KPMG

CURRENT DEVELOPMENTS

Spotlight on IFRS

Q4 2020

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Quarterly update

Each quarter, we provide a summary of newly effective and forthcoming standards as well as other significant accounting and financial reporting developments. This edition covers current developments in the quarter ended on December 31, 2020.

In November 2020 the International Accounting Standards Board (IASB) published the discussion paper *Business Combinations under Common Control* and the exposure draft *Lease Liability in a Sale and Leaseback*. Companies are encouraged to comment on the proposals.

In addition, in December 2020 the IFRS Interpretations Committee (IFRIC) issued a tentative agenda decision clarifying the IASB's amendments to IAS 1 *Presentation of Financial Statements*[1] on the classification of debt with future conditions as current or non-current (the amendments were issued in January 2020 and are effective in 2023). The amendments will cause a significant change in practice, and consequently we urge companies to take this opportunity to give their feedback to the IFRIC.

Most companies are likely to continue to be impacted by the COVID-19 coronavirus pandemic. Our *Covid-19 financial reporting resource centre* provides regularly updated information on potential accounting and disclosure implications for your company, focusing on the financial reporting impacts for 2020 period ends. Our latest *IFRS Today podcast* offers clear and concise points to consider on reflecting the impact of COVID-19 in year-end financial statements. In addition, our *COVID-19 supplement* to our *Illustrative disclosures* and *Illustrative disclosures for banks* illustrate disclosure examples related to accounting issues arising from the COVID-19 coronavirus pandemic.

There are certain new requirements that are effective in 2020. Further information on these is provided in the section 'Requirements effective in 2020'.

[1] *Classification of Liabilities as Current or Non-current (Amendments to IAS 1 Presentation of Financial Statements)*

Major projects and new standards

Insurance contracts (IFRS 17)

In May 2017, the IASB issued the new insurance contracts standard IFRS 17 *Insurance Contracts* 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.

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, after several months of redeliberations, published amendments to IFRS 17 in June 2020.

The following are the key areas of amendments:

- Effective date: January 1, 2023 is the effective date for application of IFRS 17 and exemption from applying IFRS 9 *Financial Instruments* for qualifying insurers;
- Scope for certain credit cards that provide insurance coverage and loans that meet the definition of an insurance contract;
- Measuring the contractual service margin
  - Accounting policy choice for interim reporting;
  - Insurance contract services now include both insurance and investment services;
  - Accounting for assets and liabilities before the related group of contracts is recognised;
- Transitioning to IFRS 17
  - Contracts acquired in their settlement period;
  - Assets for insurance acquisition cash flows;
  - Transition reliefs and minor amendments;
- Accounting for direct participating contracts
  - Risk mitigation option expanded to non-derivative assets at fair value through profit or loss and reinsurance contracts held and extended to provide relief prospectively from the transition date;
  - Applying the OCI option and risk mitigation option together;

- Accounting for reinsurance contracts held
  - Accounting for recovery of losses on initial recognition;
- Presentation and disclosure requirements
  - Presentation in the statement of financial position;
  - Treatment of income taxes chargeable to the policyholder.

For additional information about the amendments, refer to our *web article* and listen to our *podcast*.

Our updated guide *Insurers - Illustrative disclosures* provides a comprehensive illustration for financial statements for an annual period beginning on January 1, 2023 when IFRS 17 and IFRS 9 are applied for the first time (including the impact of the amendments).

For additional information, refer to our webpage *IFRS - Insurance* and updated 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* (FICE) 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. In April 2020, the IASB made the following tentative decisions:

- *With regards to the foundation principle for classifying derivatives on own equity:* for a derivative on own equity to meet the fixed-for-fixed condition in IAS 32, the number of functional currency units to be exchanged with each underlying equity instrument must be fixed or only vary with:
  - allowable preservation adjustments; or
  - allowable passage of time adjustments.
- *With regards to share-for-share exchange:* to classify as equity a contract that can be settled by exchanging a fixed number of non-derivative own equity instruments with a fixed number of another type of non-derivative own equity instruments.
- *With regards to preservation adjustments:* an entity would be required to classify derivatives on own equity as equity instruments if preservation adjustments require the entity to preserve the relative economic interests of future shareholders

to an equal or a lesser extent than those of the existing shareholders.

