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IFRS financial reporting

Current and future changes

For IFRS preparers the 2024 reporting year offers a moment of stability. Their main task is to review the classification of current and non-current liabilities. However, this year is the proverbial calm before the storm. From the 2027 reporting year onwards, extensive changes are pending with regard to the income statement and management performance measures. It is also time to consider the influences of non-accounting topics such as GloBE Pillar Two and developments in environmental, social and governance (ESG) reporting. In our article, we discuss current and future changes to IFRS as well as SIX focus areas and also take a look at the bigger picture.

New developments in IFRS Accounting Standards

Provisions subject to mandatory application for the first time in the 2024 reporting year

The presentation of liabilities as either non-current or current can be of crucial importance for covenants and for liquidity analyses. As the main new development in the 2024 reporting year, the two **amendments to IAS 1: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants** lead to selective changes in this regard, which may affect presentation depending on the individual situation. In the future, the decisive factor for classifying a liability as non-current will no longer be that the unconditional right to defer settlement of the liability for a period of at least 12 months after the reporting date exists at the reporting date. Rather, it is sufficient for a liability to be recognized as a non-current liability if this right has substance and exists at the reporting date. Any covenants are only relevant for the classification if they are to be fulfilled before or at the reporting date. It is further clarified that the sole criterion is the legal possibility of renewal and that the management's intentions are irrelevant.

To illustrate this point, we can take the example of a company that has taken out a revolving credit facility with a three-month term. The term is automatically extended by three months at each quarter-end up to a total term of five years, provided certain covenants are met. Previously, this credit facility was to be reported as a current liability. Now, such a liability is to be reported as non-current for the first four years as long as the covenants are met at the respective reporting date. Whether the company intends to repay the liability within the next twelve months and whether the covenants will (probably) be met after the reporting date is, however, irrelevant for the presentation at the reporting date.

Finally, the amendments also clarify how to treat conversion options in convertible debts when classifying the liability.

Other relevant changes for the 2024 reporting year are:

Sale and leaseback transactions are regularly used to generate liquidity and/or realize hidden reserves. When IFRS 16 was first introduced, it was initially unclear how variable lease payments should be treated in this context. The IFRS Interpretations Committee has clarified that these should always be taken into account and the gain on disposal actually realized should be reduced accordingly. In other words, in contrast to the general approach in IFRS 16, variable lease payments must always be included when the lease liability from sale and leaseback transactions is initially recognized. With the **amendment to IFRS 16: Lease Liability in a Sale and Leaseback**, the IASB is now addressing the resulting questions regarding subsequent measurement.

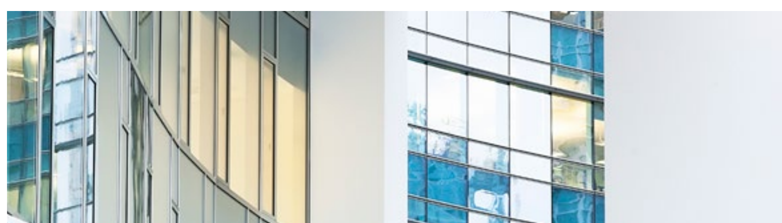
Supplier finance arrangements (also known as reverse factoring) are becoming increasingly popular. These are usually initiated by the customer, who engages a factor to make payment to the supplier. Depending on the agreement, the supplier can request payment from the factor earlier and/or the customer can delay payment. The disclosure of liabilities in the statement of financial position, and cash flows in the statement of cash flows, depends on the specific structure and thus offers room for judgement. In view of this, the **amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements** provide new disclosure requirements for the type, presentation, scope and risks of such agreements.

Provisions subject to mandatory application in future periods

The new standard **IFRS 18 Presentation and Disclosure in Financial Statements**, which will be applicable from the 2027 reporting year, is the IASB's response to investors' calls for more relevant, transparent and comparable financial statements. The main changes include:

- Introduction of a (standardized) structure for the income statement (see Figure 1). In most cases[1] the income statement must in future be divided into five categories:
  - Operating category
  - Investing category
  - Financing category
  - Income tax category (unchanged)
  - Discontinued operations category (unchanged, if applicable)
- Introduction of new subtotals for the income statement: Operating profit or loss (as the subtotal of the operating category) and profit or loss before financing and taxes (after the investing category).

