IFRS Today

Our series on the most topical issues in IFRS® Accounting Standards and financial reporting

07 December 2023

PODCAST TRANSCRIPT

Areas of focus for 2023 year ends

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Brian O'Donovan
Global IFRS Leader

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Introduction

Hello, I'm Brian O'Donovan, global IFRS and corporate reporting leader at KPMG.

I'm here to kick off our year-end podcast about priorities for this reporting season.

Now, geopolitical events, climate pressures, new financial reporting requirements – all combined with sky-high stakeholder expectations – mean no-one can just roll forward last year's annual report and update the numbers.

Regulators will be very focused on how you reflect climate-related risks and opportunities throughout your financial statements – including but not only in your impairment test. We're all preparing for the new sustainability reporting landscape and this year's buzzword is definitely 'connectivity'.

In terms of newly effective financial reporting requirements, there are the disclosures about the global minimum top-up tax. There's also an opportunity to revisit your accounting policy disclosures to focus on the ones that really matter. And, of course, we have the new insurance contracts standard – that affects insurers and many non-insurers too.

To help you get to grips with all of this, I've asked members of our International Standards Group to share their thoughts. They'll highlight key points to consider and direct you to some really helpful resources.

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Sinéad Slattery
IFRS Technical Director

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Climate-related risks and connectivity

I'm Sinéad Slattery, and I'd like to talk about climate-related risks and connectivity.

As Brian mentioned, we really are living in uncertain times. Transparency is always key – but particularly so at the moment. Investors and regulators will be looking more closely than ever for relevant and consistent information across all parts of your annual report this year. And that means better connectivity between the front part of the annual report and the financial statements.

So I want to highlight three things you need to be aware of this reporting season:

- **Firstly, regulators have high expectations here:** As I said, the overarching focus for regulators is on transparency, consistency and connectivity throughout the annual report. This includes consistency of financial and non-financial information on climate-related risks, with a particular focus on things like climate-related commitments, targets and impairment of non-financial assets (which my colleague Avi will cover in a minute). Some regulators – such as ESMA, the European regulator – have already issued guidance emphasising the importance of considering climate-related matters in the preparation of annual reports, including financial statements. You'll need to consider relevant guidance from your local regulator – for many regulators, climate-related risks have been identified as high priority, so be prepared for additional scrutiny of your whole annual report.
- **Secondly – you'll need to think about what additional disclosures you may need to provide this reporting season:** In response to those regulator and investor expectations I mentioned, the International Accounting Standards Board – the IASB – is looking at ways to highlight and clarify the existing requirements in its accounting standards to improve the reporting of financial information about climate-related and other uncertainties in the financial statements – for example, disclosures about estimates. You might also see new illustrative examples coming from the IASB and commentary from the Interpretations Committee.
  Either way, the requirements are already in IFRS Accounting Standards, so think about what additional disclosures you may need to provide this reporting season. We've got some great resources to help – our climate change and uncertain times resource centres.
- **Finally – you'll probably have to think about new sustainability reporting requirements:** The IASB's sister board – the International Sustainability Standards Board (ISSB) – has also been busy this year. It published its first two sustainability disclosure standards on general requirements and climate-related disclosures back in June. They are subject to local adoption but a number of countries such as Brazil, Australia and the UK are currently taking steps to adopt them. We also have European Sustainability Reporting Standards from the EU – or ESRS for short – which are effective for some companies as soon as 1 January 2024. The aim of both the ISSB™ Standards and ESRSs is to enhance connectivity between the financial statements and other information in the annual report. For the ISSB Standards, you will need to monitor your jurisdiction's response and consider how and when you plan to implement them. Reporting under the ISSB Standards could be a 'global passport' for companies operating in multiple jurisdictions.

So the key takeaway is that climate-related matters and connectivity throughout the annual report continue to be major points of focus for investors and regulators. Companies need to be ready for this challenge. Our Climate change and Uncertain times financial reporting resource centres provide guidance to help you to think through the potential issues.

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Avi Victor
IFRS Technical Director

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Valuation and impairment

I'm Avi Victor and I'd like to talk to you about some of the key points you should consider when performing an impairment test of non-current assets. If your company has made commitments to be net zero or carbon neutral, or if it has plans to seize climate-related opportunities or mitigate climate-related risks, then in the front part of the annual report you'll be disclosing this but in your financial statements you'll need to think about how this may impact your recoverable amount calculation and the related disclosures.

