IFRS Update

Current standards, amendments and interpretations

April 2021

mazars

01

Summary of new and amended standards and interpretations in issue

Effective from 1 January 2020 onwards

		Effective for annual periods ending			
	Effective date	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Pronouncements endorsed by the EU as at 31 December 2020					
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Amendments in relation to the definition of material	1 January 2020	FTA PA for 31/12/2019	✔	✔	✔
Conceptual Framework: Amendments to references to the conceptual framework in IFRS standards	1 January 2020	FTA RA/TP for 31/12/2019	✔	✔	✔
IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*: Amendments arising from the Interest Rate Benchmark Reform – Phase 1	1 January 2020	FTA RA for 31/12/2019	✔	✔	✔
IFRS 3 *Business Combinations*: Amendments in relation to the definition of a business	1 January 2020	FTA PA for 31/12/2019	✔	✔	✔
IFRS 16 *Leases*: Amendments in relation to Covid-19-related rent concessions	1 June 2020	RA/TP	FTA	✔	✔
IFRS 4 *Insurance Contracts*: Amendments in relation to the temporary exemption from applying IFRS 9	25 June 2020	-	FTA	✔	✔
Pronouncements adopted within the UK from 1 January 2021					
IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*: Amendments arising from the Interest Rate Benchmark Reform – Phase 2 *(Endorsed by the EU January 2021)*	1 January 2021	RA/TP	FTA	✔	✔

Summary of new and amended standards in issue (continued)

		Effective for annual periods ending			
	Effective date	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Pronouncements not yet adopted within the UK nor endorsed by the EU					
IFRS 16 *Leases*: Amendments in relation to Covid-19-related rent concessions beyond 30 June 2021	1 April 2021	RA/TP	FTA	✓	✓
IAS 16 *Property, Plant and Equipment*: Amendments in relation to proceeds before intended use	1 January 2022	-	RA/TP	FTA	✓
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*: Amendments in relation to the cost of fulfilling a contract when assessing onerous contracts	1 January 2022	✓	RA/TP	FTA	✓
IFRS 3 *Business Combinations*: Amendments to update references to the Conceptual Framework	1 January 2022	✓	PA	FTA	✓
Annual Improvements to IFRSs (2018 – 2020 cycle)	1 January 2022	-	RA/PA	FTA	✓
IAS 1 *Presentation of Financial Statements*: Amendments in relation to the classification of liabilities as current or non-current	1 January 2023	-	✓	RA	FTA
IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Amendments in relation to the disclosure of accounting policies	1 January 2023	-	-	PA	FTA
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Amendments in relation to the definition of accounting estimates	1 January 2023	-	-	PA	FTA
IFRS 17 *Insurance Contracts*	1 January 2023	-	✓	RA/TP	FTA
Amendments to IFRS 17 *Insurance Contracts*	1 January 2023	-	✓	RA/TP	FTA

FTA First-time application - This is the first annual period when the new standard, amendment or interpretation is required to be applied.
RA Retrospective application - The new standard, amendment or interpretation is required to be applied on a retrospective basis.
TP Transitional provisions - There are specific transitional provisions that may be applied.
PA Prospective application - The new standard, amendment or interpretation is required to be applied on a prospective basis.

* Standards, amendments and interpretations cannot be adopted by UK entities until they have been endorsed by the UK Endorsement Board and become UK-adopted IAS.

For information about standards, amendments and interpretations that apply to prior reporting periods, please consult previous editions, which are available by contacting the Accounting Technical Services team.

Summary of new and amended standards in issue (continued)

UK Endorsement of IFRS

The UK has left the European Union ("EU") and the end of the Transition Period was 31 December 2020. From this date, the UK is no longer subject to EU law.

IFRS standards and amendments that have been endorsed by the EU by the end of the Transition Period are available for use by UK companies and form part of UK-adopted IAS.

IFRS standards and amendments that were not endorsed by the EU before the end of the Transition Period may only be applied by UK companies once they have been adopted for use within the UK. UK companies wishing to use any IFRS standards or amendments in their 31 December 2020 financial statements, which have not been adopted by the EU by the end of the Transition Period, will be able to use those standards or amendments only after they have been adopted for use in the UK.

Application of UK-adopted IAS and EU-adopted IFRS for accounting periods

- ***For accounting periods beginning before 1 January 2021*** - UK companies required, or choosing, to apply IFRS must still prepare their financial statements in accordance with EU-adopted IFRS. However, companies whose accounting period straddles 31 December 2020 and where filing occurs after 31 December 2020, may also *choose* to apply any new IFRS standard or amendment adopted by the UK, in addition to EU-adopted IFRS as at 31 December 2020.
- ***For accounting periods beginning before 1 January 2021*** – Where a UK company has transferable securities admitted to trading on a UK regulated market, is required to produce consolidated financial statements and is preparing financial statements to satisfy DTR requirements, those financial statements must *additionally* be prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. This means that EU-adopted IFRS, subsequent to 31 December 2020, remains relevant for such entities.
- ***For accounting periods beginning on or after 1 January 2021*** - UK companies required, or choosing, to apply IFRS must prepare their financial statements in accordance with UK-adopted IAS, rather than EU-adopted IFRS.

