CURRENT DEVELOPMENTS

Spotlight on IFRS

Q1 2020

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Quarterly update

Each quarter, we provide a summary of newly effective and forthcoming standards as well as other accounting and financial reporting developments. This edition covers current developments as of March 31, 2020.

Actions taken in response to the spread of COVID-19 pandemic have resulted in significant disruption to business operations and a significant increase in economic uncertainty, as well as more volatile asset prices and currency exchange rates. These events and conditions may impact financial reporting. To help you better understand the potentially significant accounting and disclosure implications of COVID-19 pandemic, we've set up a *Covid-19 financial reporting resource centre*. This portal delivers regularly updated information on the rapidly changing situation and focuses on the financial reporting impacts for 2020 period ends. In addition, the International Accounting Standards Board (IASB) published educational materials on the application of IFRS 9 *Financial Instruments* and educational materials on the application of IFRS 16 *Leases* to support consistent and robust application of the standards during this period of enhanced economic uncertainty arising from the covid-19 pandemic (for more details refer to IASB's *website*).

In this quarter, the IASB proposed additional reliefs as part of Phase 2 discussions of financial reporting implication of interbank offer rate (IBOR) reforms. Subsequently, an exposure draft is published in April 2020.

The IASB completed discussions on the proposed amendments to IFRS 17 *Insurance Contracts* to address some of the stakeholder concerns and implementation challenges. It refined some of the proposed amendments, confirmed additional amendments and also proposed deferring the effective date of IFRS 17 to January 1, 2023. The IASB now expects to issue the amendments in mid-2020.

To promote consistency in application and clarify the requirements on determining if a liability is current or non-current, the IASB also issued amendments to IAS 1 *Presentation of Financial Statements*.

New requirements are effective in 2020. Further information on these is provided in the section 'Requirements effective in 2020'.

Major projects and new standards

Insurance contracts (IFRS 17)

In May 2017, the IASB issued the new insurance contracts standard IFRS 17 which brings fundamental changes to insurance accounting.

IFRS 17 introduces a single:

- measurement model based on a current fulfillment value that incorporates available information in a way that is consistent with observable market information; and
- revenue recognition principle to reflect services provided.

Benefits of the new standard include increased transparency about the profitability of new and in-force business which will provide more insight into an insurer's financial health. Other effects may include greater volatility in financial results and equity due to the use of current discount rates and assumptions around future cash flows.

Other changes include:

- separate presentation of underwriting and finance results, providing information surrounding the sources of profit and quality of earnings;
- premium volumes will no longer drive the 'top line' as investment components and cash received are no longer considered to be revenue; and
- accounting for options and guarantees will be more consistent and transparent.

Implementation of IFRS 17 requires the coordination of several functions, including finance, actuarial, and IT as well as the introduction of new or upgraded systems, processes and controls. Read our *web article* about the published guidance by the Global Public Policy Committee (GPPC) which seek to help insurers' audit committees fulfil their responsibilities for IFRS 17 implementation.

IFRS 17 has already raised a variety of implementation questions from stakeholders. To help support implementation and reduce the potential for diversity in practice, both the IASB and the Canadian Accounting Standards Board have set up Transition Resource Groups (TRGs) - with the Canadian TRG focusing on Canadian-specific issues. Our online magazine *Insurance – Transition to IFRS 17* tracks the activities of IASB's TRG and contains our summary of and observations on the topics discussed.

To address concerns and implementation challenges the IASB published an exposure draft of the proposed amendments in June 2019.

The proposed amendments address implementation challenges in seven areas of IFRS 17:

- Scope changes for certain credit cards and loans that provide insurance coverage;
- Accounting for investment services in an insurance contract;
- Allocating acquisition cash flows that relate to future contract renewals;
- Mitigating the financial risk of direct participating contracts;
- Presentation of insurance contract assets and liabilities;
- Reinsurance of onerous contracts;
- Accounting for acquired claims liabilities on transition.

For more information about the exposure draft refer to our *web article* and *New on the Horizon* publication which contains detailed analysis and insights.