- *With regards to passage of time adjustments:* an entity would be required to classify derivatives on own equity as equity instruments if passage of time adjustments:
  - are pre-determined and vary only with the passage of time; and
  - fix the number of functional currency units per underlying equity instrument in terms of a present value.

In its December 2020 meeting, the IASB decided to move the FICE project from the research programme to the standard-setting programme.

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.

Stakeholder consultation on the core elements of the Model began in October 2020. In its October 2020 meeting, the IASB received an update on its stakeholder consultation on the core elements of the Model. The IASB will consider the feedback from the consultation during the first half of 2021.

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. On June 15, 2020 the Bank of Canada took over the responsibility for publishing the CORRA based on the new methodology, and meanwhile, the Montréal Exchange announced the launch of Three-Month CORRA Futures contracts. 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).

After the completion of Phase 1 (refer to 'Requirements effective in 2020' section) and several months of redeliberations, the IASB published amendments to IFRS 9, IAS 39, IFRS 16 *Leases*, IFRS 4 *Insurance Contracts* and IFRS 7 *Financial Instruments: Disclosures* in August 2020 under Phase 2. The following summarizes the key amendments.

- As a practical expedient, a change in the benchmark interest rate required by IBOR reform is accounted for by updating the effective interest rate (EIR), 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 IFRS 9.5.4.3 or IFRS 9.B5.4.6). After applying the practical expedient to modifications that relate only to IBOR reform, the current IFRS 9 requirements are applied to assess any other modifications made to that financial instrument. A similar practical expedient to use an updated EIR applies to insurers applying IAS 39 and lessees when accounting for modifications of lease liabilities.
- The following exceptions to hedge accounting are applied when the Phase 1 exceptions cease to apply.
  - The formal designation of a hedging relationship is updated to reflect the changes that are required by the reform without having to cease hedge accounting for that hedging relationship.
  - The amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
  - For a discontinued cash flow hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.
  - When a group of items was designated as a hedged item and an item in the group is amended to reflect the changes that are required

by the reform, the hedged items are allocated to sub groups based on the benchmark rate being hedged. The benchmark rate for each sub-group is then designated as the hedged risk. Each sub-group is assessed separately to determine whether the sub-group is eligible to be a hedged item.

  - If it is reasonably expected that an alternative benchmark rate will be separately identifiable within a period of 24 months, the replacement rate is designated as a non-contractually specified risk component even if it is not separately identifiable at the designation date. All hedging relationships in which such benchmark rate was designated must discontinue if subsequently it is expected that the rate will not be separately identifiable within 24 months from the date it is first designated.
  - When performing a retrospective hedge effectiveness assessment under IAS 39, the cumulative fair value changes of the hedged item and hedging instrument may be reset to zero on a hedge-by-hedge basis.

- Additional disclosures are required about:
  - 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 that transition is being managed.

The above Phase 2 amendments are effective for annual periods beginning on or after January 1, 2021, with early application permitted. The amendments are to be applied retrospectively. Hedging relationships previously discontinued solely because of changes resulting from the IBOR reform must be reinstated if certain conditions are met.

To learn more about the amendments, read our *web article* and listen to our *podcast*. 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, in either the same period or a different period. The 'Total Allowed Compensation' is an amount that typically consists of the following components:

(a) amounts to recover allowable expenses less chargeable income;

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

  (i) a return rate applied to a base specified by the regulatory agreement, except for assets not yet available for use;

  (ii) margins on allowable expenses; and

  (iii) performance incentive (bonuses or penalties); and

(c) regulatory interest income and regulatory interest expense.