02

Overview of the requirements each of new and amended standard in issue

Effective for the year ending 31 December 2020

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of material

Effective accounting periods beginning on or after 1 January 2020. Earlier application is permitted.

Key requirements

The amendment refines the definition of material in IAS 1 *Presentation of Financial Statements* ("IAS 1") and align the definitions used across other IFRS standards, including IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8").

The new definition states: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The new definition therefore includes three new elements:

- *Obscuring information* – The new definition includes the concept of 'obscuring' information, as well as 'omitting' or 'misstating' it. Information is therefore 'obscured' if it is communicated in a way that would have a similar effect as omitting or misstating the information, for example, information is considered to be obscured if it is vague or unclear, it is scattered in different places within the financial statements, it is inappropriately aggregated or disaggregated, or it is hidden by immaterial information;

- *Could reasonably be expected to influence* – The new definition replaces the term 'could influence' with 'could reasonably be expected to influence'. The new definition therefore provides clarity that it is only what could reasonably be expected to influence economic decisions and hence narrows the scope of what needs to be considered when making materiality assessments; and

- *Primary users* – The new definition clarifies that 'users' are the primary users of general purpose financial statements, as referred to in the conceptual framework. The new definition, therefore, narrows the scope of who must be considered when making materiality assessments, yet also acknowledging that determining who entities' primary users are will require judgement and will be specific to individual entities.

Transition

The amendment shall be applied on a prospective basis.

Amendments to IFRS 16 *Leases:* Covid-19-Related Rent Concessions

Effective accounting periods beginning on or after 1 June 2020. Earlier application is permitted.

Key requirements

The amendment grants an optional relief to lessees, to exempt them from having to determine whether recent concessions arising as a direct consequence of Covid-19 are lease modifications. Lessees can choose to account for such rent concessions as if they were not lease modifications. Specifically, lessees would qualify for this optional relief, provided that *all* of the following conditions are met:

- the change in lease payments results in revised consideration that is substantially the same as, or less than, the consideration immediately before the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession that results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

- there is no substantive change to other terms and conditions of the lease.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2020 (continued)

There is no change of accounting for lessors.

Disclosure

If the lessee chooses to apply the optional relief, it is required to disclose:

- that it has applied the relief to all rent concessions, or if not all, the nature of lease contracts to which the relief has been applied; and
- the amount recognised in profit or loss that reflect changes in lease payments arising from rent concessions to which the relief has been applied.

In addition, the IASB also notes the need to disclose future cash flows relating to variable lease payments, that are not reflected in the measurement of lease liabilities.

Transition

The amendment is to be applied retrospectively, by recognising the cumulative effect as an adjustment to the opening balance of equity at the date of initial application. This means that the amendment must be applied without restatement of the comparative figures. The lessee is not required to disclose the effect on each line item affected for current or prior periods.

Conceptual Framework: Amendments to references to the conceptual framework in IFRS standards

Effective accounting periods beginning on or after 1 January 2020. Earlier application is permitted.

Key requirements

The amendment sets out changes to IFRS standards, their accompanying documents, such as the basis of conclusions and illustrative examples, and IFRS practice statements to reflect the issue of the revised version of the *Conceptual Framework for Financial Reporting* for 2018 ("Conceptual Framework 2018"). The changes update references and quotations that were made to previous versions of the conceptual framework: either the IASC's *Framework for the Preparation and Presentation for Financial Reporting* issued in 2001 ("Framework 2001"), or the *Conceptual Framework for Financial Reporting* issued in 2010 ("Conceptual Framework 2010"), as applicable.

The amendment does not, however, permit references to the Conceptual Framework 2018 in IFRS 3 *Business Combinations* to be amended from references to the Framework 2011, so that acquiring entities continue to apply the definitions of an asset and a liability from the Framework 2011.

The same exception is made to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in respect of entities that have regulatory account balances, and do not apply IFRS 14 *Regulatory Deferral Accounts.*

Transition

The amendment shall be applied on a retrospective basis, unless it is determined that retrospective application would be impracticable or would involve undue cost or effort. In such cases, entities shall apply the requirements on limitations on retrospective application in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The Conceptual Framework for Financial Reporting (2018)

Purpose

The *Conceptual Framework for Financial Reporting* describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to:

- Assist the IASB to develop IFRS standards, thereby ensuring that the standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors;
- Assist preparers to develop consistent accounting policies when no standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy; and
- Assist all users and stakeholder to understand and interpret the standards.

The Conceptual Framework 2018 is not a standard. Nothing in the Conceptual Framework overrides any standard or any requirement in a standard.