In the fourth quarter of 2019, the IASB discussed feedback on the exposure draft. For additional information refer to our *web article 1, web article 2* and *web article 3*.

At its January 2020 meeting, the IASB confirmed proposed amendments in the following three areas.

- Interim reporting. Entities will now be required to make an accounting policy choice whether to change the treatment of accounting estimates made in previous interim financial statements.
- Insurance acquisition cash flows. Following the confirmation previously of the treatment of assets for insurance acquisition cash flows, the IASB has considered how such assets should be determined on transition.
- Scope exclusion for credit cards and similar arrangements. This clarifies the scope exclusion from IFRS 17 in respect of certain credit card arrangements and has been expanded to address similar credit or payment arrangements which transfer significant insurance risk.

For additional information about this meeting, refer to our *web article*.

At its meeting in February 2020, the IASB confirmed proposed additional amendments in the following areas.

- Contractual service margin (CSM) attributable to investment services. The IASB confirmed the criteria for the existence of an investment-return service in relation to the CSM.
- Risk mitigation option for insurance contracts with direct participation features. An entity would also be permitted to apply the option when it mitigates the effect of financial risk on fulfilment cash flows using non-derivative financial instruments measured at fair value through profit or loss.
- Accounting treatment of policyholder taxes. IFRS 17 will require entities to include in the fulfilment cash flows the income tax payments and receipts specifically chargeable to the policyholder under the terms of an insurance contract.
- Transition reliefs and minor amendments. The IASB confirmed three amendments related to transition modifications and reliefs, and decided to make no further amendments in respect of 15 other transition-related issues. It also confirmed various amendments proposed in the exposure draft. Even though these are classified as minor, they could have a significant financial and operational impact for entities.

For additional information about this meeting, refer to our *web article*.

In March 2020 the IASB proposed deferring the effective date of IFRS 17 to January 1, 2023. The optional temporary exemption from applying IFRS 9, granted to insurers meeting certain criteria, would also be deferred to 2023. This means that all companies preparing financial statements under IFRS would be required to apply both IFRS 9 and IFRS 17 for annual periods beginning on or after January 1, 2023. For additional information about this meeting, refer to our *web article*.

The IASB expects to issue the amendments in mid-2020.

Our guide *Insurers - Illustrative disclosures* provides a comprehensive illustration for financial statements for an annual period beginning on January 1, 2021 when IFRS 17 and IFRS 9 are applied for the first time (excluding the impact of proposed amendments).

For additional information, refer to our webpage *IFRS - Insurance* and publication *Insurance Contracts – First Impressions*.

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 response, in June 2018 the IASB has published a discussion paper *Financial Instruments with Characteristics of Equity* that sought to improve IAS 32.

To learn more about the IASB's proposals in the discussion paper, read our *web article*.

In September 2019 in the light of the feedback received on the discussion paper, the staff provided the IASB five alternatives for the direction of the FICE project. From the alternatives, the IASB tentatively decided on making clarifying amendments to IAS 32, which would focus on addressing practice issues by clarifying particular underlying principles in IAS 32.

In October 2019, the IASB discussed the project plan and outlined a preliminary list of practice issues that could be addressed in the scope of the project:

(a) classification of financial instruments that will or may be settled in the issuer's own equity instruments, e.g.- application of the fixed-for-fixed condition to particular derivatives on own equity and the classification of mandatorily convertible financial instruments;

(b) accounting for obligations to redeem own equity instruments, e.g. - accounting for written put options on non-controlling interests (NCI puts);

(c) accounting for financial instruments that contain contingent settlement provisions, e.g. - financial instruments with a non-viability clause;

(d) the effect of laws and regulations on the classification of financial instruments;

(e) reclassification between financial liability and equity instruments, e.g. - when circumstances change, or contractual terms are modified; and

(f) classification of particular financial instruments that contain obligations that arise only on liquidation of the entity, e.g.- perpetual financial instruments.

In December 2019, the IASB commenced its discussions on the classification of financial instruments that will or may be settled in the issuer's own equity instruments which are due to continue in the second quarter of 2020.

