IFRS and UK GAAP Update

Technical Issues Trending Now

April 2021

Our summary of the accounting, financial and narrative reporting technical issues trending now will ensure you keep up-to-date with the most significant issues that may affect your business.

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Developments within International Financial Reporting Standards ("IFRS")

IASB issues amendments to extend the relief period for lessees accounting for Covid-19-related rent concessions

What's the issue? The International Accounting Standards Board ("IASB") has published amendments to IFRS 16 *Leases* *Covid-19-Related Rent Concessions beyond 30 June 2021* that extend, by one year, the application period of the amendment issued last year (May 2020 amendment) to support lessees account for Covid-19-related rent concessions. Because the pandemic is still at its height, the proposals are to extend the relief to cover rent concessions that reduce lease payments due on or before 30 June 2022 (previously due on or before 30 June 2021).

What does this mean? The amendments provide an extension to the current beneficial relief permitted (i.e. the relief is optional) to be applied by entities that have been subject to Covid-19-related rent concessions. The relief provides a practical expedient, as set out in paragraph 46A of IFRS 16, which permits entities to account for a change in the lease payments resulting from Covid-19-related rent concessions as if the change was not a lease modification. The impact of the rent concession, therefore, would be recognised in profit or loss for the period, and not over the residual term of the lease.

The amendments purely extend the period allowed for rent concessions from 30 June 2021 to 30 June 2022 (i.e. within condition (b) of paragraph 46B), for example a rent concession would meet the condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022). The practical expedient must be applied retrospectively and must be applied consistently to all eligible lease contracts with similar characteristics and in similar circumstances, regardless of whether the contract became eligible as a result of the original May 2020 amendments or these March 2021 amendments.

The amendments are effective for accounting periods beginning on or after 1 April 2021. Early application is permitted, subject to endorsement within the EU, or adoption within the UK depending upon a company's circumstances.

Further information: For further information, please refer to our blog article: *IFRS 16 Leases - Amendment to extend the relief period for lessees accounting for Covid-19-related rent concessions*

IASB proposes amendments when accounting for foreign currency transactions where there is no observable exchange rate

What's the issue? The International Accounting Standards Board ("IASB") has published proposals to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*, which help entities determine whether a currency can be exchanged into another currency, and if not what accounting to apply. These proposals seek to support the accounting within situations where there is a lack of exchangeability of a currency, for instance where a government places currency controls over entities located within its country, such as those faced within Venezuela in recent years.

What does this mean? The proposed narrow-scoped amendments specifically deal with the situation when the exchangeability between two currencies is lacking at the measurement date, this being when a currency is not exchangeable in another currency. The proposals therefore may only affect a limited number of entities as circumstances in which a currency is not exchangeable arise relatively infrequently.

The proposals cover three specific areas:

- *How to determine if an exchange rate is lacking exchangeability or not*

  The proposals state that a: "*currency is exchangeable into another currency at a measurement date when an entity is able to exchange that currency for the other currency within a time frame that includes a normal administrative delay and through a market or exchange mechanism in which the exchange transaction would create enforceable rights and obligations*." The proposals therefore specify that an entity should use the following factors to assess whether a currency is exchangeable into another currency, or not:

  - Time frame (over that expected from a normal administrative delay);
  - Ability to obtain the other currency (as opposed to an intention);
  - Markets or exchange mechanisms that create enforceable rights and obligations;
  - Purpose of obtaining the other currency (as different rates may apply for different uses of a currency); and
  - Ability to obtain only limited amounts of the other currency (as only obtaining an insignificant amount of another currency would mean the currency lacks exchangeability).

- *How to determine the spot rate to use when the exchangeability is lacking*

  When a currency is not exchangeable into another currency, the proposals require an estimated spot rate to be used that should meet the following conditions:

  (a) a rate at which an entity would have been able to enter into an exchange transaction had the currency been exchangeable into the other currency;

  (b) a rate that would have applied to an orderly transaction between market participants; and

  (c) a rate that faithfully reflects the prevailing economic conditions. The proposals explain that an observable exchange rate may be used as the estimated spot rate, for instance a spot rate used for another purpose, or the first subsequent spot rate available once the exchangeability has been restored.

- *What disclosures should be provided*

  The proposals set out additional disclosures to be provided such that they enable users of the financial statements to understand how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, it is proposed that an entity should disclose information about:

  (a) the nature and financial effects of the lack of exchangeability;

  (b) the spot exchange rate(s) used;

  (c) the estimation process; and

  (d) the risks to which the entity is exposed because of the lack of exchangeability.

The comment period deadline is 1 September 2021.

Proposals set out to bring regulatory assets and liabilities on balance sheet to align timing for revenue recognition – comment period extended to 30 July 2021

What's the issue? In January 2021 the International Accounting Standards Board ("IASB") published an exposure draft *Regulatory Assets and Regulatory Liabilities*, which sets out significant new requirements for entities to recognise regulatory assets (and income) and regulatory liabilities (and expenses) within the financial statements, such that the timing of recognition as revenue aligns with when the rate-regulated goods or services are provided.