Key features

In 2018, the IASB revised the previous version of the Conceptual Framework issued in 2010.

The revised Conceptual Framework 2018 includes some new concepts and clarifies some important concepts and provides updated definitions and recognition criteria for assets and liabilities. It is set out into either chapter covering the following areas:

- The objective of general purpose financial reporting;

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2020 (continued)

- The qualitative characteristics of useful financial information;
- A description of the reporting entity and its boundary;
- The elements of financial statements, including definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions;
- Criteria for including assets and liabilities in financial statements (i.e. recognition) and guidance on when to remove them (i.e. derecognition);
- Measurement bases and guidance on when to use them;
- Concepts and guidance on presentation and disclosure; and
- Concepts relating to capital and capital maintenance.

Transition

The Conceptual Framework 2018 is effective immediately for the IASB and the IFRS Interpretations Committee.

For entities that use the Conceptual Framework 2018 to develop accounting policies when no IFRS standard applies to a particular transaction, it is effective for annual reporting periods beginning on or after 1 January 2020 to coincide with the effective date for the *Amendments to References to the Conceptual Framework in IFRS Standards.*

Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 F*inancial Instruments: Disclosures:* Interest Rate Benchmark Reform – Phase 1

Effective accounting periods beginning on or after 1 January 2020. Earlier application is permitted.

Key requirements

The amendment provides relief from certain hedge accounting requirements under IFRS 9 *Financial Instruments* ("IFRS 9") or IAS 39 *Financial Instruments: recognition and Measurement* ("IAS 39"), as a result of the uncertainties arising from the interest rate benchmark reform.

The amendment states that when carrying out each of the specific assessments set out below, it should be assumed that the interest rate benchmark on which the hedged cash flows are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of the interest rate benchmark reform:

- *Highly probable requirement* - when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur to meet the hedge accounting criteria (under both IFRS 9 and IAS 39);
- *Reclassification adjustment* - when determining if the cumulative gains and losses held in the hedging reserve should be reclassified to profit or loss, the forecast transaction (the hedged future cash flows) must no longer be expected to occur (under both IFRS 9 and IAS 39);
- *Prospective assessments* - when assessing the hedging relationship on an on-going regular basis, there must be an economic relationship between the hedged item and hedging instrument (under IFRS 9), or the hedge must be highly effective in achieving offsetting (under IAS 39), for the hedging relationship to meet the qualifying criteria; and
- *Retrospective effectiveness assessment* - when assessing the effectiveness of a hedging relationship under IAS 39, the actual results of the hedge must fall within the range of 80% to 125% to meet the hedge accounting criteria.

Additionally, the amendment states that when designating a component of an item as a hedged item, identification of the risk component being separately identifiable need only be assessed at inception of the hedging relationship, rather than throughout the life of the hedge.

Disclosure

The amendments also require enhanced disclosures to be provided in respect of hedging relationships affected by the amendments. Entities are therefore required to provide the following disclosures:

- the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- how the entity is managing the process to transition to alternative benchmark rates; a description of significant assumptions or judgements the entity made in applying the relief; and

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2020 (continued)

- the nominal amount of the hedging instruments in those hedging relationships.

Transition

The amendment shall be applied on a retrospective basis. This retrospective application applies only to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

Amendments to IFRS 4 *Insurance Contracts*: Extension of the Temporary Exemption from Applying IFRS 9

Effective immediately from the date of issue being 25 June 2020.

Key requirements

The amendment extends the temporary exemption within IFRS 4 that allows an insurer to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), rather than IFRS 9 *Financial Instruments* ("IFRS 9"), to account for its financial instruments until accounting periods beginning on or after 1 January 2023. Previously the exemption applied up until 1 January 2021.

The exemption, which is optional, may only be applied by insurers where the activities are predominantly connected with insurance, and the insurer has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2021

Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosure*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*: Interest Rate Benchmark Reform – Phase 2

Effective accounting periods beginning on or after 1 January 2021. Earlier application is permitted.

Key requirements

The amendment deals with the accounting when changes are made to the basis for determining contractual cash flows and hedging relationships as a direct consequence of the IBOR reform, by giving relief from certain accounting requirements of IFRS 9 *Financial Instruments* ("IFRS 9"), IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"), IFRS 4 *Insurance Contracts* ("IFRS 4") and IFRS 16 *Leases* ("IFRS 16").

Specifically, the amendment deals with:

i. accounting for the modification of financial assets and financial liabilities as a result of changes made to the basis for determining contractual terms and/or contractual cashflows;

ii. applying the hedge accounting requirements as a result of changes made to hedging relationships; and

iii. adding enhanced quantitative and qualitative disclosures in order to explain the impact of the IBOR reform.