Dynamic risk management

Although IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 provide models for macro hedge accounting, these contain restrictions that limit companies' ability to reflect some common dynamic risk management 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 dynamic risk management activities, some have asserted that it can be difficult to faithfully represent these activities in financial statements.

In response to these issues, in April 2014 the IASB published the *Discussion Paper Accounting for Dynamic Risk Management – a Portfolio Revaluation Approach to Macro Hedging* as the first due process document for the project.

Based on the feedback received from respondents on the discussion paper, the IASB decided to prioritize the consideration of interest rate risk and consider other risks at a later stage in the project. It also decided that the project would remain as a research project, and that a second discussion paper would be published before issuing an exposure draft.

In November 2017, the IASB tentatively decided that the dynamic risk management accounting model should be developed based on cash flow hedge accounting mechanics.

Some of the key areas discussed by the IASB in past meetings were the following.

- The role of the asset profile within the Dynamic Risk Management Accounting model (the Model); in particular, the application of qualifying criteria to the asset profile, as well as designation of items within the asset profile and documentation requirements.
- The role of the target profile within the Model; in particular, what is a target profile, how it is determined, consistency of the asset profile and target profile and the time horizon of the target profile.
- The application of qualifying criteria to the target profile, as well as designation of items within the target profile, core demand deposits and the documentation requirements.

- Derivative financial instruments, including designation and de-designation of derivatives.
- The information that should be provided in situations of imperfect alignment (i.e. when the asset profile, in conjunction with the designated derivatives, are not aligned with the target profile).
- Misalignments that could result in an accounting outcome inconsistent with the purpose of the Model, economic relationship between the target profile and the combination of the asset profile and designated derivatives.
- How derivatives designated within the Model should be presented in financial statements.
- Negative balances within the target profile.
- Documentation of and changes in risk management strategy.

In October 2019, the IASB discussed its plan to consult stakeholders on the core elements of the Model during the first half of 2020.

IBOR reforms and accounting impacts

In many markets around the world benchmark rates are IBORs. However, there have been various issues related to these rates, especially in the UK.

Regulators, international bodies and organizations around the world recently started various initiatives and consultations related to replacing or supplementing such rates with alternative benchmarks that are more robust, reliable and closer to a risk free rate (RFR).

In March 2018, the Canadian Alternative Reference Rate Working Group (CARR) was established to identify and seek to develop a new term risk-free Canadian dollar interest rate benchmark. Such a risk-free rate would operate alongside the existing Canadian Dollar Offered Rate (CDOR). CARR also explored possible enhancements to the existing Canadian overnight risk-free rate, the Canadian Overnight Repo Rate Average (CORRA). In February 2019, the Bank of Canada published a consultation on proposed enhancements to CORRA. In July 2019, the Bank of Canada published the results from the CARR consultation, and announced its intention to become the administrator of CORRA. In February 2020 the Bank of Canada announced that it will take over the responsibility for publishing the CORRA, effective Monday, June 15, 2020. It also published the methodology it will use to calculate the CORRA. For more details refer to the Bank of Canada *website*.

To consider the financial reporting implications of the reforms, in 2018, the IASB added the IBOR Reform and its Effects on Financial Reporting project to the IASB's standard-setting program and decided that the project will address the following two groups of accounting issues separately:

- pre-replacement issues — issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative RFR (Phase 1), and
- replacement issues — issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR (Phase 2).

With the completion of Phase 1 (refer to 'Requirements effective in 2020' section), the IASB proceeded to discussing Phase 2 issues. In October 2019, the IASB tentatively decided to create a practical expedient allowing companies to account for modifications that are related only to IBOR reform by updating the effective interest rate (EIR) based on the revised cash flows, without adjusting the relevant financial instrument's carrying amount (i.e. as per IFRS 9.B5.4.5), rather than recalculating the carrying amount using the original EIR (as per 9.B5.4.3). After applying the practical expedient to modifications that relate only to IBOR reform, companies would apply the current IFRS 9 requirements to assess any other modifications made to that financial instrument. To learn more about these proposals, read our *web article*.

