KPMG

CURRENT DEVELOPMENTS

Spotlight on IFRS

Q4 2021

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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, 2021.

All companies are facing climate-related risks and opportunities and are making strategic decisions in response – including around their transition to a low-carbon economy. Even if the climate-related risk is deemed as having minimal financial statement impact to a company today, this may change quickly as a result of regulation, strategic decisions, or shifts in climate patterns. Our *Climate change financial reporting resource centre* is designed to help companies to identify the potential financial statement impacts for their businesses under the existing IFRS Standards.

In this quarter, the International Accounting Standards Board (the IASB) proposed to amend IAS 1 Presentation of Financial Statements once more to clarify how companies would classify debt with covenants. These proposals would change some of the requirements introduced in its amendments to IAS 1 published in January 2020 and also defer the effective date of the 2020 amendments to IAS 1 for at least one year.

In addition, in December 2021 the IASB published an amendment to IFRS 17 *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*. The amendment adds a new transition option to IFRS 17 *Insurance Contracts* to alleviate operational complexities and one-time accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17. It also allows presentation of comparative information about financial assets to be presented in a manner that is more consistent with IFRS 9 *Financial Instruments*.

In this second year of the COVID-19 coronavirus pandemic, the impacts and risks for companies are likely to be changing. The COVID-19 recovery is uneven globally and is presenting a variety of challenges and risks from economic uncertainty to changes in consumer demand, disrupted supply chains and staff shortages, rising input costs, new hybrid working patterns, the ending of government support packages, and increased merger and acquisitions activity. Our *Covid-19 financial reporting resource centre* provides regularly updated information on potential accounting and disclosure implications for companies. Our *COVID-19 supplement* to our *Illustrative disclosures* provides disclosure examples related to accounting issues arising from the COVID-19 coronavirus pandemic.

A number of new requirements are effective from January 1, 2021. Further information on these new requirements is provided in the section 'Requirements effective in 2021'.

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 1* and *web article 2* 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 June 2020 amendments).

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 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 recognized;
- 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 June 2020 amendments).

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

When transitioning to IFRS 17 and IFRS 9 at the same time, significant accounting mismatches may arise between financial assets and insurance contract liabilities in the comparative information as the two standards have different requirements for the comparative information that will be presented on initial application.

To alleviate these issues, in July 2021 the IASB published an exposure draft *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* for a narrow-scope amendment to IFRS 17. The proposed amendment would create an optional 'classification overlay' approach to provide insurers with an option to present comparative information about financial assets on a basis that is more consistent with how IFRS 9 will be applied in future reporting periods, without unnecessarily disturbing the implementation processes for both IFRS 17 and IFRS 9.

The optional approach would:

- apply to both insurers that restate and those that do not restate comparative information for IFRS 9.
- apply to financial assets that are connected to insurance contract liabilities and to which IFRS 9 has not been applied in the comparative periods.
- allow an insurer to classify those financial assets in the comparative periods in a way that aligns with how the insurer expects those assets would be classified on initial application of IFRS 9.
- apply for comparative periods that have been restated for IFRS 17 – i.e. from the date of transition to the date of initial application of IFRS 17.
- apply on an instrument-by-instrument basis.

The optional approach would enhance the usefulness of comparative information by:

- enabling insurers to avoid significant mismatches and inconsistencies that do not reflect economic mismatches; and
- enhancing the comparability between periods by providing information about the classification of financial assets that is expected to be consistent with that presented for periods from the initial application of IFRS 9.

Project updates in Q4 2021

Following the feedback received on the July 2021 exposure draft, the IASB has completed its redeliberations and decided to:

- remove the restriction proposed in the exposure draft that would have allowed the classification overlay to be applied only to a financial asset held for an activity connected with contracts in the scope of IFRS 17. Instead, the classification overlay would apply to *all* financial assets regardless of whether they are, or were, held in respect of insurance activities. This means that an insurer can choose to apply this approach to all financial assets on an instrument-by-instrument basis.
- expand eligibility for the classification overlay approach to those insurers that have adopted IFRS 9 before adopting IFRS 17. This would allow them to reduce any accounting mismatches relating to financial assets that are derecognised in the comparative period.

In December 2021, the IASB has issued the narrow-scope amendment *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (Amendment to IFRS 17). This amendment is applicable when an insurer initially applies IFRS 17.

For additional information, refer to our *web article 1* and *web article 2*.

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.

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.