Modification of financial assets and financial liabilities (Amendments to IFRS 9)

The amendment includes a practical expedient that gives relief from applying the existing modification accounting requirements when changes are made to the basis for determining the contractual cash flows of a financial asset or a financial liability. The relief allows for the original effective interest rate to be updated to reflect the changes made to the interest rate benchmark and for the change to be accounted for on a prospective basis. This applies to financial instruments that are accounted for on an amortised costs basis.

The practical expedient can only be applied when the following two conditions are met:

- the modification arises as a direct consequence of the IBOR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

This means that: (i) the change in the basis for determining the contractual cash flows is necessary as a direct consequence of the IBOR reform; and (i) the overall contractual cash flows (including the interest rate) of the financial instrument are substantially similar before and after the modification, for example, a change would be economically equivalent if it involved only replacing an interest rate benchmark with an alternative benchmark rate plus a fixed spread that compensated for the basis difference between the interest rate benchmark and the alternative benchmark rate.

The amendment also clarifies that if changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows as required by IBOR reform (for example, where during negotiations to make changes as a result of the IBOR reform, counterparties simultaneously agree to make changes to the contractual terms that are not necessary as a direct consequence of the IBOR reform or are not economically equivalent to the previous terms i.e. to reflect a change in the counterparty's credit worthiness), an entity is required to:

- first apply the practical expedient to the changes required by the IBOR reform i.e. by updating the effective interest rate based on the alternative benchmark rate; and
- then apply the applicable requirements in IFRS 9 to the additional changes to which the practical expedient does not apply i.e. to determine if the additional changes result in derecognition or not, and then account for the additional changes accordingly.

Amendments to IFRS 4 and IFRS 16

The amendment also includes similar practical expedients to:

- entities, in the scope of IFRS 4 *Insurance Contracts*, that apply the temporary exemption from IFRS 9 *Financial Instruments* to apply the practical expedient to financial instruments that are modified as a direct consequence of the reform of IBOR; and
- lease liabilities of a lessee, in the scope of IFRS 16 *Leases*, that are modified as a direct consequence of the reform of IBOR.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2021 (continued)

Hedge accounting (Amendments to IFRS 9 and IAS 39)

The amendment sets out a series of reliefs from applying the existing requirements of IFRS 9 and IAS 39, as follows:

- **Hedging designation and documentation** - Where changes are made to the basis for determining the contractual cash flows of a financial instrument designated in a hedging relationship (i.e. where changes are made to the hedge documentation as a result of changing from IBOR to an alternative benchmark rate), then the relief requires entities to continue to apply the hedge accounting requirements solely where changes to hedge items and hedging instruments arise from the IBOR reform, such as:
  - designating an alternative benchmark rate as a hedged risk;
  - amending the description of a hedged item (or a portion of a hedged item) or a hedging instrument so that it refers to an alternative benchmark rate;
  - and/or amending the description of how an entity assesses hedge effectiveness (for IAS 39 purposes only).
- **Amounts accumulated in the cash flow hedge reserve** - The amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate, therefore the relief requires entities to reclassify amounts from the cash flow hedge reserve to profit or loss only when the cash flows of the amended hedged item affect profit or loss.
- **Separately identifiable requirement** - Where an alternative benchmark rate designated as a non-contractually specified risk component fails to meet the separately identifiable requirement at the date it is designated, the relief means that it will be deemed to be separately identifiable if the entity has a reasonable expectation that the rate will meet the requirement within 24 months from the date it is designated.
- **Groups of items designated as hedged items** - For groups of items designated as hedged items and that consist of items which refer to IBOR as well as items that refer to the new alternative benchmark rate, the relief provides that entities are required to allocate the hedged items to subgroups, within the designated hedging relationship, based on the benchmark rate being hedged. The qualifying criteria for the hedged items must then be separately applied to each subgroup.
- **Retrospective effectiveness assessment** (for IAS 39 purposes only) – The relief provides that entities are permitted (i.e. it is a choice) to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply the Phase 1 relief. This choice is available for each hedging relationship.

Disclosure

The amendment sets out enhanced disclosure requirements within IFRS 7, including an over-arching qualitative disclosure requirement as well as specific quantitative disclosure requirements in order for an entity's financial statements to explain the impact that the IBOR reform has had (is having) on the entity.

The qualitative disclosures relate to the nature and extent of the risks arising from the IBOR reform, how an entity manages those risks and the progress in completing the transition process to alternative benchmark rates.

The quantitative disclosures relate to the amounts of financial instruments that are yet to transition, separated out by non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments.

Ending application of the relief

There are no specific end of application requirements for these amendment because the application is associated with the point at which changes to financial instruments or hedging relationships occur as a result of the IBOR reform. Therefore, the application of the amendment has a natural end.

Transition

The amendment is to be applied for the first-time to accounting periods beginning on or after 1 January 2021. Early application is permitted. If an entity does apply the amendments early, then it must disclose that fact.

The amendment must be applied on a retrospective basis, however entities are not required to restate comparative information. In practice, this retrospective application is relevant only to the application of the hedge accounting amendments. Entities may, however, restate prior periods, if and only if it is possible without the use of hindsight.

