFRS 19 (January 1, 2027); and
- to permit an early application of the amendments.

In addition, the IASB confirmed the proposals in the exposure draft related to regulatory assets and liabilities, specifically to require an entity applying IFRS 19 and the forthcoming rate-regulated accounting standard (see below) to apply all the disclosure requirements as outlined in the forthcoming rate-regulated standard.

The IASB will begin the balloting process for the prospective amendments to IFRS 19, with the plan to issue them in the second half of 2025.

Information about project updates is available on the IASB's *Updating IFRS 19 Subsidiaries without Public Accountability: Disclosures* *project page*. Read our *web article* which provides an overview of the new Accounting Standard including some FAQs.

Update on rate-regulated activities project

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

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

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

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

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

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

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

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

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

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

The proposed standard provides some guidance for these conditions. If a company meets these criteria, then it would be required to apply the accounting model in the exposure draft.

Unlike the approach in IFRS 14, the new accounting model would not be optional.

Companies covered by the proposals who did not apply IFRS 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, the IASB confirmed that sufficient consultation and analysis were undertaken to begin the balloting process.

The IASB tentatively decided that the standards will be effective from January 1, 2029, with earlier application permitted.

Project updates in Q1 2025

The IASB discussed at its March 2025 meeting the proposals under IFRS 19 related to disclosures. See the commentary above in the section "Reducing Disclosures for Subsidiaries".

The IASB expects to publish the new Accounting Standard Regulatory Assets and Regulatory Liabilities ("RARL") 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 in 2024 and at the February 2025 meeting. No decisions or updates were made in Q1 2025.

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 DRM activities, some have asserted that it can be difficult to faithfully represent these activities in financial statements.

As such, the project's objective is for financial statements to better capture how a company's DRM activities impact the amount, timing and uncertainty of cash flows, and provide more transparency to investors by connecting the link between management and financial reporting. The IASB has identified the following six key elements of the DRM model, designed to capture the key decisions and activities of risk managers:

- risk management strategy and target profile;
- current net open risk position;
- risk mitigation intention and benchmark derivatives;
- designated derivatives;
- retrospective assessment and unexpected changes; and
- measurement of the DRM adjustment.

The project was added to the standard-setting program in May 2022, and the IASB continued to redeliberate the proposals at its 2024 meetings. No decisions or updates were made in Q1 2025. The IASB is working toward publishing an exposure draft which is expected to be issued in the second half of 2025.

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

Other developments

Uncertain times – The impact of tariffs on financial reporting

Tariffs between the US and Canada will pose significant financial and operational disruptions to Canadian businesses. In the short-term, the impact of these tariffs is likely to be more significant for entities that export/import goods to/from the US. However, as tariffs and counter-tariffs continue to proliferate, companies across a broader range of industries may face supply chain disruptions, rising costs and price volatility.

The uncertainty surrounding the applicability and duration of the tariffs may give rise to various accounting and financial reporting implications in areas, including:

- revenue from contracts with customers;
- net realizable value of inventory;
- impairment of non-current assets (including goodwill) and financial assets;
- fair value measurement;
- onerous contracts; and
- going concern.

As tariffs continue to evolve, companies should continue to monitor regulatory changes and assess how changes in circumstances may affect their financial reporting.

Refer to our *navigating tariffs* webpage for insights and latest developments on the tariffs and our *financial reporting in uncertain times* resource centre for more guidance on a broad range of topics covering the financial reporting impacts of operating in changing environments.

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 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 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 require 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.

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 – which incorporates both Pillar One and Pillar Two amendments.

For many jurisdictions Pillar Two amendments were effective commencing January 1, 2024, however, the development and implementation of these rules is complex and different countries are still at different stages of implementing the legislation. Therefore, companies will need to continuously monitor the status of Pillar Two implementation to determine how to reflect the current top-up tax and what information to disclose. Refer to our *illustrative disclosures* and *disclosure checklist* which include illustrative disclosures related to Pillar Two taxes.

Update on GloBE in Canada

In Canada the income inclusion rule and the domestic minimum top-up tax, which is intended to be a qualified domestic minimum top-up tax as defined in the GloBE Model Rules, applied to fiscal years of qualifying multinational groups beginning on or after December 31, 2023.