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

Project updates in Q4 2021

At its December 2021 meeting, the IASB discussed the accounting for:

- financial instruments with contingent settlement provisions, including whether such instruments could be compound instrument, how to measure and present payments, and how to assess whether a contractual term is 'not genuine'; and
- the effects of applicable laws on the contractual terms of financial instruments, in particular when they are to be considered in the classification of an financial instrument.

The IASB will continue its discussions on other items included in the project plan at future meetings, including the classification of instruments that are subject to shareholders' discretion.

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.

The IASB received feedback from stakeholders on the core elements of the Model between October 2020 and April 2021. At its April 2021 meeting, the IASB discussed the feedback received on topics that significantly affect the viability and operability of the Model, including:

- interest rate risk management strategies;
- target profile;
- designation of expected cash flows and impact on imperfect alignment; and
- recognition of fair value changes in other comprehensive income.

Project updates in Q4 2021

At its November 2021 meeting, the IASB discussed refinements to the Model to better reflect an entity's risk management strategy, one of the challenges identified during meetings with preparers. The Board tentatively decided to:

- revise the definition of the target profile;
- introduce a 'risk mitigation intention' element;
- revise the benchmark derivatives requirements to represent the risk mitigation intention; and
- introduce prospective assessments, as well as similar retrospective assessments.

The IASB will consider whether to take further action in relation to other topics identified from outreach feedback.

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 that were effective in 2020 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* 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.

In January 2021, the IASB published its exposure draft *Regulatory Assets and Regulatory Liabilities*. The exposure draft proposes a new accounting model under which a company subject to rate regulation that meets the scope criteria would recognize regulatory assets and liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the company is permitted to earn by the rate regulator, often reducing reported volatility in financial performance.

The key proposal in the exposure draft is that a company that is subject to rate regulation should report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

To achieve this, the exposure draft proposes an 'overlay' approach under which a company would, first, continue to apply the requirements of existing IFRS Standards – for example, to recognize and measure revenue from contracts with customers. Then, a company would recognize:

- a regulatory asset – when it has an enforceable present right to add an amount in determining the regulated rate to be charged to customers in future periods; and
- a regulatory liability – when it has an enforceable present obligation to deduct an amount in determining the regulated rate to be charged to customers in future periods.

Movements in regulatory assets and liabilities would give rise to regulatory income and expense. Broadly speaking, the total revenue recognized under existing IFRS Standards plus regulatory income minus regulatory expense under the proposed new IFRS Standard would align with the total allowed compensation determined by the rate regulator.

The company would present regulatory income minus regulatory expense separately in the statement of financial performance, immediately below revenue. Regulatory assets and liabilities would be presented separately from other assets and liabilities.

It is possible that some companies in the utility sector would not meet the scope criteria, whereas some outside the utility sector would be captured. A company would fall within the scope of the proposals if it meets the following conditions:

- the company is a party to a regulatory agreement;
- the regulatory agreement determines the regulated rate that the company can charge for goods or services supplied to its customers; and
- the regulated rate is determined in a such a way that some or all the total allowed compensation for goods or services supplied in one period is charged to customers in a different period.

The proposed standard provides some guidance for these conditions. If a company meets these criteria, then it would be required to apply the accounting model in the exposure draft. Unlike the approach in IFRS 14, the new accounting model would not be optional.

Companies covered by the proposals who did not apply IFRS 14 would recognize new assets and liabilities, and new items of income and expense. The impact on financial performance will depend on the facts and circumstances of the company but common cases would include the following:

- If recognition of income under IFRS Standards previously lagged total allowed compensation permitted by the regulator, then a company would see an increase in net assets on transition to the new standard.
- If a company previously experienced material short-term timing differences between recognition of income under IFRS Standards and total allowed compensation permitted by the regulator, volatility in reported earnings would be reduced.

Companies that applied IFRS 14 would transition to the new requirements. There is no option to automatically carry forward existing IFRS 14 accounting.

The IASB received 128 comment letters on the exposure draft when the comment period closed in July 2021 .

Project updates in Q4 2021

In its October, November and December meetings, the IASB discussed the feedback received on the exposure draft and the plans for redeliberating the proposals.

The IASB will begin redeliberating the project proposals at a future meeting.

Read our *web article* and *New on the Horizon* publication which contain detailed analysis and insights.

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';
- disaggregation to help a company to provide relevant information;
- 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.