Where entities do not restate prior periods, any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2021 (continued) / 31 December 2022

application of these amendments must be recognised in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Additionally, entities are required to reinstate a discontinued hedging relationship if, and only if:

- the entity discontinued the hedging relationship solely because of changes required by the IBOR reform; and
- at the date of initial application of the amendments, that discontinued hedging relationship meets all qualifying criteria for hedge accounting.

Amendments to IFRS 16 *Leases:* Covid-19-Related Rent Concessions Beyond 30 June 2021

Effective accounting periods beginning on or after 1 April 2021. Earlier application is permitted.

Key requirements

The amendment extends by one year the application period of the amendment to IFRS 16 *Leases* issued in May 2020 (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).

The amendment provides an extension to the current beneficial relief permitted (i.e. the relief is optional) to be applied by an entity that has been subject to Covid-19-related rent concessions, such as rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. The relief provides a practical expedient, as set out in paragraph 46A of IFRS 16, which permits an entity 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 new amendment therefore extends 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 will 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 amendment or this new amendment.

In practice, this means:

- An entity that already applies the practical expedient (as from the May 2020 amendment) must continue to apply the extended scope of the practical expedient to eligible contracts with similar characteristics and in similar circumstances, for example if the relief was applied to a contract for rent concessions up until 30 June 2021, it must continue to apply the relief to the rent concessions up until 30 June 2022 (if the contract otherwise meets all the other conditions).
- An entity is not allowed to elect to apply the practical expedient in relation to the March 2021 amendment only to certain contracts and certain rent concession dates. If an entity chooses to apply the March 2021 amendment (and has not previously applied the May 2020 amendment), then it may do so, but application must be on a retrospective basis, and it must be applied to all contracts with similar characteristics and in similar circumstances.
- Rent concessions that were initially excluded from the scope of the May 2020 amendment because they related to lease payments due after 30 June 2021, may now fall within the scope of the new March 2021 amendment (subject to the contract meeting all the other conditions) and would therefore need to be restated on retrospective basis.

Transition

The amendment is to be applied retrospectively, by recognising the cumulative effect as an adjustment to the opening balance of equity at the date of initial application. This means that the amendment must be applied without restatement of the comparative figures.

The lessee is not required to disclose the effect on each line item affected for current or prior periods, nor the impact on basic and diluted earnings per share, if applicable.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2022

Amendments to IAS 16 *Property, Plant and Equipment*: Proceeds before intended use

Effective accounting periods beginning on or after 1 January 2022. Earlier application is permitted.

Key requirements

Previously IAS 16 required that the cost of a property, plant and equipment asset ("PPE asset") includes the cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling items produced during the testing process. Practice differs in relation to the deduction of net proceeds from selling items during testing, which results in different accounting treatments of the cost bases for PPE assets.

The amendment prohibits the deduction of such net proceeds against the cost of a PPE asset, but instead requires that the sales proceeds and relates cost of items sold during testing be recognised in profit in loss. In addition, the amendment clarifies the meaning of 'testing whether a PPE asset is functioning properly'. Specifically, it means that:

- the costs of testing whether a PPE asset is functioning properly are still included in the cost of a PPE asset – The IASB has clarified that the costs of testing the asset for the 'technical and physical performance' to assess whether it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes should be capitalised. However, costs incurred in testing for 'financial performance' of an asset (e.g. testing whether the asset has achieved the intended level of operating margin), are not capable of capitalisation.
- sales proceeds from selling items during testing are recognised in profit or loss – the line item in the statement of comprehensive income which includes such sales proceeds shall be clearly indicated; and
- the related cost of items sold during testing are recognised in profit or loss – Such costs are measured under IAS 2 *Inventories* ("IAS 2"). The line item in the statement of comprehensive income which includes such costs shall be clearly indicated.

Presentation

The amendment does not prescribe how the sales process and related cost of items sold during testing shall be presented in the statement of comprehensive income. Entities may choose to present them on separate line items, or to offset them in one line item, by assessing the relevant requirements in IAS 1 *Presentation of Financial Statements*. In addition, IAS 1 applies to the disclosure of material estimates and judgements involved in measuring the cost of items produced.

Transition

The amendment is expected mainly to affect only a few industries, such as mining and petrochemicals, and apply retrospectively to PPE assets that are available for use (i.e. brought to the location and condition necessary for them to be capable of operating in the manner intended by management) on or after the beginning of the earliest period presented in the financial statements on or after 1 January 2022. The cumulative effect of initial application shall be recognised as an adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*: Onerous Contracts – Cost of Fulfilling a Contract

Effective accounting periods beginning on or after 1 January 2022. Earlier application is permitted.