The regulatory return on a balance relating to an asset not yet available for use forms part of the 'Total Allowed Compensation' for goods or services supplied once the asset is available for use and over the remaining periods in which an entity recovers the carrying amount of the asset through the regulated rates.

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 aims to account for these timing differences.

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

- Regulatory assets and regulatory liabilities are defined as follows:
  - Regulatory asset is an enforceable present right, created by a regulatory agreement, to add an amount in determining a regulated rate to be charged to customers in future periods because part of the 'Total Allowed Compensation' for goods or services already supplied will be included in revenue in the future; and
  - Regulatory liability is an enforceable present obligation, created by a regulatory agreement, to deduct an amount in determining a regulated rate to be charged to customers in future periods because the revenue already recognised includes an amount that will provide part of the 'Total Allowed Compensation' for goods or services to be supplied in the future.
- 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 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 income and regulatory interest expense; and
  - discounting those estimated future cash flows to their present value generally using the regulatory interest 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 generally 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.

In September 2020, the IASB discussed sweep issues identified in drafting the *Exposure Draft Regulatory Assets and Regulatory Liabilities*:

- definitions of a regulatory asset and a regulatory liability;
- regulatory returns on assets not yet available for use;
- effective date; and
- comment period.

Currently, the IASB expects to publish its proposals in an exposure draft in January 2021.

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.

In its December 2020 meeting, the IASB discussed feedback on its exposure draft. At its next meeting, the IASB will continue discussing feedback on the exposure draft and will discuss plans for redeliberating the project proposals.

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

Classification of debt with covenants as current or non-current

In January 2020 the IASB issued amendments to IAS 1[2] and clarified how to classify debt and other financial liabilities as current or non-current in particular circumstances. In its December 2020 tentative agenda decision, the IFRIC clarified that classifying debt with future conditions as current or non-current would be based on a *hypothetical test* at the reporting date – a test that the lender does not require until a later date. The tentative agenda decision illustrates how a company would apply the amendments using three different term loan examples.

The tentative agenda decision clarifies that when the right to defer settlement of a liability for at least 12 months after the reporting date is subject to future conditions related to financial position, a company (borrower) would need to perform a hypothetical test for compliance at the reporting date:

- if the loan agreement requires the test for compliance at a later date; and
- using its financial information as at the reporting date.

This means that a company would classify its debt as non-current only when it complies at the reporting date with *all* conditions – i.e. those conditions that exist at the reporting date and those that are due to be tested within 12 months after that date. For more information about the tentative agenda decision, as well as the examples discussed by IFRIC, refer to our *web article*.

Business combinations under common control

Currently, there is no guidance in IFRS for business combinations under common control – i.e. transactions in which the combining businesses are ultimately controlled by the same party both before, and after the combination. In the absence of specific requirements, diversity in practice exists making it difficult for users of financial statements to understand how a business combination under common control affects a company and to compare companies that undertake similar transactions. In November 2020, the IASB published the discussion paper *Business Combinations under Common Control*. The discussion paper sets out the IASB's preliminary views on possible reporting requirements that would help companies provide better information about business combinations under common control.

The IASB has proposed that transactions would be measured using either the acquisition method – i.e. applying IFRS 3 *Business Combinations* – or a specific book-value method. The approach would depend on the type of transaction – e.g. if it affects non-controlling shareholders. The IASB proposes the following.

- The acquisition method would be used for transactions that affect non-controlling shareholders of the receiving company because those transactions are similar to business combinations in the scope of IFRS 3. However, the IASB is proposing certain exceptions to this rule – e.g. if the company's shares are not publicly traded, and the non-controlling shareholders are related parties of the company.

[2] *Classification of Liabilities as Current or Non-current (Amendments to IAS 1 Presentation of Financial Statements)*

- The book-value method proposed would be used for all other transactions because such transactions only move economic resources within the group and are not like those covered by IFRS 3.
- Under the book-value method, the receiving company would measure the assets and liabilities received using the book values of the transferred company, not the controlling party's book values.
- Restating pre-combination information to include the financial information of the transferred company would be prohibited under both methods.