Based on the feedback received on its exposure draft, the IASB began to redeliberate proposals relating to:

- subtotals and categories in the statement of profit or loss, by discussing the requirements for and the definition of 'operating profit';
- management performance measures;
- amendments to the statement of cash flows, including the scope of amendments and some of the specific proposals;
- principles of aggregation and disaggregation and their application in the primary financial statements and notes; and
- subtotals and categories in the statement of profit or loss.

Project updates in Q4 2021

At its October, November and December 2021 meetings, the IASB redeliberated proposals in the exposure draft relating to:

- the classification and presentation of income and expenses from associates and joint ventures in the statement of profit or loss;
- the presentation of operating expenses in the statement of profit or loss and disclosure in the notes;
- the operating profit or loss before depreciation and amortisation subtotal;
- the definition of management performance measures;
- the requirement for management performance measures to faithfully represent aspects of financial performance to users of financial statements;
- unusual income and expenses; and
- income and expenses classified in the investing category.

The IASB will continue to redeliberate the project proposals at a future meeting.

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[1] (the 2020 amendments) 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 2020 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.

Respondents to the tentative agenda decision provided information about situations that the IASB did not specifically consider when developing the 2020 amendments. In response to the new information received, at its June 2021 meeting the IASB tentatively decided, among other decisions, to amend IAS 1 once more.

Project updates in Q4 2021

In November 2021, the IASB published the exposure draft *Non-current Liabilities with Covenants*. The proposals in the exposure draft change the 2020 amendments to specify that only covenants with which a company must comply *on or before* the reporting date affect the classification of a liability as current or non-current. In contrast, covenants with which the company must comply within twelve months *after* the reporting date (or beyond) would have no effect on the classification of a liability. In other words, covenants to be tested after the reporting date would be ignored for classification purposes.

IAS 1 would be amended further to clarify that a company does not have a right to defer settlement, and would therefore classify a liability as current, if the liability could become repayable within twelve months:

- at the discretion of the counterparty or a third party – e.g. when a loan is callable by the lender at any time without cause; or
- depending on an uncertain future event or outcome that is unaffected by the company's future actions – e.g. when the liability is a financial guarantee or insurance contract.

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

Companies would be required to present a separate line item in the balance sheet for non-current liabilities that are subject to future covenants and provide additional disclosure to enable users of financial statements to assess the risk that the liability could become repayable within twelve months. Disclosures would include:

- information about the covenants – e.g. their nature and the date on which the company must comply with them;
- whether the company would have complied with them at the reporting date; and
- whether and how the company expects to comply with them in the future.

The proposals would amend some of the requirements of the 2020 amendments before those requirements become effective. The IASB is therefore proposing to defer the effective date of the 2020 amendments to no earlier than January 1, 2024 (date to be decided after exposure) to avoid companies potentially having to change their assessment of the classification of debt twice within a short period.

In view of these developments, companies should carefully consider if early adoption of the 2020 amendments is appropriate.

Although the 2020 amendments will be revisited, while they are still in place, companies will need to consider including IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosures for issued but not yet effective requirements in their next annual financial statements.

The IASB requested feedback on the exposure draft by March 21, 2022.

For more information about the amendments, refer to our *web article*.

Disclosure initiative – targeted standards-level review of disclosures

Concerns are common among stakeholders about disclosures in financial statements prepared under IFRS Standards. Often described as the ‘disclosure problem’ – where financial statements provide too much irrelevant information, too little relevant information and ineffective communication – stakeholders have indicated that a ‘checklist approach’ to providing disclosures is one of the reasons why the problem persists. How disclosure requirements in IFRS Standards are developed and drafted can also be contributing factors.

To attempt to address these concerns, the IASB is proposing a new approach to the way it develops and drafts the disclosure requirements in IFRS Standards, with the intention of providing information that is more useful to decision making. This proposed new approach would introduce overall and specific disclosure objectives for each standard, as well as items of information that a preparer would consider disclosing to enable it to meet those objectives.

The aim is to help preparers to focus on disclosing material information rather than adopting a checklist approach and providing ‘boilerplate’ information. Preparers would need to exercise judgement in determining what information should be disclosed to meet both the overall and specific disclosure objectives of the particular standard in their particular circumstances.

As a pilot, the IASB has applied this draft guidance in developing proposed disclosure requirements for IFRS 13 and IAS 19 *Employee Benefits*. In March 2021, the IASB published the exposure draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*.