Key requirements

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37") requires the recognition of a provision for contracts that have become onerous, by assessing whether the unavoidable costs of meeting the obligations exceed the expected economic benefits. However, it does not specify which costs to include – an issue only addressed by IAS 11 *Construction Contracts* ("IAS 11") previously. The withdrawal of IAS 11 has left a 'vacuum' in this regard, which has necessitated the need to clarify this issue in IAS 37.

The amendment clarifies that all costs that directly relate to a contract shall be included for purpose of assessing whether the contract is onerous, which consist of both:

- the incremental costs of fulfilling the contract (e.g. direct materials and direct labour); and
- an allocation of other costs that relate directly to fulfilling contracts – in this aspect, assets and resources that are 'shared' by several contracts would be considered. For example, where a PPE asset is used for fulfilling several contracts, depreciation costs of the PPE asset would be allocated to each contract for purpose of assessing onerous contracts.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2022 (continued)

Please note that the amendment is narrow-scoped and only clarify the *assessment* of onerous contracts, instead of the measurement of onerous contract provision.

Transition

The amendment applies to contracts with unfulfilled obligations at the date of initial application (i.e.. on or after 1 January 2022). However, comparative information shall not be restated, with the cumulative adjustment being recognised in the opening balance of equity at the date of initial application.

Amendments to IFRS 3 *Business Combinations: Reference to the Conceptual Framework*

Effective accounting periods beginning on or after 1 January 2022. Earlier application is permitted.

Key requirements

The amendment to IFRS 3 incorporates references to the *2018 Conceptual Framework*, as IFRS 3 requires entities to refer to the Conceptual Framework to determine which assets and liabilities to recognise in a business combination. In addition, the amendments include an exception to refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37") and IFRIC 21 *Levies* ("IFRIC 21") for recognising liabilities and contingent liabilities that would have fallen within the scope of IAS 37 and IFRIC 21, if they were incurred separately, rather than assumed in a business combination. The exception is intended to address unintended consequences arising from the discrepancy between IAS 37, IFRIC 21 and the Conceptual Framework.

Transition

The amendment to IFRS 3 applies prospectively to business combinations on or after 1 January 2022 but are not expected to change significantly the population of assets and liabilities recognised in a business combination.

Annual Improvements to IFRSs (2018 – 2020 cycle)

Effective accounting periods beginning on or after 1 January 2022. Earlier application is permitted.

Key requirements

There are four narrow-scope amendments as follows:

1. IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a First-time Adopter

Previously, if a subsidiary adopts IFRS later than the parent, the subsidiary may be deemed to have transitioned to IFRSs on the same date as the parent ('the exemption'). As a result, a first-time adopter subsidiary would measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination. However, IFRS 1 is silent on the accounting treatment for such subsidiary's equity component, in particular cumulative translation differences. As a result, previously such subsidiary would have to keep two parallel accounting records for its cumulative translation differences – one for consolidation into the parent's IFRS financial statements; the other for its separate financial statements.

This amendment extends the exemption to such subsidiary's cumulative translation differences. If the subsidiary chooses to utilize this exemption, it would not need to keep two parallel accounting records. Instead, on the date of transition, the subsidiary may recognise cumulative translation differences on the basis that it has already transitioned to IFRSs on the parent's date of transition.

This means that on transition, the subsidiary may recognise in OCI in its separate financial statements:

- either the amount of cumulative translation differences since the date of parent's transition to IFRSs, if the group policy on earlier transition is to reset the balance of all cumulative translation differences to zero; or
- the entire amount of its pre-IFRS cumulative translation differences, if the group policy on earlier transition is to recognise the balance of all pre-IFRS cumulative translation differences in OCI.

Alternatively, the subsidiary may choose not to use the exemption and on transition:

- either reset its balance of cumulative translation differences to zero; or
- recognise the entire amount of its pre-IFRS cumulative translation differences in OCI.

2. IFRS 9 *Financial Instruments* – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

IFRS 9 *Financial Instruments* ("IFRS 9") requires the derecognition of a financial liability if its terms are

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2022 (continued)

modified substantially, or exchanged for another financial liability with substantially different terms, i.e. under the quantitative test, if the discounted present value of cash flows under the new terms (including any fees paid or received) is at least 10% different from the net present value of the remaining cash flows, both discounted at the original effective interest rate prior discounted at the original effective interest rate prior to the modification. Accordingly, fees paid or received are included as part of the cash flows of the modified liability. However, it is not clear whether those fees can originate from third parties other than the lender.

The amendment clarifies that such fees are limited to those paid or received between the borrower and the lender (including fees paid or received by either the borrower or lender on the other's behalf).

3. IAS 41 *Agriculture* – Taxation in Fair Value Measurements

Previously the IASB has amended IAS 41 *Agriculture* ("IAS 41") to remove the requirement for entities to use a pre-tax discount rate when measuring fair value of biological assets or agricultural produce. In alignment, this amendment also removes the requirement to exclude cash flows from taxation. As a result, entities would be able to measure fair value by discounting after-tax or pre-tax cash flows at a rate consistent with those cash flows.