In December 2019, in addition to providing relief for hedges of a group of items, the IASB tentatively decided to provide an amendment clarifying that the following changes, and only these changes, in hedge documentation would not result in discontinuation of hedge accounting:

- redefining the hedged risk from current IBOR to an alternative benchmark rate;
- redefining the description of the hedging instrument and/or hedged items to reflect the alternative benchmark rate; and
- changing the method used for assessing hedge effectiveness following a modification (for IAS 39 only).

To learn more about these proposals, read our *web article*.

At its January 2020 meeting the IASB reached the following tentative decisions:

- to amend IAS 39 to require that, for the purposes of assessing retrospective effectiveness only, the effectiveness reassessment would reset to zero at the date the Phase 1 exceptions cease to apply;
- to provide a practical expedient in IFRS 16 for a lessee to account for lease modifications directly required by IBOR reform using the existing guidance that applies to changes in lease payments due to changes in floating interest rates;
- to amend IFRS 4 *Insurance Contracts* so that insurers applying IAS 39 can also apply the amendments and practical expedient in accounting for modifications directly required by IBOR reform;
- to amend IFRS 7 *Financial Instruments: Disclosures* to require companies to provide additional disclosure related to the nature and extent of risks arising from IBOR reform to which the company is exposed, and how the company manages those risks and the company's progress in transitioning from IBORs to alternative benchmark rates, and how the company is managing this transition.

To learn more about these proposals, read our *web article*.

At its February 2020 meeting the IASB reached the following tentative decisions:

- to provide temporary additional relief for an alternative benchmark rate from meeting the separately identifiable requirement;
- Phase 2 amendments to be effective for annual periods beginning on or after January 1, 2021, with early application permitted;
- application of Phase 2 amendments to be mandatory and retrospective;
- retrospective application would require reinstating hedging relationships that have been discontinued solely due to changes directly required by IBOR reform; and
- to provide relief from disclosing certain items required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

To learn more about these proposals, read our *web article*.

The IASB issued an exposure draft in April 2020 with a deadline for submitting comments on May 25, 2020. For additional information, refer to our webpage *IBOR reform and IFRS*.

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, IFRS does not contain any equivalent comprehensive guidance. IFRS 14 *Regulatory Deferral Accounts* provides only temporary relief to first-time adopters of IFRS 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.

The IASB's standard setting project 'Rate-regulated Activities' focuses on 'Defined Rate Regulation' which balances:

- the needs of the customers to purchase essential goods or services at a reasonable price; with
- the needs of the company to attract capital and remain financially viable.

The regulatory agreements captured by the proposed accounting model establish the total 'allowed compensation' that the company is entitled to charge to customers for the goods or services supplied during the period. The total 'Allowed Compensation' is an amount that typically consists of the following components:

(a) specified 'allowable' expenses incurred; and

(b) a target profit, which may incorporate one or more of:

   (i) an interest rate or return rate applied to a base specified by the regulatory agreement;

   (ii) margins on allowable costs; and

   (iii) incentive rewards (bonuses) or penalties.

In some cases, the regulatory agreement includes some of the total 'Allowed Compensation' in the rate(s) charged to customers in a different period, causing timing differences that will be 'trued up' later. The accounting model being developed for 'Defined Rate Regulation' aims to account for these timing differences.

Some of the key tentative decisions made by the IASB in past meetings were the following.