Let's start with the recoverable amount calculation. There are two important points to remember here:

Firstly, when calculating the recoverable amount of an asset or cash-generating unit, it is essential that the assumptions underlying the cash flow projections are in sync with your budgets and business plans, including any climate- or environmental-related commitments that the company has made.

Secondly, these assumptions also need to be in sync with the information disclosed in the front part of the annual report – for example, the company's strategy and business model. However, sometimes there may be a difference between the two, because of the IFRS requirements. For example, under value in use, the cash flow forecast can't reflect certain asset enhancements or uncommitted restructurings due to the restrictions in IAS 36 – the Impairment of Assets standard – even when they are included in the company's budgets.

For investors reading the annual report, this can create confusion and raise questions, which is why disclosure is so important.

Investors and regulators are expecting you to provide robust disclosures to understand whether climate-related matters are reflected in the recoverable amount and, if so, how.

Now for impairment disclosures – there are also two important points to remember here.

The first is that you need to disclose all the key assumptions, estimates and judgements made in calculating the recoverable amount. For example, disclosures about the timing and amounts of replacement of certain assets, disclosure of forecasted future oil prices or CO_2 prices – if they are key assumptions. And if there is a high level of estimation uncertainty, additional disclosures may be required, such as sensitivity analyses.

Remember that information may be material in nature as well as amount. For example, the recoverable amount may not reflect the impact of a draft carbon tax that is in the early stages of legislation. Nevertheless, you still need to disclose it if it's material for investors.

Secondly, coming back to the point I made earlier about cases where there's a difference between the information in the front part of the annual report and the assumptions used to calculate the recoverable amount: if that's the case, then investors and regulators expect you to explain why there is a difference.

So what is the key takeaway? Keep in mind transparency and interconnectivity when performing the impairment test and disclosing it.

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Irina Ipatova
Associate Partner

KPMG International Standards Group

Income taxes

I am Irina Ipatova and I would like to highlight three areas related to income taxes to focus on in preparing your 2023 annual reports – these are disclosures and impairment related to the new global minimum top-up tax and newly effective amendments to the income tax standard.

First, new disclosures. You may have sighed with relief earlier this year when the IASB introduced an exception from deferred tax accounting for the top-up tax. But you now need to provide new disclosures.

Technically, disclosures are required if the new tax laws are enacted in any jurisdiction in which your group operates. But your investors may expect you to assess the potential impacts even before the changes to tax laws are finalised.

The primary focus here is on your exposure to the top-up tax at the reporting date. So ask yourself: if the new tax rules applied at 31 December 2023, what would the impact be based on your 2023 profits? If you are preparing separate financial statements and are part of a group, then ask yourself if you expect to trigger or be liable for the tax.

In terms of the information to disclose, it can be qualitative or quantitative and the numbers don't need to be 100 percent precise – you can provide an indicative range. But your disclosures need to reflect what you know or can reasonably estimate based on the progress of your implementation project.

I have to say, overall, this is a complex area. My key takeaway on disclosures: engage with your tax experts and your users to ensure that your 2023 annual report provides meaningful and relevant information about your exposure to the top-up tax.

The second area to focus on is the impact of the new global minimum top-up tax on your impairment testing. You are probably considering when and how the impact of upcoming changes to tax laws should be reflected in determining value in use or fair value less cost of disposal.

Generally, the impact should be reflected in the cash-generating unit that is expected to trigger the top-up tax – rather than the one that will need to pay the tax. You do not wait until the new tax laws are enacted; you consider them as soon as sufficient information about upcoming changes is available. The detailed analysis would differ under the value in use – which reflects the company's perspective – and fair value less cost of disposal – which reflects the market participant's perspective.

My key takeaway: Don't wait for the new laws to be finalised and talk to your valuation specialists to ensure that they have all the necessary information about the upcoming changes to reflect them in the 2023 impairment testing.

And last but not least, do not forget about the newly effective requirements on deferred taxes related to leases and decommissioning liabilities. If you haven't recognised those before, you will need to do so now.

This may all seem like a lot to consider. So: check out our website for more resources, including our answers to frequently asked questions to help you prepare your 2023 annual reports.

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Gabriela Kegalj
Partner

KPMG in Canada

Presentation

I'm Gabriela Kegalj, and I'd like to talk about disclosing 'material' accounting policy information in your 2023 financial statements.

