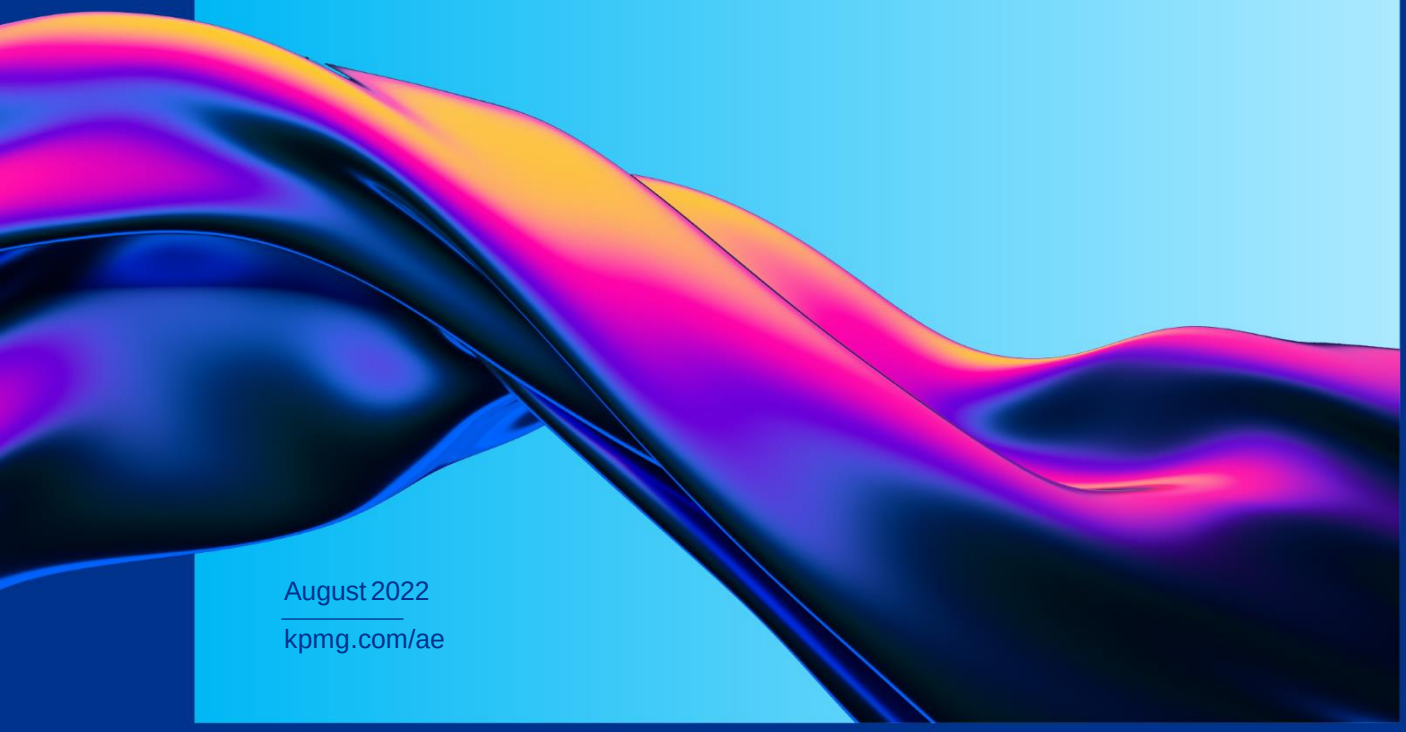
Accounting newsletter

For the period
April – June 2022



August 2022

kpmg.com/ae

Welcome to the fifth edition of our quarterly accounting newsletter

Our quarterly newsletters provide updates on the latest activities of the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC). In addition, you will find links to relevant KPMG publications and articles.

Foreword

In this newsletter, we bring you a summary of IASB discussions, IFRIC activities and KPMG publications released during the period April – June 2022.

During the quarter, the IASB approved two IFRIC agenda decisions:

- Demand deposits with restrictions on use arising from a contract with a third party (IAS 7)

- Principal versus agent: software resellers (IFRS 15 Revenue from contracts with customers)

In addition, the IFRIC continues to discuss topics including cash received via electronic transfer as settlement for a financial asset (IFRS 9), as well as financial instruments and special purpose acquisition companies (SPAC): classification of public shares as financial liabilities or equity. We hope you find these discussions interesting.

In the next edition of the publication, we will bring to you an update of relevant ISSB activities.