The IASB has, however, decided to extend the comment period by 30 days, to 30 July 2021.

What does this mean? The proposals may have a significant impact on entities engaged in regulated activities, in terms of the timing of revenue recognition across the financial periods affected by the rate-regulated activities, therefore the comment period extension allows interest parties more time to respond.

Further information: For further information, please refer to the February 2021 edition of *Technical Issues Trending Now*.

Primary Financial Statements project – Redeliberations begin on the exposure draft: General Presentation and Disclosures that propose substantial changes to reporting financial performance

What's the issue? The International Accounting Standards Board ("IASB") has begun the anticipated task on redeliberating its proposals set out in the exposure draft: *General Presentation and Disclosures* ("ED") that look to substantially change the requirements for reporting financial performance, with the ultimate intention of replacing IAS 1 *Presentation of Financial Statements* ("IAS 1") with a new IFRS. The original proposals received 215 comment letters so, understandably, the IASB has a long list of topics for redeliberation.

For this first month, the discussions focused on operating profit subtotal and its definition, management performance measures and statement of cash flows. The discussions are likely to last for many months given the significance of the project, so expect regular updates from *Technical Issues Trending Now*.

Further information: For details about the IASB's tentative decisions made in the March meeting, please refer to our blog: *Primary Financial Statements project – Redeliberations begin by the IASB on the exposure draft: General Presentation and Disclosures that propose substantial changes to reporting financial performance.*

Developments within UK Accounting Standards / Other Regulatory Developments

FRC proposes to extend application period for accounting for Covid-19-related rent concessions

What's the issue? The Financial Reporting Council ("FRC") has published an exposure draft: *FRED 78: COVID-19-related rent concessions beyond 30 June 2021* that extends the application period, by one year, of the requirements that deal with the accounting for Covid-19-related temporary rent concessions under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* ("FRS 105").

Because the pandemic and restrictions are continuing, the proposals extend the existing accounting requirements to cover rent concessions that reduce lease payments due on or before 30 June 2022 (previously due on or before 30 June 2021), thereby ensuring that such concessions are accounted for consistently and in a way that best reflects their substance.

What does this mean? The proposals extend the application period of the existing helpful accounting requirements to support how lessees, and lessors, must account for Covid-19-related rent concessions.

These requirements (as set out in the October 2020 amendments to FRS 102 and FRS 105) require entities to recognise changes in operating lease payments (for lessees), or income (for lessors), within profit or loss that arise from Covid-19-related rent concessions on a systematic basis over the periods that the change in lease payments is intended to compensate i.e. where there has been a temporary reduction in the lessee's benefit from the use of the leased asset. This means that the treatment should reflect the economic substance of the benefit of these concessions and their temporary nature.

For the accounting treatment to apply, one of the conditions requires that any reduction in lease payments must affect only payments originally due on or before 30 June 2021. These proposals therefore extend the period of this condition so that it applies to payments originally due on or before 30 June 2022.

There are no other proposed changes to the conditions, and so all other conditions must continue to apply for the accounting treatment to be applied. These proposals therefore allow for rent concessions being granted that reduce lease payments due after 30 June 2021, which are similar in substance to those concessions, where the requirements currently apply.

The comment period deadline is 11 May 2021. The effective date is unknown, however given the urgency of the matter it is likely that the amendments will become effective as early as possible.

FRC implements new approach to make corporate reporting reviews publicly available

What's the issue? The Financial Reporting Council ("FRC") has implemented a new approach, as a result of a recommendation of Sir John Kingman's Independent Review of the FRC, which increases transparency of the corporate reporting reviews that are carried out on companies' annual reports each year. Previously the FRC only published names of the companies reviewed, whether a full review was conducted and whether substantiative correspondence had been entered into, however the new approach provides summaries of the reviews and makes them available to the public.

What does this mean? For entities that fall within the FRC's scope for corporate reporting reviews, such as all public and large private companies and non-corporate listed entities, the new approach will increase transparency of their annual reports to stakeholders and the public, which may have both positive or negative implications depending upon the FRC's findings.

Under current company law requirements, the summaries provided by the FRC under this new approach can only be made publicly available with the consent of the individual companies. However, as part of the government's recent consultation *Restoring trust in audit and corporate governance, there are proposals to allow the regulator*, there are proposals to publish summaries without the consent of companies, once sufficient safeguards around confidential information are in place.

Each year the FRC conducts over 200 corporate reporting reviews ("CCRs") on companies' annual reports to assess compliance with accounting and legislative requirements. CRR's routine reviews generally cover the aspects of the annual report over which the FRC's Conduct Committee has statutory powers, such as strategic reports, directors' reports and the financial statements.

