Accounting newsletter

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KPMG Caucasus and Central Asia

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Contents

Foreword

This quarter brings a wave of regulatory activity that continues to reshape the financial and sustainability reporting landscape.

In the financial reporting, we explore the implications of Pillar Two taxes and take a closer look at the refreshed guidance for investor-focused management commentary—emphasizing the importance of telling a clear, cohesive story to the market.

On the sustainability front, we summarise benchmarking analyses of sustainability disclosures across the banking and insurance sectors. With the first wave of ESRS reporting now underway, and significant proposals on the ISSB™ and SASB Standards emerging, we aim to help you navigate this complex and rapidly shifting landscape with clarity and confidence.

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Financial reporting

Pillar Two taxes in financial reports | More questions answered

Many countries are introducing a global minimum top-up tax as part of the international tax reform ('Pillar Two' tax) and companies are assessing the accounting, presentation and disclosure impacts on financial reports.

Use our updated Pillar Two tax digital guide to navigate the key issues related to:

- presentation and disclosure;
- impairment assessment;
- interim reporting; and
- recharges.

Investor-focused management commentary | Focus on telling a coherent story

Some companies present a management commentary – known as MD&A in some countries – to accompany their financial statements.

In response to investor concerns, the International Accounting Standards Board (IASB) revised IFRS Practice Statement 1 *Management Commentary*. Although it is not mandatory, and local regulation may set specific management commentary requirements, it may help companies to tell a connected story.

Read our article to find out more.

IFRS 16 | Review of the leases standard

To understand whether the accounting standard is working as intended, the International Accounting Standards Board (IASB) is undertaking a post-implementation review of IFRS 16 *Leases*.

The IASB asks:

- whether IFRS 16 is meeting its objective;
- about the ongoing costs and benefits of applying the standard; and
- for feedback on its more complex elements – including the lease term, discount rates and variable lease payments.

Read our article to find out more.

IFRIC agenda decisions | Updating agenda decisions for IFRS 18

At its June meeting, the IFRS® Interpretations Committee discussed how to update existing agenda decisions to reflect IFRS 18 *Presentation and Disclosure in Financial Statements*. Companies will need to keep a close eye on the outcome of these discussions as they prepare financial statements using IFRS 18.

In our latest video, part of a series on key discussions by the Committee, Brian O'Donovan summarises what was covered.

The IFRS Foundation also publishes updates of the Committee's meetings.

Real-time IFRS 17 | Updated observations on 2024 annual reporting

We have updated our observations on the accounting policies, significant judgements and disclosures under IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* in the 2024 annual financial statements of 55 insurers.

We also took a deeper dive into several topics, including discount rates, risk adjustments and the contractual service margin.

Generally, insurers provided more clarity and company-specific detail in their disclosures; however, disclosures still varied widely. Some insurers have also begun to refine their IFRS 17 accounting policies and provide new ways for users to analyse profitability – e.g. by using IFRS 17-related key performance indicators (KPIs).

Read our article to find out more.

Uncertain times | Updates to digital hub articles

We've updated the following articles in our digital hub on Financial reporting in uncertain times.

- What are the accounting implications for insurers?
  (to reflect current issues, including uncertainty caused by new import tariffs).
- How should companies account for hyperinflationary economies?
  (to add Burundi to the table of hyperinflationary economies).
- How will new import tariffs affect impairment testing of non-current assets?
  (to update the disclosure section).

Sustainability reporting

ISSB™ Standards | Disclosure checklist

Our disclosure checklist will help entities to prepare and present sustainability-related financial information under currently effective IFRS® Sustainability Disclosure Standards by identifying the:

- specific disclosure requirements for climate and other topics (in an easy-to-understand sequence); and
- available transition reliefs for first-time adopters.

Banks | 2024 sustainability-related disclosure benchmarking

Our 2024 sustainability-related disclosure benchmarking analysis covers 33 major banks. We've found that, as banks expand their sustainability-related disclosures, it is becoming increasingly important to deliver a connected and focused narrative. With many disclosure frameworks applied, comparing and understanding ESG performance can be a challenge.

Other key findings from our analysis include the following.