Project updates in Q4 2021

The comment period for the exposure draft ended on January 12, 2022. The IASB will consider the feedback on its proposals before deciding whether to finalize the proposed amendments to the disclosure sections of IFRS 13 *Fair Value Measurement* and IAS 19.

For more information about the exposure draft, 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 proposed 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.

In light of the concerned feedback received on the exposure draft, at its September meeting the IFRIC discussed possible ways forward to provide input to the IASB on project direction.

Project updates in Q4 2021

At its December 2021 meeting, the IASB considered the IFRIC's advice and tentatively decided to change the amendments in the exposure draft. The changes will clarify that the lease payments included in the lease liability recognized will be those payments that result in no gain or loss recognition related to portion of the asset retained.

The IASB will discuss the transition requirements for the proposed amendments at a future meeting.

For more information about the exposure draft refer to our *web article*.

Supplier finance arrangements

In response to investors' calls for more transparency of the impact of supplier finance arrangements on the financial statements, the IASB is proposing additional disclosure requirements for companies that enter into these arrangements. In October 2021, the IASB published the exposure draft *Supplier Finance Arrangements*, proposing amendments to IAS 7 *Statement of Cash Flows* and IFRS 7.

The proposals do not address the classification and presentation of the related liabilities and cash flows. Rather, the proposals intend to complement the IFRIC's agenda decision *Supply Chain Financing Arrangements – Reverse Factoring* published in December 2020.

The IASB's proposals apply to supplier finance arrangements, which have the following characteristics:

- a finance provider (the factor) pays amounts a company (the buyer) owes its suppliers;
- the company agrees to pay the finance provider at the same date as, or a date later than, suppliers are paid; and
- the company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

However, the proposals do not apply to arrangements for financing receivables or inventory.

The proposals introduce a new disclosure objective in IAS 7 for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows.

The proposals also add supplier finance arrangements as an example to existing disclosure requirements in:

- IFRS 7 for factors a company might consider in providing select quantitative liquidity risk disclosures about its financial liabilities; and
- IAS 7 for non-cash changes in liabilities arising from financing liabilities.

Companies may need to start collating additional information to satisfy the proposed new disclosure requirements.

The amendments would be applied retrospectively by applying IAS 8. The IASB has not yet proposed an effective date but earlier application would be permitted.

The IASB requested feedback on the exposure draft by March 28, 2022.

For more information about the exposure draft refer to our *web article*.

Sustainability reporting

The demand for sustainability information (or environmental, social, and governance (ESG) information) continues to grow as business models are increasingly exposed to social and environmental issues, including climate-change related regulation. Although a variety of sustainability frameworks and standards already exist, investors are now calling for convergence and a single framework that will bring consistency and comparability.

In September 2020, the IFRS Foundation Trustees published the consultation paper *Consultation Paper on Sustainability Reporting* to seek input on the need for a global set of internationally recognized sustainability standards, and gauging support for their role in developing such standards. Following the strong support received on their consultation paper and endorsement from Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO), in March 2021, the IFRS Foundation Trustees have set out the strategic direction for a new International Sustainability Standards Board (ISSB) to develop global sustainability reporting standards.

Project updates in Q4 2021

As world leaders met in the November 2021 United Nations Climate Change Conference (COP26) to address the critical and urgent issue of climate change, the IFRS Foundation Trustees announced the formation of the new standard-setting board, the ISSB. The new ISSB will aim to develop sustainability disclosure standards that are focused on enterprise value.

The IFRS Foundation Trustees are aiming to put sustainability reporting on the same footing as financial reporting by establishing a sister body to the IASB. The goal is to drive globally consistent, comparable and reliable sustainability reporting using a building blocks approach. This approach will allow national and regional jurisdictions to build on that global baseline to set supplemental standards that serve their specific jurisdictional needs.

The IFRS Foundation Trustees formed a Technical Readiness Working Group (TRWG) to create prototypes to give the ISSB a running start in developing its first two exposure drafts. These prototypes have been released and cover:

- climate-related disclosures, building on the FSB's Task Force on Climate-related Financial Disclosures (TCFD) recommendations and Sustainability Accounting Standards Board (SASB) industry-based standards; and
- general sustainability disclosure requirements.

The ISSB will consider these prototypes in its work programme. The climate-related disclosure standard is expected to be the first of a proposed suite of sustainability disclosure standards issued by the ISSB, including standards on broader sustainability topics.