- The accounting model should apply to 'Defined Rate Regulation' established through a formal regulatory framework that:
  (a) is binding on both the company and the regulator; and
  (b) establishes a basis for setting the rate that gives rise to the company's rights to add amounts to, and obligations to deduct amounts from, future rate(s) because of goods or services already supplied or because of amounts already charged to customers.
- Regulatory assets and regulatory liabilities are defined as follows:
  - Regulatory asset—the present right to add an amount to the rate(s) to be charged to customers in future periods because the total 'Allowed Compensation' for the goods or services already supplied exceeds the amount already charged to customers; and
  - Regulatory liability—the present obligation to deduct an amount from the rate(s) to be charged to customers in future periods because the total 'Allowed Compensation' for the goods or services already supplied is lower than the amount already charged to customers.
  - The accounting model provides financial information that supplements information provided by other IFRSs. This means that other IFRSs, including IFRS 15 *Revenue from Contracts with Customers*, will be applied first before applying the model to recognize the incremental rights and incremental obligations arising from the timing differences.
- Companies would use the model's proposed cash-flow-based measurement technique to measure all regulatory assets and regulatory liabilities – except those discussed separately below - by:
  - including an estimate of all the future cash flows arising from a regulatory asset or regulatory liability, as well as the cash flows relating to the regulatory interest or regulatory return; and
  - discounting those estimated future cash flows to their present value generally using the regulatory interest rate or return rate.
- If the expenses or income will be included in or deducted from the future rate(s) when cash is paid or received, but the related liabilities and assets are recognized and measured using requirements in other IFRS, a company should use the same measurement basis that it uses when measuring the related liability or related asset.

- The measurement requirements of IAS 36 *Impairment of Assets* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* should not be applied to regulatory assets and regulatory liabilities.
- Companies should present in profit or loss all regulatory income or regulatory expense (immediately below the line item(s) for revenue), except for regulatory income or regulatory expense related to items of expense or income presented in other comprehensive income (OCI), which should be present in OCI.

In July and September 2019, the IASB made tentative decisions with regards to transition to the model and on the following:

- *Business combinations*
  - an entity should recognize and measure regulatory assets acquired and regulatory liabilities assumed in a business combination in accordance with the recognition and measurement principles of the model.
- *Agreement boundary*
  - when determining the boundary of a regulatory agreement, an entity should consider all the options that could affect that boundary, other than those options that the holder—the entity or the regulator—will have no practical ability to exercise in any circumstances;
  - when assessing whether an option affects the boundary of a regulatory agreement, an entity should consider neither the likelihood of that option being exercised nor either party's intentions; and
  - when the boundary of a regulatory agreement changes, an entity should, in the period of the change recognize the rights and obligations that will generate cash flows within the reassessed boundary as regulatory assets and regulatory liabilities if they meet the model's recognition criteria.

In March 2020, the IASB discussed how an entity should determine when some elements of target profit are part of total 'Allowed Compensation'. It tentatively decided that:

- regulatory returns on a construction work-in-progress base included in the regulated rates charged to customers during the construction period form part of total 'Allowed Compensation' only during the period when the asset is in operation and is being used to supply goods or services.
- performance incentives (whether construction-related or non-construction-related) form part of total 'Allowed Compensation' for goods or services supplied in the period over which the relevant performance criteria are monitored and evaluated.
- all other elements of target profit that a regulatory agreement entitles an entity to charge customers in a period, including regulatory returns on a regulatory capital base, form part of total 'Allowed Compensation' for goods or services supplied in that period.

The IASB expects to publish its proposals in an exposure draft in the second half of 2020.

General presentation and disclosures

In December 2019, the IASB published the exposure draft *General Presentation and Disclosures* that aims to improve how information is communicated in the financial statements, with a focus on financial performance. The proposals would result in a new IFRS Standard, replacing IAS 1, and would amend some other IFRS Standards.

The proposals would introduce significant changes to the structure of a company's income statement, more discipline and transparency in presentation of management's own performance measures (commonly referred to as 'non-GAAP measures,') and less aggregation of items into large, single numbers.

Presentation choices in the cash flow statement would also be reduced, improving comparability.

The IASB proposes:

- requiring additional subtotals in the income statement, including 'operating profit';
- requiring disaggregation to help a company to provide relevant information;
- requiring disclosure of some management-defined performance measures—that is, performance measures not specified by IFRS Standards; and
- limited changes to the statement of cash flows to improve consistency in classification by removing options.

The comment period closes June 30, 2020. The exposure draft and other materials are available on the IASB's Primary Financial Statements *project page*. Read our *web article* and *New on the Horizon* publication which contains detailed analysis and insights.