The IASB is seeking feedback on its preliminary views by September 1, 2021. For more information about the discussion paper refer to our *web article*.

Lease liability in a sale and leaseback

Under IFRS 16, a lessee does not generally include variable lease payments in the measurement of a lease liability, unless they depend on an index or a rate. However, questions have arisen in practice about how to measure the right-of-use asset and lease liability in a sale-and-leaseback transaction with variable lease payments.

Initially, the IFRIC addressed the issue in its agenda decision and recommended that the IASB consider amending IFRS 16 to address subsequent accounting. In November 2020, the IASB published the exposure draft *Lease Liability in a Sale and Leaseback*. The exposure draft specifies the method a seller-lessee uses in initially measuring the right-of-use asset and lease liability arising in a sale and leaseback transaction and how the seller-lessee subsequently measures that liability. The prosposed method would require the seller-lessee to initially measure the lease liability at the present value of the expected lease payments, which by definition will include both fixed payments and variable payments at market rates.

The deadline for submitting comments on the exposure draft is March 29, 2021. For more information about the exposure draft refer to our *web article*.

IFRIC agenda decisions

In December 2020 the IFRIC finalized *Supply Chain Financing Arrangements—Reverse Factoring* agenda decision. The issue relates to:

a. presenting liabilities and payments for goods or services received when the related invoices are part of a reverse factoring arrangement in the statement of financial position and the statement of cash flows; and

b. disclosures in the financial statements about reverse factoring arrangements.

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 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 periods beginning on or after	Standards and amendments	KPMG's guidance
January 1, 2023	IFRS 17 *Insurance Contracts* and Amendments to IFRS 17	*IFRS – Insurance*
January 1, 2023	Classification of liabilities as current or non-current (Amendments to IAS 1)	*Web article*
January 1, 2022	Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)	*Web article*
January 1, 2022	Onerous contracts – cost of fulfilling a contract (Amendments to IAS 37)	*Web article*
January 1, 2022	Reference to the Conceptual Framework (Amendments to IFRS 3)	
January 1, 2022	Annual improvements to IFRS Standards 2018–2020	*Web article*
January 1, 2021	Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	*Web article*
June 1, 2020	COVID-19-related rent concessions (Amendments to IFRS 16)	*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 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	January 2021	
Disclosure initiative – targeted standards-level review of disclosures	Exposure draft	March 2021	
Financial instruments with characteristics of equity	Exposure draft	TBD	*Web article*
Management commentary (IFRS practice statement)	Exposure draft	Q2 2021	
Primary financial statements	Decide project direction	TBD	*Web article, New on the Horizon*
Rate-regulated activities	Exposure draft	January 2021	*In the headlines, issue 2014/20*
Research projects	**Next milestone**	**Expected date**	**KPMG's guidance**
Business combinations under common control	Discussion paper feedback	H2 2021	
Dynamic risk management	Core model feedback	Q2 2021	*IFRS newsletter: financial instruments*
Equity method	Decide project direction	TBD	
Extractive activities	Decide project direction	Q2 2021	
Goodwill and impairment	Discussion paper feedback	March 2021	
Pension benefits that depend on asset returns	Review research	February 2021	
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Request for information feedback	H2 2021	
Post-implementation Review of IFRS 9 – Classification and Measurement	Request for information	H2 2021	

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Accounting policies and accounting estimates (amendments to IAS 8)	IFRS amendment	February 2021	
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)	IFRS amendment	Q2 2021	*Web article*
Disclosure initiative – accounting policies	IFRS amendment	February 2021	
Lack of exchangeability (amendments to IAS 21)	Exposure draft	March 2021	
Lease liability in a sale and leaseback	Exposure draft feedback	Q2 2021	
Provisions – targeted improvements	Decide project direction	TBD	

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