Companies need to monitor their jurisdictions' response to standards issued by the ISSB and prepare for their potentially rapid implementation, given the urgency with which the Foundation is being asked to act.

For more information about developments in this area, refer to our *web article* and webpage *Sustainability reporting*.

All companies face climate-related risks and opportunities, and are making strategic decisions in response – including around their transition to a lower-carbon economy. These climate-related risks and strategic decisions could impact the financial statements under existing IFRS Standards, and key performance indicators.

For additional information about the potential financial statement impacts from climate-related risks, refer to our *Climate change financial reporting resource centre*.

Canadian emergency wage subsidy

The Canadian Emergency Wage Subsidy (CEWS) has been in operation since March 2020, and many companies have applied and received support from the federal government under this program. In June 2021, the Government of Canada announced that publicly listed companies, or subsidiaries of publicly listed companies, may have to repay some or all of the CEWS received from June 6, 2021 onward, depending on how much compensation was paid to certain executives in 2021 compared to 2019.

This announcement creates potential filing obligations for companies, and should be assessed by companies as part of the preparation of year-end (or period-end) financial statements. If a company determines that it will be required to repay some or all of the CEWS amount received beyond June 6, 2021, this expected repayment will need to be accounted for as a change in estimate.

Companies that previously recognized the CEWS grant in income, will recognize the repayment in profit and loss. In contrast, if the CEWS grant was deferred or applied against the carrying amount of an asset, the repayment will increase the carrying amount or reduce the deferred income balance by the amount repayable. Additionally, any depreciation that should have been recognized in absence of the grant will be recognized immediately in profit or loss.

For detailed information about the mechanics of the CEWS repayment calculation related to executive compensation, refer to the Government of Canada's *Frequently asked questions on the Canada emergency wage subsidy (CEWS)*, specifically FAQ 28-4, 28-5, 28-6 and 28-7.

In December 2021, the Government of Canada has also passed legislation that dividends paid to common shareholders who are individuals may also trigger a repayment of CEWS. Details related to the operation of this legislation, specifically related to the timing of the payment of the specified dividends and the specific amounts of CEWS that may be repaid are forthcoming.

IFRIC agenda decisions

In December 2021, the IFRIC reached its conclusions on the agenda decisions *Economic Benefits from Use of a Windfarm (IFRS 16)*. The agenda decision relates to a request about whether when applying paragraph B9(a) of IFRS 16, an electricity retailer (customer) has the right to obtain substantially all the economic benefits from use of a windfarm throughout the term of an agreement with a windfarm generator (supplier). In the fact pattern submitted the economic benefits of the windfarm are both the electricity produced and renewable energy credits generated from use of the windfarm. While the customer has a right to the renewable energy credits, it has no right to obtain any of the electricity the windfarm produces as this is sold directly to the grid. As such, the IFRIC concluded that the arrangement does not meet the definition of lease. For more information about the agenda decision, refer to this *IFRIC update*.

Requirements effective in 2021

New requirements effective for annual reporting periods beginning on or after January 1, 2021

IBOR – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued Phase 2 amendments, which amended the requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, principally addressing the following areas:

- modification of a financial asset or a financial liability;
- modification of a lease;
- additional reliefs for hedging relationships;
- new disclosures; and
- effective date and transition.

For more information about the amendments refer to 'IBOR reforms and accounting impacts' in the section 'Major projects and new standards'.

COVID-19-related rent concessions (Amendments to IFRS 16)

In May 2020, the IASB issued COVID-19-Related Rent Concessions, which amended IFRS 16. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19, only if certain conditions are met. Under the practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

The practical expedient introduced in the 2020 amendments only applies to rent concessions that reduce lease payments originally due on or before June 30, 2021. Subsequently, in March 2021, the IASB extended the practical expedient by 12 months – i.e. permitting lessees to apply it to rent concessions that reduce lease payments originally due on or before June 30, 2022. This new amendment is effective for annual periods beginning on or after April 2021, with earlier application permitted.

The original version of the practical expedient under 2020 amendment was (and remains) optional. However, the new amendment is, in effect, not optional because a lessee that chose to apply the practical expedient introduced by the 2020 amendment needs to consistently apply the extension to similar rent concessions. This means that lessees may need to reverse previous lease modification accounting if a rent concession was ineligible for the original version of the practical expedient under the 2020 amendment (i.e. because the concession extended beyond June 30, 2021) but becomes eligible as a result of the new amendment.