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. The legislative process is ongoing; however, based on the draft legislation it is intended that 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*.

Applying the equity method

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

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

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

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

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

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

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 comment period on the exposure draft closed on January 20, 2025 and the IASB will discuss comments received at future meetings.

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.

Project updates in Q1 2025

The exposure draft comment period closed in July 2024 and in its March 2025 meeting the IASB continued to discuss feedback received, specifically on concerns noted from respondents with regards to potential issues that could arise if an entity is required to provide disclosures on a business combination's performance and expected synergies in its financial statements. The IASB will continue to redeliberate the proposed requirements in future meetings.

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

Amendments to 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 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 comment period closed on March 12, 2025 and the IASB will discuss the feedback received at future meetings.

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.

At the March 2025 meeting, the Committee voted to finalize on the following agenda decisions that were published in the March 2025 IFRIC Update:

- Guarantees issued on obligations of other entities;
- Recognition of revenue from tuition fees (IFRS 15); and
- Recognition of intangible assets from climate-related expenditure (IAS 38 *Intangible Assets*).

The IASB will consider these agenda decisions on the above items at its April 2025 meeting. A summary of the agenda decisions are available on the Committee's IFRIC Update *web page*.

Requirements effective in 2025

The below are amendments to Accounting Standards effective for annual reporting periods beginning on or after January 1, 2025.

Lack of exchangeability (Amendments to IAS 21)

Under IAS 21 *The Effects of Changes in Foreign Exchange Rates*, a company uses a spot exchange rate when translating a foreign currency transaction. However, in rare cases, one currency cannot be exchanged into another when a government imposes controls on capital imports and exports, and market participants are unable to buy and sell currency at the official exchange rate. This can have a significant accounting impact for companies in affected jurisdictions.

In 2023, the IASB amended IAS 21 to clarify:

- when a currency is exchangeable into another currency; and
- how a company estimates a spot rate when a currency lacks exchangeability.

The amendments apply for annual reporting periods beginning on or after January 1, 2025, with early application permitted.

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

Appendix 1: Accounting Standards effective in 2026 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, 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.*

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	Decide Project Direction	2026	*Web article*
Dynamic Risk Management	Exposure Draft	H2 2025	
Financial instruments with Characteristics of Equity	Final Amendments	2026	*Web article*
Management Commentary	Final Revised Practice Statement	June 2025	*Web article*
Equity Method	Exposure Draft Feedback	May 2025	*Web article*
Rate-regulated Activities	Accounting Standard	H2 2025	*Web article*

Research projects	Next milestone	Expected date	KPMG's guidance
Amortised Cost Measurement	Decide Project Direction	H1 2026	
Intangible Assets	Decide Project Direction	May 2025	
Post-implementation Review of IFRS 16 Leases	Request for Information	June 2025	
Statement of Cash Flows and Related Matters	Decide Project Direction	May 2025	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Translation to a Hyperinflationary Presentation Currency (IAS 21)	Exposure Draft Feedback	May 2025	*Web article*
Updating IFRS 19 Subsidiaries without Public Accountability: Disclosures	Final Amendment	Q3 2025	*Web article*
Climate-related and Other Uncertainties in the Financial Statements	Decide Project Direction	May 2025	
Provisions—Targeted Improvements	Exposure Draft Feedback	June 2025	*Web article*

Application questions	Next milestone	Expected date	KPMG's guidance
Guarantees Issued on Obligations of Other Entities	Agenda Decision	April 2025	
Recognition of Revenue from Tuition Fees (IFRS 15)	Agenda Decision	April 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)	Agenda Decision	April 2025	

IFRS Foundation governance projects	Next milestone	Expected date	KPMG's guidance
Fourth Agenda Consultation	Request for Information	H2 2025	

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	June 2025	

IFRS Sustainability research projects	Next milestone	Expected date	KPMG's guidance
Biodiversity, Ecosystems and Ecosystem Services	Review Research	June 2025	
Human Capital	Review Research	June 2025	

IFRS Sustainability maintenance projects	Next milestone	Expected date	KPMG's guidance
Amendments to Greenhouse Gas Emissions Disclosures (Amendments to IFRS S2)	Exposure Draft	April 2025	

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