[1] Different rules apply to companies providing finance to customers and investing in assets



- As an alternative to presenting operating expenses by nature or by function, a mixed presentation of the income statement is now also explicitly permitted. However, additional disclosures are required operating expenses are presented by function or on a mixed basis.
- Disclosure of management performance measures (MPMs) including comprehensive explanations in the audited financial statements. MPMs represent subtotals of income and expenses that communicate management's view of an aspect of financial performance and are used outside of IFRS financial statements, e.g. adjusted EBITDA or underlying trading operating profit. MPMs should not be understood as being the same as alternative performance measures (APMs), which are broader in scope and may also include, for example, like-for-like sales growth or free cash flow.[2]
- Enhanced guidance on grouping information in the financial statements (aggregation vs. disaggregation).
- In the statement of cash flows, the accounting policy choices for classifying dividend and interests received and paid are eliminated. In addition, operating profit or loss is specified as the starting point when applying the indirect method.
- Presentation of goodwill as a separate line item in the statement of financial position. In the past, it was often not presented separately, but as part of intangible assets.

It should be noted that a retrospective adjustment of the comparative period is required when IFRS 18 is applied for the first time. When applying it for the first time in the 2027 reporting period, the 2026 comparative period must therefore already be presented in accordance with the requirements of IFRS 18. Due to the wide range of changes, all companies are affected. Since the transition to IFRS 18 will in many cases require adjustments to systems and processes (e.g. with regard to foreign exchange differences, as these will have to be allocated to specific categories in the future and can no longer be fully assigned to the financing category, for example), group guidelines will need to be amended, MPMs will have to be systematically documented and prepared for audit, and compensation models may need to be adjusted.

[2] Cf. SIX, Directive on the Use of Alternative Performance Measures (06/2019) for further rules on the use of APMs.

Income statement

Entities without specified main business activities

Line item	Amount	Category
Revenue	X	Operating category
Operating expenses (analyzed by nature, function or both)	(X)	Operating category
Operating profit or loss	**X**	
Share of profit or loss of equity-accounted investees	X	Investing category
Income from other investments	X	Investing category
Interest income from cash and cash equivalents	X	Investing category
Profit or loss before financing and income tax	**X**	
Interest expense on borrowings and lease liabilities	(X)	Financing category
Interest expense on pension liabilities	(X)	Financing category
Profit or loss before income tax	**X**	
Income tax expense	(X)	
Profit or loss for the year	**X**	

Figure 1: Illustrative income statement in accordance with IFRS 18

Other changes and new standards relevant to future periods are:

Certain currencies cannot be exchanged for another currency, or only to a limited extent, due to foreign exchange restrictions. The **amendment to IAS 21: Lack of Exchangeability**, which is to be applied for the first time from the 2025 reporting year onwards, provides clarifications regarding currency translation for such exceptional cases.

If a company holds financial assets with ESG features, such as ESG bonds, the question has arisen as to whether these meet the SPPI (Solely Payments of Principal and Interest) criterion as a requirement for accounting at amortized cost or at fair value through other comprehensive income (FVtOCI). The **amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments** (applicable from the 2026 reporting year) provide clarifications on how ESG-linked and similar features are to be assessed with regard to the SPPI criterion. Another change introduced by the amendments to IFRS 9 and IFRS 7 concerns accounting issues related to electronic payment systems, which will be of little relevance in Switzerland due to the lack of a longer period of "Payments in Transfer".

The **Annual Improvements to IFRS Accounting Standards** made minor changes to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7 that are not material. The changes are applicable from the 2026 reporting year onwards.