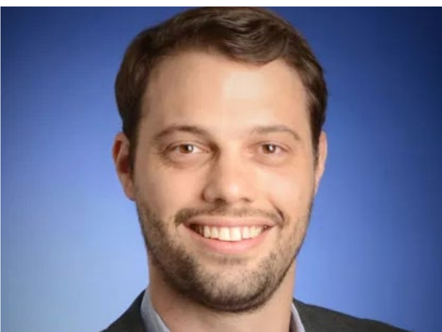
You're probably used to making materiality judgements when making decisions about recognition and measurement. But companies are often uncertain about how to apply the concept of materiality to disclosure, and find it easier to defer to using a 'checklist' approach – including for accounting policy disclosure.

To help you make these materiality judgements, IAS 1 *Presentation of Financial Statements* has been amended to require companies to disclose 'material' rather than 'significant' accounting policies, and additional guidance is now provided on how to do that. This isn't just a simple change of terminology – you now need to ensure that the accounting policy information you disclose is relevant and company-specific, not boilerplate. You really need to think about what accounting policy information users of your accounts need for making decisions.

The amendments are helpful because they introduce a three-step approach with indicators of when accounting policy information would be material to users. For example, information is likely to be material if you changed a policy during the year. Or perhaps you needed to make significant judgements or assumptions in applying a policy? Maybe the accounting treatment you applied to a transaction was particularly complex? These circumstances may call for specific accounting policy information to be disclosed.

So, how much effort is required to adopt these amendments and how much of an impact will there be? Well, it really depends on the accounting policy information your company already provides. The exercise will be more onerous for some companies, less so for others. When you think about the size and nature of transactions and events that are captured in your accounts, you may find that, when applying the new guidance, related accounting policy information needs to be made more specific, *less* standardised. For other transactions, policy information may not be material and it can be removed.

For more guidance and real-life examples, check out our 'Disclosure of material accounting policies' talkbook, which you'll find in the 'Better communication in financial reporting' section of our website.



Bob Owel
Associate Partner

KPMG International Standards Group

Insurance contracts

Hi. My name is Bob Owel and I'm going to focus on IFRS 17 *Insurance Contracts* – for both insurers *and* non-insurers. So don't switch off yet if you're not an insurance company. IFRS 17 may still apply to you.

You may have a contract that's in the scope of IFRS 17 without even realising it! So how do you know if you have an insurance contract? Well, these are contracts that transfer significant insurance risk – like product breakdown contracts, warranties and financial guarantee contracts.

If IFRS 17 is applicable, you'll have to apply it for the first time this year end. So, it's important to determine now if you issue any insurance contracts in the scope of IFRS 17. Identifying such contracts may be challenging so have a look at our publication for non-insurers and for issued financial guarantee contracts for guidance on how to address these challenges.

So now on to the insurance companies. You're probably focusing a lot on measurement at the moment but I would encourage you not to overlook your disclosures, as these are really important to users of your financial statements.

IFRS 17 has a clear disclosure objective: to present useful information to users. You'll need to apply judgement depending on the nature of your business and how you combine information on groups of contracts.

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IFRS 17 mentions three examples of how you might do that:

1) by reportable segment – so that could be life and non-life for example;
2) by type of contract – for example, car insurance separate from annuities; or
3) by geographical area.

And remember that disclosures that are only at the reporting entity level may not be sufficient to meet the disclosure objective in the accounting standard.

We've got a lot of material on the KPMG website that can help with all of this. Have a look at our Real-time IFRS 17 series for all our latest benchmarking to learn more on what we have seen insurers disclosing thus far. You can also check out our Illustrative financial statements under IFRS 17 and 9 and the IFRS 17 section in the annual Disclosure checklist.

So, my key takeaway is that it doesn't matter if you're a non-insurer or an insurer; IFRS 17 is here!

Brian O'Donovan
Global IFRS Leader

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Closing comments

Thank you everyone.

We've gathered information and guidance on these subjects and many more, and made it available online. Our Uncertain times financial reporting resource centre addresses topical financial reporting issues. And our Sustainability reporting resource centre provides practical guidance to help you get ready for the new standards.

A quick way to find this information is to type 'KPMG IFRS' into your browser, or you can follow KPMG IFRS on LinkedIn.

Thank you very much for joining us. Take care!

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Publication name: *IFRS Today: Areas of focus for 2023 year ends*

Publication date: December 2023

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