- Although all banks disclose sustainability-related considerations in their credit risk assessment process, the quantified impact of climate risk on expected credit losses (ECL) remains relatively limited.
- Disclosures of portfolio coverage for financed emissions are gaining traction, and risks and dependency disclosures are expanding as interim target dates draw nearer.
- Despite ample narrative on financial inclusion and customer protection, a lack of standardised metrics and targets makes it difficult to assess their effectiveness.
- Banks have begun disclosing their risk management approaches to artificial intelligence (AI) ethics and algorithmic bias.

Read our analysis for further insights.

Insurers | 2024 sustainability-related disclosure benchmarking

Our 2024 sustainability-related disclosure benchmarking analysis covers 45 major insurers. We've found that as sustainability mandates evolve and diverge, comparability in insurers' disclosures remains challenging.

Insurers have an opportunity to provide clearer, more focused sustainability narratives with more insurance-specific data and that are better connected to the financial statements.

Other key findings from our analysis include the following.

- More insurers are publishing transition plans, but still not the majority, while many focus on extreme weather risk assessments.
- There is notable progress on financed emissions, but calculations remain challenging for insurers.
- Few still disclose insurance-associated emissions, reflecting data and methodology challenges.
- Business conduct disclosures are mostly qualitative; more can be done to provide quantitative information, such as metrics and targets.

Read our analysis for further insights.

Clarifying IFRS S2 Climate-related Disclosures

Targeted amendments to IFRS S2 could change the way companies disclose emissions.

Feedback on IFRS S2 from stakeholders – including regulators, preparers and investors – has focused on areas where clarification may help them to apply the standard. In response, the International Sustainability Standards Board (ISSB) is proposing amendments in the following areas.

- Scope 3 Category 15 greenhouse gas (GHG) emissions.
- Global warming potential values.
- The Global Industry Classification Standard.
- Jurisdiction relief.

The proposals will interest companies that are currently planning their implementation or have already conducted a gap assessment.

Read our article to find out more.

We have submitted our comment letter to the ISSB on the proposed amendments. Overall, we support the ISSB's efforts to clarify the requirements in IFRS S2 on disclosing greenhouse gas emissions.

Enhancing the SASB Standards | Significant proposals to improve industry-based disclosures

Many companies use SASB Standards to provide decision-useful information to investors. These industry-based standards are set to change.

The ISSB has proposed significant amendments to them to support the high-quality implementation of IFRS S1 and IFRS S2, which require industry-based disclosures.

The proposals would affect how companies determine what to disclose and set the tone for the ISSB's approach to industry guidance. Therefore, companies operating both within and outside the nine industries specifically covered by these proposals need to consider how they may affect them.

Read our article to find out more.

Omnibus proposals | Update on developments

The European Commission has been progressing its Omnibus package of proposals to reduce sustainability reporting and due diligence requirements.

First Omnibus proposals approved

A two-year postponement in mandatory reporting under European Sustainability Reporting Standards (ESRS) and the EU Taxonomy for second- and third-wave companies has now been agreed under the proposed 'Stop the clock' directive. Member states have until 31 December 2025 to transpose the directive into national law.

Refer to our article which explains the key proposals and highlights potential impacts and next steps to be taken.

Simplifying ESRS

Additionally, the Commission has mandated EFRAG, the advisory body to the EU on corporate reporting, to provide advice on how to simplify ESRS by 31 October 2025. Find out more in our article.

In response, EFRAG has been seeking views from stakeholders. KPMG has provided input on EFRAG's call for feedback. Check out the article for more details.

Quick fix amendments to ESRS

First-wave companies reporting under ESRS will be relieved from additional reporting requirements by the European Commission's 'quick fix' amendments.

While the Omnibus process and ESRS simplification are ongoing, the amendments allow first-wave companies:

- to continue applying phase-in reliefs until FY27; and
- to delay application of four standards – biodiversity and three social standards.

The amendments will apply for 2025 reporting periods. Read our web article for more details.

New digital hub

We've created a new EU Omnibus digital hub tracking the work under way to reduce sustainability reporting and due diligence requirements. Under the latest proposals, only the largest companies would report under ESRS, with a subset of those companies continuing to report under the EU Taxonomy.

Bookmark the digital hub to track new developments.

The first wave of ESRS reporting | Webcast

For companies navigating the initial phase of ESRS reporting, key lessons are emerging: the value of engaging stakeholders effectively and the importance of having a clear strategic narrative in a complex landscape.

KPMG professionals have shared practical takeaways from the first wave of ESRS reporting and dived into thought-provoking questions around how impact ties into financial materiality. To find out more check out this webcast replay.

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