Akil Vanthliwala

Head IFRS Technical Desk
KPMG Lower Gulf and Saudi Levant
E: avanthliwala@kpmg.com

IASB updates

Equity method

The IASB is undertaking research to assess whether application questions with the equity method as set out in IAS 28, Investments in associates and joint ventures, can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.

In April, the IASB considered three approaches to applying the equity method when an investor purchases an additional ownership interest in an associate without a change in significant influence. The IASB also asked the staff to proceed with an approach whereby an investor that has obtained significant influence would measure the investment in the associate as an accumulation of purchases.

The IASB met on 21 June 2022 to continue the discussion, initiated at its April 2022 meeting, on how an investor applies the equity method of accounting when purchasing an additional interest (or disposing of an interest) in an associate while retaining significant influence.
The IASB considered an analysis of its preferred approach to applying the equity method of accounting, along with the implications of an alternative approach.

Click here to read more from IASB.

Click here

Primary financial statements

The IASB discussed a proposal in its Exposure draft general presentation and disclosures. The proposal discussed was the requirement for an entity to disclose an analysis of its operating expenses by nature in the notes when the entity reports its operating expenses by function in the statement of profit or loss.

The IASB also redeliberated the proposals in its Exposure draft general presentation and disclosures relating to:

- General requirements for additional line items and subtotals
- The use of columns for presenting management performance measures

Click here to read more from IASB.

FICE project

The IASB met on 20 June 2022 to continue its discussions on the reclassification of financial instruments issued by an entity as financial liabilities or equity instruments when the substance of the contractual terms changes without a modification to the contract.

The IASB tentatively decided to add general requirements on reclassification to IAS 32, Financial instruments: presentation, to prohibit reclassification other than for changes in the substance of the contractual terms arising from changes in circumstances outside the contract. This approach does not affect reclassifications already required in IAS 32.

Click here to read more.

IASB updates (cont'd)

Business combinations under common control

The IASB discussed whether conceptually the acquisition method and/or a book-value method should apply to business combinations under common control. The IASB discussed:

- The similarities and differences between business combinations under common control and business combinations covered by IFRS 3 Business Combinations
- The types of users of a receiving entity's financial statements and their information needs compared to those of a business combination covered by IFRS 3.

Click here to read more.

Approval of an IFRIC agenda decision – demand deposits with restrictions on use arising from a contract with a third party (IAS 7)

IFRIC concluded that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being classified as cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. In the fact pattern described in the request, the contractual restrictions on the use of the amounts held in the demand deposit do not change the nature of the deposit – the entity can access those amounts on demand. Therefore, the committee concluded that the entity includes the demand deposit as a component of cash and cash equivalents in its statement of cash flows.
The IASB was asked whether it objected to the agenda decision on demand deposits with restrictions on use arising from a contract with a third party (IAS 7 Statement of cash flows).
No IASB member objected to the agenda decision.

Click here to read more.

IASB podcast

To listen to the IASB podcast, click below:

April 2022

May 2022

June 2022

Other matters

Click here to read more about other matters covered during IASB meetings.

IFRIC updates

April 2022

Committee's agenda decisions

Principal versus agent: software resellers (IFRS 15 Revenue from contracts with customers) – agenda paper 2

The committee considered feedback on the tentative agenda decision published in the November 2021 IFRIC update about whether, in applying IFRS 15, a reseller of software licenses is a principal or agent.

The committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for a reseller to determine whether – in the fact pattern described in the request – it is a principal or agent for the standard software licenses provided to a customer. Consequently, the committee decided not to add a standard-setting project to the work plan.

The IASB discussed this in May 2022 and did not object to it.

Other matters

Work in progress – agenda paper 3

The committee also received an update on the current status of open matters not discussed at its meeting in April 2022.

IFRIC update

Click here to read more.

IFRIC podcast

Click here to listen to the IFRIC April 2022 podcast.

No IFRIC meeting held in May 2022

IFRIC updates (cont'd)

June 2022

Committee's tentative agenda decisions

Multi-currency groups of insurance contracts (IFRS 17 Insurance contracts and IAS 21 The effects of changes in foreign exchange rates) – agenda paper 6

The committee received a request about how to account for insurance contracts that generate cash flows in more than one currency as to whether an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts; and how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts).

The committee observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that the IASB or the committee could address it in an efficient manner. Consequently, the committee [decided] not to add a standard-setting project to the work plan.

Committee's agenda decisions for IASB's consideration

Cash received via electronic transfer as settlement for a financial asset (IFRS 9 Financial instruments) – agenda paper 3

The committee reached its conclusions on the tentative agenda decision published in the September 2021 IFRIC update. The IASB will consider this agenda decision at a future meeting.