The amendments require companies to disclose additional information about the application of practical expedient.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

For additional information, refer to KPMG's *web article 1*, *web article 2*, and webpage *IFRS 16 – An overview*.

Appendix 1: Requirements effective in 2022 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 and Amendments to IFRS 17	*IFRS – Insurance* *Web article 1* *Web article 2*
January 1, 2023	Classification of liabilities as current or non-current (Amendments to IAS 1)*	*Web article 1* *Web article 2*
January 1, 2023	Definition of accounting estimates (Amendments to IAS 8)	*Web article*
January 1, 2023	Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*)	*Web article*
January 1, 2023	Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 *Income Taxes*)	*Web article*
January 1, 2022	Property, plant and equipment – proceeds before intended use (Amendments to IAS 16 *Property, Plant and Equipment*)	*Web article*
January 1, 2022	Onerous contracts – cost of fulfilling a contract (Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)	*Web article*
January 1, 2022	Reference to the Conceptual Framework (Amendments to IFRS 3 *Business Combinations*)	
January 1, 2022	Annual improvements to IFRS Standards 2018–2020	*Web article*
April 1, 2021	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*

* Subject to further standard setting, see page 12.

** 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.

Standard-setting projects	Next milestone	Expected date	KPMG's guidance
Financial instruments with characteristics of equity	Exposure draft	TBD	*Web article*
Management commentary	Exposure draft feedback	March 2022	*Web article*
Primary financial statements	IFRS Standard	TBD	*Web article* *New on the Horizon*
Rate-regulated activities	IFRS Standard	TBD	*In the headlines, issue 2014/20* *Web article*
Disclosure initiative – targeted standards-level review of disclosures	Exposure draft feedback	Q2 2022	*Web article*
Disclosure initiative – subsidiaries without public accountability: disclosures	Exposure draft feedback	Q2 2022	*Web article*
Second comprehensive review of the IFRS for SMEs standard	Exposure draft	TBD	

Research projects	Next milestone	Expected date	KPMG's guidance
Business combinations under common control	Discussion paper feedback	January 2022	*Web article*
Dynamic risk management	Decide project direction	Q2 2022	*IFRS newsletter: financial instruments*
Equity method	Decide project direction	March 2022	
Extractive activities	Decide project direction	H2 2022	
Goodwill and impairment	Decide project direction	H2 2022	
Pension benefits that depend on asset returns	Project summary	Q2 2022	
Post-implementation review of IFRS 10, IFRS 11 and IFRS 12	Feedback statement	Q2 2022	*IFRS newsletter: review of IFRS standards 10, 11 and 12*
Post-implementation review of IFRS 9 – classification and measurement	Request for information feedback	Q2 2022	*Web article*

Maintenance projects	Next milestone	Expected date	KPMG's guidance
Availability of a refund (amendments to IFRIC 14)	Decide project direction	February 2022	
Non-current liabilities with covenants (amendments to IAS 1)	Exposure draft feedback	Q2 2022	*Web article*
Lack of exchangeability (amendments to IAS 21)	Exposure draft feedback	January 2022	*Web article*
Lease liability in a sale and leaseback	IFRS amendment	TBD	*Web article*
Provisions – targeted improvements	Decide project direction	TBD	
Supplier finance arrangements	Exposure draft feedback	Q2 2022	*Web article*

Other projects	Next milestone	Expected date	KPMG's guidance
Third agenda consultation	Feedback statement	H2 2022	
IFRS taxonomy update—2021 general improvements and common practice	Proposed IFRS taxonomy update	TBD	
IFRS taxonomy update—2021 technology update	Proposed update feedback	March 2022	
IFRS taxonomy update—initial application of IFRS 17 and IFRS 9—comparative information	Proposed update feedback	February 2022	
IFRS taxonomy update (amendments to IAS 1, IAS 8 and IFRS Practice Statement 2)	IFRS taxonomy update	February 2022	

Application questions	Next milestone	Expected date	KPMG's guidance
Cash received via electronic transfer as settlement for a financial asset (IFRS 9)	Tentative agenda decision feedback	March 2022	
Demand deposits with restrictions on use (IAS 7)	Tentative agenda decision feedback	February 2022	
Negative low emission vehicle credits (IAS 37)	Tentative agenda decision	February 2022	
Principal versus agent: software reseller (IFRS 15)	Tentative agenda decision feedback	Q2 2022	
TLTRO III transactions (IFRS 9 and IAS 20)	Tentative agenda decision feedback	February 2022	

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