Other developments

Classifying liabilities as current or non-current (Amendments to IAS 1)

In January 2020, IASB issued amendments to IAS 1. The main impacts of the amendments are the following:

– Right to defer settlement

  Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the Board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

– Classification of rollover facilities

  The IASB has now clarified that a right to defer settlement for at least twelve months after the reporting period exists only if the company complies with conditions specified in the loan agreement *at the end of the reporting period*, even if the lender does not test compliance until a later date.

– Convertible debt

  The amendments state that settlement of a liability includes transferring a company's own equity instruments to the counterparty. The IASB has also clarified that – when classifying liabilities as current or non-current – a company can ignore only those conversion options that are recognised as equity.

For additional information, refer to our *web article*.

The amendments apply retrospectively for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

Should goodwill amortization be reintroduced?

In March 2020 the IASB published a Discussion Paper, *Business Combinations – Disclosures, Goodwill and Impairment*. It includes preliminary views based on the IASB's own research that explores:

– whether companies can provide better information about their business combinations without undue cost;

– whether the impairment test can be made more effective and less costly and complex; and

– whether to reintroduce goodwill amortization.

The IASB is asking for feedback on its preliminary views by September 15, 2020. Feedback will help the IASB decide whether and how to develop detailed proposals in the next stage of the project. For additional information, refer to our *web article*.

IFRIC agenda decisions

The following agenda decisions were finalized by the IFRS Interpretations Committee (IFRIC) in January and March 2020. For more details refer to IASB's *website*.

– *Definition of a Lease—Decision-making Rights (IFRS 16)*

  The issue relates to determining whether the customer has the right to direct the use of a ship throughout the five-year term of a contract when:

  a. there is an identified asset (the ship)

  b. the customer has the right to obtain substantially all the economic benefits from use of the ship throughout the five-year period of use

  c. many, but not all, decisions about how and for what purpose the ship is used are predetermined in the contract

  d. the supplier operates and maintains the ship throughout the period of use.

- *Translation of a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 and IAS 29)*

  The issue relates to presentation of the restatement and translation effects when an entity consolidates a foreign operation with a hyperinflationary functional currency.

- *Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)*

  The issue relates to transferring the cumulative pre-hyperinflation exchange differences to a component of equity that is not subsequently reclassified to profit or loss once a foreign operation becomes hyperinflationary.

- *Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary (IAS 21 and IAS 29)*

  The issue relates to restating comparative amounts presented for a foreign operation by an entities in:

  a. its annual financial statements for the period in which the foreign operation becomes hyperinflationary; and

  b. its interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during the comparative interim period.

- *Training Costs to Fulfil a Contract (IFRS 15)*

  The issue relates to capitalizing or expensing training costs incurred to fulfil a contract with a customer.

Requirements effective in 2020

New requirements effective for annual reporting periods beginning on or after January 1, 2020

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In September 2019, the IASB issued Phase 1 amendments for some of its requirements for hedge accounting in IFRS 9 and IAS 39, as well as the related standard on disclosures, IFRS 7. Subsequently, the amendments were endorsed by the Canadian Accounting Standards Board and included in the CPA Canada Handbook as of November 1, 2019.

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reforms in the following areas:

- the 'highly probable' requirement,
- prospective assessments,
- retrospective assessments (for IAS 39), and
- eligibility of risk components.

In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. For more information about the amendments refer to our *web article*.

Revised Conceptual Framework for Financial Reporting

In March 2018, the IASB published its revised Conceptual Framework for Financial Reporting. The revised Framework is more comprehensive than the old one and covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures.

The main changes to the Framework's principles have implications for how and when assets and liabilities are recognized and derecognized in the financial statements. The Framework primarily serves as a tool for the IASB to develop standards and to assist IFRIC in interpreting them. It does not override the requirements of individual IFRSs.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of January 1, 2020, unless the new guidance contains specific scope outs (e.g. regulatory account balances).

For additional information, refer to KPMG's *web article*.

Definition of a business (Amendments to IFRS 3)

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement.

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The effect of these changes is that the new definition of a business is narrower – this could result in fewer business combinations being recognized.