4. Illustrative Examples accompanying IFRS 16 *Leases* – Lease Incentives

The IASB has made a minor change to the fact pattern of an illustrative example accompanying IFRS 16 *Leases* ("IFRS 16"), by deleting the part about a reimbursement of leasehold improvements - as it was not clear whether it meets the definition of a 'lease incentive'. This does not change any of the accounting requirements in IFRS 16 and entities shall continue to refer to the definition of 'lease incentives' in IFRS 16.

Transition

The amendments to IFRS 1, IAS 41 and IFRS 16 shall be applied on a retrospective basis. The amendments to IFRS 9 shall be applied on a prospective basis.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2023

Amendments to IAS 1 *Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current

Effective accounting periods beginning on or after 1 January 2023. Earlier application is permitted.

Key requirements

The amendment clarifies the requirements of paragraphs 69 to 76B of IAS 1 *Presentation of Financial Statements* ("IAS 1"), which set out the basis for classification of liabilities as current; those liabilities that do not meet such requirements must then be classified as non-current. The amendments provide clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date, as follows:

- *Assessment date* - Clarifying, explicitly, in the classification principle that classification must be assessed based on the entity's situation as at the end of the reporting period.
- *Right to defer settlement* - Clarifying that a liability should be classified as 'non-current' if "an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period". This therefore clarifying that the right to defer settlement no longer needs to be 'unconditional' and hence an entity may have a liability that is subject to compliance with specific conditions, but simply the existence of these conditions does not affect classification. In this case, a liability would be classified as 'non-current' where the entity has a right to defer settlement at the end of the reporting period and the entity complies with the conditions at that date, even if the lender will not test the entity's compliance until a later date.
- *Expectation and discretion* - Clarifying that a liability should be classified as 'non-current' if "an entity has the right (not discretion and expectation) to roll over an obligation for at least 12 months after the reporting period under an existing loan facility, even if it would otherwise be due within a shorter period". An entity's right to defer settlement must not, therefore, be affected by managements' expectations about whether a right will be exercised.
- *Settlement after the reporting period* - Clarifying that an entity's right to defer settlement must not be affected by the actual settlement of a liability between the end of a reporting period and the date the financial statements are authorised for issue. The liability should continue to be classified as non-current and appropriate disclosures provided under IAS 10 *Events after the Reporting Date*.

Transition

The amendment shall be applied on a retrospective basis.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Disclosure of Accounting Policies

Effective accounting periods beginning on or after 1 January 2023. Earlier application is permitted.

Key requirements

The amendment sets out new requirements for IAS 1 *Presentation of Financial Statements* ("IAS 1"), which require entities to disclose *material* accounting policy information, rather than *significant* accounting policies, and not to disclose immaterial accounting policy information. Along with supplementary amendments to IFRS Practice Statement 2 *Making Materiality Judgements*, the amendments provide guidance and examples of what is material accounting information.

The new requirements state that entities must disclose only material accounting policy information and that accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The following key points should be noted when assessing if accounting policy information is material and what should be disclosed:

- Accounting policy information considered in isolation would rarely be assessed as material because it would be unlikely to influence the decisions of users of financial statements.
- Accounting policy information is expected to be material if its disclosure were needed for users to understand information provided about material transactions, other events or conditions in the financial statements.
- Accounting policy information may be material because of the nature *or* amounts of the related transactions, other events or conditions.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2023 (continued)

- Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. If immaterial accounting policy information is disclosed, such information should not obscure material accounting policy information.
- Accounting policy information that focuses on how an entity has applied the requirements of IFRS to its own circumstances provides entity-specific information that is more useful to users than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.
- Not all accounting policy information relating to material transactions, other events or conditions is material. Accounting policy information is expected to be material if users of the financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions *and*:
  - the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
  - the entity chose the accounting policy from one or more options permitted by IFRS;
  - the accounting policy was developed in accordance with IAS 8 in the absence of an IFRS that specifically applies;
  - the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions as critical accounting judgements or key sources of estimation uncertainty; or
  - the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions.

Transition

The amendment affects only the disclosure of narrative and descriptive information and therefore, in accordance with paragraph 38 of IAS 1, comparative information is only required for narrative and descriptive information if it is 'relevant to understanding the current period's financial statements'. In most cases, comparative information would therefore not be expected to be disclosed.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates

Effective accounting periods beginning on or after 1 January 2023. Earlier application is permitted.

Key requirements

The amendment sets out new requirements for IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") that include a new definition of an accounting estimate and clarify what the distinction is between an accounting estimate and an accounting policy. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

The new definition states "accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty." Previously, IAS 8 only provided a definition for 'accounting policies' and a 'change in accounting estimate', which was considered to obscure the distinction between accounting policies and accounting estimates.

The amendment clarifies that an accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty; that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. An entity therefore uses measurement technique, including estimation techniques and valuation techniques, and inputs to develop an accounting estimate.