With **IFRS 19 Subsidiaries without Public Accountability: Disclosures**, the IASB has published a new IFRS accounting standard with reduced disclosure requirements for certain subsidiaries; the standard is applicable for reporting years beginning from 2027. It applies to IFRS separate or consolidated financial statements of subsidiaries that do not themselves have equity or debt instruments that are listed on a public market; do not hold assets in a fiduciary capacity for customers; and whose parent company prepares IFRS consolidated financial statements. Financial statements prepared in accordance with IFRS 19 must meet all recognition, measurement and presentation requirements, but are only subject to selected disclosures. The application can thus lead to efficiency gains. The new accounting standard may be applied, for example, if IFRS financial statements have to be prepared within a group for the purposes of GloBE Pillar Two.

Early adoption is permitted for all of the new standards and amendments presented in this article. For a complete overview, see Figure 2.

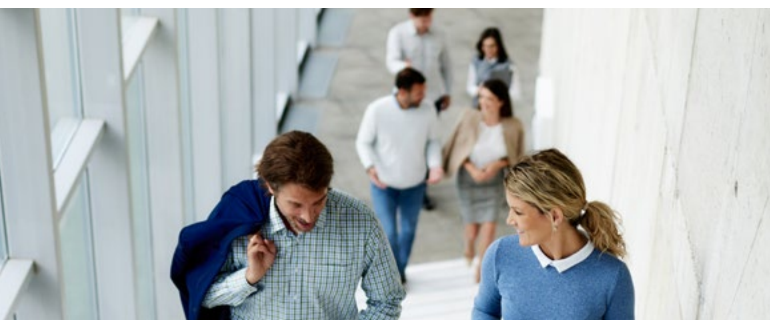
	Effective date (IASB)
Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024
Lack of Exchangeability (Amendments to IAS 21)	1 January 2025
Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	1 January 2026
Annual Improvements to IFRS Accounting Standards (various standards)	1 January 2026
IFRS 18 Presentation and Disclosure in Financial Statements	1 January 2027
IFRS 19 Subsidiaries without Public Accountability: Disclosures	1 January 2027

Figure 2: Overview of mandatory first application dates

SIX focus areas for the reporting year 2024

In addition to the amendments to IFRS accounting standards, particular attention should be paid to the SIX focus areas for the 2024 financial statements prepared in accordance with IFRS.[3]

SIX plans to review the accounting treatment and disclosure of **share-based payments** under IFRS 2. IFRS 2 is a complex standard that raises a number of application questions. Depending on the arrangement, share-based payments may be equity-settled, cash-settled or have a choice of settlement. The accounting treatment varies accordingly. SIX is set to focus on equity-settled share-based payment transactions. In accordance with the requirements of IFRS 2, the fair value at the grant date must be determined for these and allocated over the service period, whereby special features must be taken into account depending on the conditions, as well as in the event of modifications and cancellations. Companies with share-based compensation plans should therefore pay particular attention to the accounting treatment of such compensation plans when preparing their financial statements. This includes reviewing the related disclosures in the notes, especially given that in practice the agreements are often highly structured.



[3] Cf. SIX Exchange Regulation – Issue No. 2/2024

According to IAS 8, **changes in accounting policies and corrections of errors** must be made retrospectively, which requires greater effort in preparation and also demands explanatory notes. Companies therefore often strive to maintain consistency in their accounting practices wherever possible. In this context, SIX aims to assess the correct differentiation between changes in accounting policies, error corrections and changes in accounting estimates that are only to be considered prospectively. Furthermore, the focus is on ensuring that the explanations of the changes are specific and that the circumstances that led to the restatements are adequately described.