For additional information, refer to KPMG's *web article*.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework for Financial Reporting. The amendments provide a definition and explanatory paragraphs in one place. Some stakeholders were concerned that the previous definition might encourage entities to disclose immaterial information in their financial statements. In response, the IASB promoted the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the IASB increased the threshold of 'could influence' to 'could reasonably be expected to influence'.

Appendix 1: Requirements effective in 2021 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 years ending	Standards and amendments	KPMG's guidance
December 31, 2021*	IFRS 17	*IFRS – Insurance*
December 31, 2022	Classification of liabilities as current or non-current (Amendments to IAS 1)	*Web article*
NA**	Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	*Web article*

* The IASB has proposed to defer the effective date to January 1, 2023.

** 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.

The following items are not included in these tables:

- IASB's certain other projects, and
- Matters under discussion by IFRIC.

Standard-setting projects	Next milestone	Expected date	KPMG's guidance
Disclosure Initiative—Subsidiaries that are SMEs	Discussion Paper or Exposure Draft Decision	TBD	
Management commentary (IFRS practice statement)	Exposure draft	H2 2020	
Primary financial statements	Exposure draft feedback	H2 2020	*Web article, New on the Horizon*
Rate-regulated activities	Exposure draft	H2 2020	*In the headlines, issue 2014/20*
Research projects	**Next milestone**	**Expected date**	**KPMG's guidance**
Business combinations under common control	Discussion paper	June 2020	
Dynamic risk management	Core model outreach	June 2020	*IFRS newsletter: financial instruments*
Extractive activities	Review research	June 2020	
Financial instruments with characteristics of equity	Decide project direction	H2 2020	*Web article*
Goodwill and impairment	Discussion paper feedback	H2 2020	
Pension benefits that depend on asset returns	Review research	H2 2020	
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Review research	April 2020	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Accounting policies and accounting estimates (amendments to IAS 8)	IFRS amendment	TBD	
Accounting policy changes (amendments to IAS 8)	Decide project direction	May 2020	
Amendments to IFRS 17	IFRS amendment	June 2020	*IFRS – Insurance*
Availability of a refund (amendments to IFRIC 14)	Decide Project Direction	TBD	
Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)	Exposure draft feedback	June 2020	*Web article*
Disclosure initiative – accounting policies	IFRS amendment	Q3 2020	
Disclosure initiative – targeted standards-level review of disclosures	Exposure draft	H2 2020	
Fees in the '10 per cent' test for derecognition of financial liabilities (amendments to IFRS 9)	IFRS amendment	May 2020	
IBOR reform and its effects on financial reporting – Phase 2	Exposure draft	April 2020	*IBOR reform and IFRS*
Lack of exchangeability (amendments to IAS 21)	Exposure draft	TBD	
Lease incentives (amendment to illustrative example 13 accompanying IFRS 16)	IFRS amendment	May 2020	
Onerous contracts—cost of fulfilling a contract (amendments to IAS 37)	IFRS amendment	May 2020	*Web article*
Property, plant and equipment: proceeds before intended use (amendments to IAS 16)	IFRS amendment	May 2020	*Web article*
Provisions—Targeted Improvements	Decide project direction	TD	
Subsidiary as a first-time adopter (amendments to IFRS 1)	IFRS amendment	May 2020	
Taxation in fair value measurements (amendments to IAS 41)	IFRS amendment	May 2020	
Updating a reference to the conceptual framework (amendments to IFRS 3)	IFRS amendment	May 2020	

Contact us

Allison McManus
Partner
416-777-3730
amcmanus@kpmg.ca

Michel Picard
Partner
416-777-8414
mpicard@kpmg.ca

Mag Stewart
Partner
416-777-8177
magstewart@kpmg.ca

Gale Kelly
Partner
416-777-3757
galekelly@kpmg.ca

Dana Chaput
Partner
416-777-8695
dchaput@kpmg.ca

Hakob Harutyunyan
Senior manager
416-777-8077
hakobharutyunyan@kpmg.ca

kpmg.ca