The latest list of companies that have been reviewed by the FRC, along with summaries of the CRR's findings, are available on the FRC's website. Of the 75 companies reviewed from this latest list, all 26 companies who had an exchange of substantive correspondence with the FRC (i.e. substantive questions were raised by the FRC that may have covered questions of recognition, measurement and/or disclosure) have provided consent to make their summary reviews available to the public.

Narrative and Front-end Reporting Developments

Sustainability reporting – IFRS Foundation announces working group to accelerate convergence in global sustainability reporting standards

What's the issue? The Trustees of the IFRS Foundation have announced the creation of a working group to accelerate convergence in global sustainability reporting standards focused on enterprise value (i.e. which captures expected value creation for investors in the short, medium and long term and is interdependent with value creation for society and the environment), and to undertake technical preparation for the proposed new board – the International Sustainability Standards Board - under the IFRS Foundations' governance.

The Trustees envisage that sustainability reporting standards issued by the proposed new board will provide a global sustainability reporting baseline that would allow for greater comparability and consistency of application of the standards, while also providing flexibility for coordination on additional jurisdictional and multi-stakeholder reporting requirements (a 'building blocks' approach).

What does this mean? The working group is the next strong step in the development of global sustainability reporting standards and its work will endeavour to ensure that the fast pace of development in this area is maintained and the Trustees' plan is kept on track – this being to produce a definitive proposal, including a road map with timeline, by the end of September 2021, and potentially leading to the establishment of an International Sustainability Standards Board (hopefully to be announced at the meeting of the United Nations Climate Change Conference COP26 in November 2021).

Purpose of the working group

The working group will provide a forum for structured engagement with initiatives and will coordinate work to drive international consistency of sustainability reporting with a focus on enterprise value creation. Additionally, the group will provide technical recommendations for the proposed new board to build on existing initiatives and develop standards for climate-related reporting and other sustainability topics, as well as support how the proposed new board develops appropriate technical expertise in order to facilitate consolidation and reduce fragmentation in sustainability reporting standards.

Composition of the working group

There is a comprehensive mix of participants in the working group who bring together complementary international experience:

- The Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD) brings recommendations for climate-related disclosures that promote more informed investment, credit and insurance underwriting decisions.
- The Value Reporting Foundation brings international standard-setting experience - It represents the intended merger of the International Integrated Reporting Council ("IIRC"), which provides a framework for integrated reporting that connects financial and sustainability information, and the Sustainability Accounting Standards Board ("SASB"), which provides industry-specific standards for reporting on enterprise value.
- The Climate Disclosure Standards Board ("CDSB") brings a framework which guides disclosure of material information for investors through the integration of climate, wider environmental and social-related information into financial reporting.
- The World Economic Forum ("WEF") brings their work on cross-industry metrics and disclosures that CEOs of a wide range of the world's largest multinational companies have found to be important for disclosure.

Mind the GAAP: The Mazars blog on accounting, financial and narrative reporting matters

Here are our latest articles:

Narrative reporting and company legislation

- Task Force on Climate-related Financial Disclosures ("TCFD") – A new resolution
- S172 statements and Covid-19: An opportunity to tell your story
- There's much at stake – Reporting on employees, customers and suppliers under Section 172 for 2019 year-ends
- Distributable reserves – Change is on the horizon

Regulatory reporting

- BEIS consultation: Restoring trust in audit and corporate governance – Focusing on the proposals for corporate reporting (part 1)
- Top Tips for 2020/21 Annual Reporting
- Hot Topic Publication: What does good look like? - Improving cash flow statements and liquidity disclosures
- Hot Topic: FRC Annual Review Key Highlights Checklist 2019/20
- Hot Topic: Reporting on the impact of Covid-19 – Key disclosure expectations for 2020/21

IFRS accounting and reporting

- IFRS 16 *Leases* - Amendment to extend the relief period for lessees accounting for Covid-19-related rent concessions
- Impact of Covid-19: Accounting for rent concessions under IFRS and FRS 102 - The differences, similarities and are they enough?
- Reverse factoring – Guidance on the applicable requirements under IFRS
- Substantial changes have been proposed regarding the reporting of financial performance under IFRS, leading to a proposed new IFRS that will replace IAS 1
- Revenue recognition under IFRS 15 – Compensation payable to customers could give rise to the recognition of negative revenue
- IBOR Reform – Comparing LIBOR vs SONIA following the IASB's (phase 1) amendments to IFRS 9, IAS 39 and IFRS 7

UK GAAP accounting and reporting

- Impact of Covid-19: Accounting for rent concessions under IFRS and FRS 102 - The differences, similarities and are they enough?
- FRS 101 amendments – Changes that prohibit insurers applying FRS 101 in their financial statements

Contact

Mazars has a specialist Accounting Technical Services team dedicated to providing support on accounting and corporate reporting matters.

This technical publication aims to provide you with a high-level briefing of the changes and developments impacting accounting and corporate reporting. For more detailed information and a comprehensive understanding of how these issues impact your business, please contact:

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