Negative low emission vehicle credits (IAS 37 Provisions, contingent liabilities and contingent assets) – agenda paper 4

The committee reached its conclusions on the tentative agenda decision published in the February 2022 IFRIC update. The IASB will consider this agenda decision at its July 2022 meeting.

SPAC: classification of public shares as financial liabilities or equity (IAS 32 Financial instruments: presentation) – agenda paper 5

The committee reached its conclusions on the tentative agenda decision published in the March 2022 IFRIC update. The IASB will consider this agenda decision at its July 2022 meeting.

Transfer of insurance coverage under a group of annuity contracts (IFRS 17 Insurance contracts) – agenda paper 7

The committee reached its conclusions on the tentative agenda decision published in the March 2022 IFRIC update. The IASB will consider this agenda decision at its July 2022 meeting.

No IFRIC meeting held in May 2022

IFRIC updates (cont'd)

June 2022

Other matters

Consolidation of a non-hyperinflationary subsidiary by a hyperinflationary parent (IAS 21 The effects of changes in foreign exchange rates and IAS 29 Financial reporting in hyperinflationary economies) – agenda paper 2

The committee discussed a request about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy.

The committee concluded that, applying the requirements in IAS 21 and IAS 29 to the submitted fact pattern, the parent could restate or not restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period.

Work in progress – agenda paper 8

The committee also received an update on the current status of open matters not discussed at its meeting in June 2022.

IFRIC update

Click here to read more.

IFRIC podcast

Click here to listen to the IFRIC June 2022 podcast.

No IFRIC meeting held in May 2022

Other KPMG publications

IFRS talk book – IFRS 17 for non-insurers

From 2023, the new insurance standard, IFRS 17 Insurance contracts, will apply for all companies as it applies to contracts, regardless of the issuer. All companies could therefore be affected, not just insurers. KPMG has issued guidance to identify if a company has an insurance contract that falls within the scope of IFRS 17.

Click here to access it.

IFRIC agenda decisions – electronic payments

KPMG's international standards group (ISG) has released a video on the IFRIC agenda decision relating to the electronic payments.

Click here to play the IFRS today video.

Impact of external events on interim financial statements

In times of economic uncertainty, preparing the interim financial statements is likely to involve more than the usual update since the last annual financial statements. Investors and other users may also expect information above and beyond what is typically disclosed. KPMG has updated the guidance on a broad range of topics covering the financial reporting impacts of operating in a changing environment – be it due to a natural disaster, geopolitical event, pandemic or other cause – and is relevant to both annual and interim financial statements.

Click here to access it.

Other KPMG publications

Banks' climate-related disclosures

KPMG's ISG has also published an updated web-article with the latest analysis of banks' climate-related disclosures. It notes that the overall progress banks are making in disclosing climate-related matters has slowed down in 2021.

Click here to access to the article.

Sustainability reporting – comparing proposals from the ISSB, EFRAG and SEC

Sustainability reporting continues to develop at a rapid pace.

Recent proposals from the ISSB Board1, EFRAG2 and SEC3 are ambitious and would have significant impact on companies' operations.

There are common factors among each of the proposals, including that they have considered input from the TCFD4 framework. However, there are also areas where they are not aligned. These could create practical challenges for companies needing to apply multiple frameworks. A key practical consideration for these companies will be aligning calculation methodologies.

To help discuss this issue in more detail with clients and targets, KPMG's ISG guide compares the proposals and gives insight on some of the practical challenges companies may encounter as they prepare for the new sustainability reporting standards.

This guide is complemented by an IFRS® Today podcast, hosted by Reinhard Dotzlaw where the three leaders of KPMG's global corporate and sustainability reporting team offer an overview of the proposals.

Click here to access the guide and here to access the podcast.

About KPMG

For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 144 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, the Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,783 people, including about 192 partners and directors across the UAE and Oman.

Our KPMG IMPACT initiative aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality. The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more resilient and socially conscious.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are: **Integrity:** We do what is right; **Excellence:** We never stop learning and improving; **Courage:** We think and act boldly; **Together:** We respect each other and draw strength from our differences; **For Better:** We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – **exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams** – are the foundation of our firm.

Disclaimer: Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities

Contact us

Osama Harmouche

Head of Audit
KPMG Lower Gulf
E: oharmouche@kpmg.com

Akil Vanthliwala

Head of IFRS Technical Desk
KPMG Lower Gulf and Saudi Levant
E: avanthliwala@kpmg.com

kpmg.com/ae

Follow us on:

Designed by KPMG Lower Gulf Audit Markets team.

Publication date: August 2022
Publication number: 4277