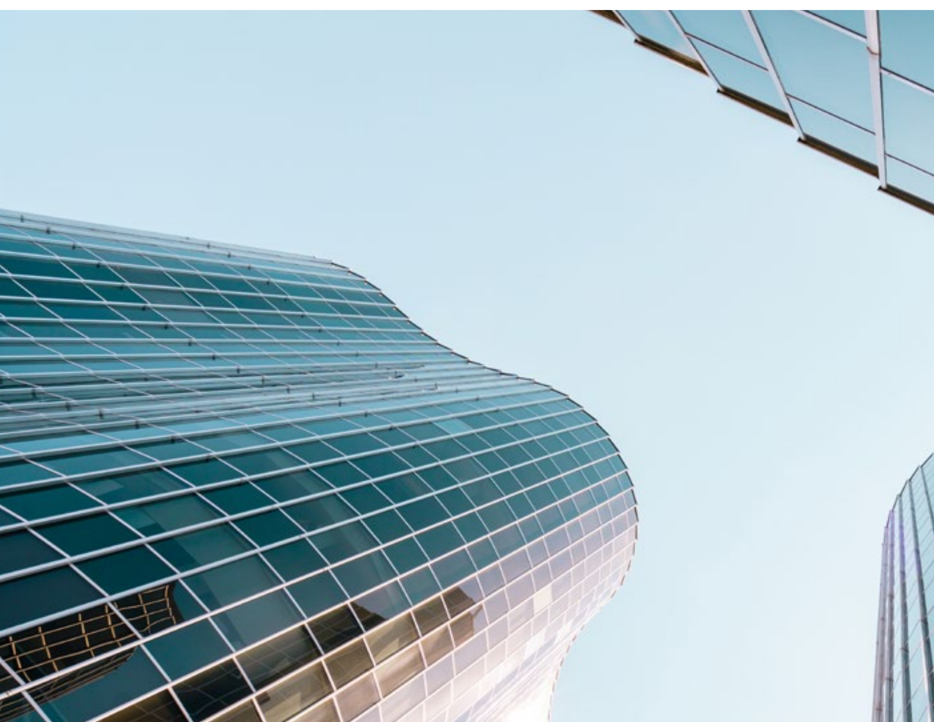
In addition – albeit not as an official SIX focus area for the 2024 IFRS financial statements – it can be assumed that, as in previous years, there is likely to be a spotlight on **impairment testing** in accordance with IAS 36. Experience shows that SIX very often asks critical questions and requests further evidence. Particular care should be taken to ensure that impairment testing is adequately documented and that the required disclosures, in particular those on sensitivity analyses and key assumptions, are complete.

Another area to be monitored is the **disclosure of related-party transactions**. From the users' perspective, this information is regularly of material importance, which is why its completeness and sufficient transparency (including appropriate aggregation) must be ensured.

Broader outlook

An international trend is emerging in which investors, standard setters, regulators and other stakeholders are increasingly focusing on climate-related disclosures in the annual report. Among other things, readers of financial statements expect a "common thread", i.e. for the information in the IFRS financial statements to be consistent with the picture presented in other parts of the annual report, including the management discussion and analysis, and the sustainability report. Companies should also ensure that any action plan – where relevant – is reflected in the accounting assumptions (e.g. useful lives, timing and scope of obligations to decommission assets, etc.).

Further challenges for the finance department are likely to arise from the implementation of GloBE Pillar Two, which requires the continuous calculation of the effective tax rate (ETR) for each tax jurisdiction for the purposes of minimum taxation. International legislation in this area is still evolving, and the right structures and processes need to be put in place to ensure that the calculations can be carried out efficiently. Furthermore, additional IFRS or Swiss GAAP FER financial statements may be required for the calculations if no such financial statements have yet been prepared at the level of the relevant jurisdiction.



Implications for the board

- For the 2024 IFRS financial statements, it is particularly important to consider the amendments to IAS 1, which may lead to changes in the classification of liabilities as current or non-current. With regard to the SIX focus areas, particular attention should also be paid to the correct accounting treatment of share-based payment transactions. Furthermore, when making any changes to the financial statements, care should be taken to ensure the correct differentiation between changes in accounting policies, estimates and errors in accordance with the requirements.
- IFRS 18 will have a significant impact on companies. In view of the need to adapt systems and processes, as well as, where applicable, compensation agreements and investor communications, it is important to ensure that the conversion projects are initiated in a timely manner.
- The topics of non-financial reporting on ESG matters and GloBE Pillar Two have repercussions for finance and for the IFRS financial statements. Timely and adequate coordination between the responsible departments is therefore essential to ensure proper implementation and a consistent approach to reporting.

Your contacts

Frank Richter
Partner, Head of DPP IFRS
KPMG Switzerland

+41 79 749 63 77
frankrichter1@kpmg.com

Florian Buchberger
Senior Manager, DPP IFRS
KPMG Switzerland

+41 76 358 83 48
florianbuchberger@kpmg.com

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