The requirements for how to account for a change in an accounting estimate remain the same; they are required to be accounted for on a prospective basis. However, the amendments clarify that an entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in the accounting of an estimate does not relate to prior periods and is not the correction of an error. Therefore, the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates, unless they result from the correction of prior period errors.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2023 (continued)

Transition

The amendment shall be applied on a prospective basis to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which the amendment is applied.

IFRS 17 *Insurance Contracts*

Effective accounting periods beginning on or after 1 January 2023.

Key requirements

IFRS 17 *Insurance Contracts* ("IFRS 17") is a new standard that will replace IFRS 4 *Insurance Contracts* ("IFRS 4"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The standard eliminates inconsistencies and weaknesses of existing practices through a single principle-based framework to account for all insurance contracts, including life, non-life, direct insurance and reinsurance contracts.

The standard measures all insurance contracts as the sum of fulfilment cash flows and a contractual service margin. The effect in profit or loss is to recognise profits over time as insurance services are provided while losses are recognised in full when expected. Changes in estimates of future cash flows related to fulfilment cash flows are recognised immediately in profit or loss or adjust unearned profits depending on whether they relate to past coverage or future coverage, respectively.

Entities may elect to present market changes, such as changes in market interest rates, either in profit or loss or to disaggregate and present in profit or loss and other comprehensive income. Entities may also elect to apply a simplified premium-allocation approach for contracts which have no significant expected changes in estimates before the claims are incurred, or contracts that cover a period less than one year.

The standard includes a variable fee approach for contracts with direct participation features. Under the variable fee approach the related obligations are measured to reflect changes in fair value of all underlying items.

Presentation and disclosure

The standard sets out enhanced requirements for presentation and disclosure improve comparability. Presentation in the statement of comprehensive income is consistent with the presentation of revenue in accordance with IFRS for other transactions. Along with other presentation changes, there are also a number of new disclosure requirements including significant judgements disclosures and disclosures of risks and risk mitigation.

Transition

The standard shall be applied on a retrospective basis, unless in certain circumstances for a group of insurance contracts where full retrospective application is impracticable. In such cases, an entity is required to choose the modified retrospective approach or the fair value approach.

Amendments to IFRS 17 *Insurance Contracts*

Effective accounting periods beginning on or after 1 January 2023.

Key requirements

The IASB has issued amendments to IFRS 17 to help companies implement the standard. The amendments do not change the fundamental principles of IFRS 17, but aim to:

- reduce the costs of implementation by simplifying some requirements, which includes:
  - providing more scope exclusions from IFRS 17;
  - allowing the presentation of insurance assets and liabilities on a portfolio basis; and
  - providing an option to change previous estimates made in interim financial statements as well as a simplified transition for companies that do not utilize the option;
- make financial performance easier to explain – the amended requirements cover the following topics:
  - the allocation of insurance acquisition cash flows to related expected contract renewals;
  - the recognition of expected recoveries of losses from reinsurance contracts;
  - the recognition of profit from insurance contracts without direct participation features; and
  - the application of the risk mitigation option when mitigating financial risks arising from insurance contracts with direct participation features;
- ease transition by deferring the effective date of IFRS 17 and introducing more transitional reliefs –
  - the effective date of IFRS 17 is now deferred to 1 January 2023. The exemption for insurance companies from applying IFRS 9 *Financial Instruments* also expires on 1 January 2023; and

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2023 (continued)

three additional transitional reliefs are provided relating to contracts acquired before transition, the risk mitigation option at transition, and investment contracts with discretionary participation features.

Additional scope exclusions from IFRS 17

The amendment excludes credit card contracts or similar contracts (e.g. charge card contracts that provide credit or payment arrangements) that meet the definition of an insurance contract from the scope of IFRS 17, if insurance risk is not priced into the contract. However, If IFRS 9 requires the separation of an insurance coverage component, IFRS 17 shall be applied to that component only.

Certain loan contracts are also excluded, if they meet the definition of an insurance contract but the amount of insurance compensation is limited to that of the policyholder's obligation (e.g. loans with death waivers). The amendment provides an option to apply either IFRS 17 or IFRS 9 to such contracts, unless they are excluded from the scope of IFRS 17. The choice shall be made on a portfolio and is irrevocable.

The presentation of insurance assets and liabilities on a portfolio basis

The amendment simplifies the presentation of insurance contract assets and liabilities on the balance sheet to a portfolio level, instead of in groups. As a result, companies no longer need to integrate independent systems solely for the purpose of presenting insurance contracts on the balance sheet at a group level. The amendment will also reduce the amount of insurance contract assets presented on the balance sheet.

The effects of previous interim financial statements

The amendment allows companies, who prepare interim financial statements, the option to change the estimates made in previous interim financial statements when applying IFRS 17 subsequently (e.g. when preparing annual financial statements). The choice of utilizing this option, once made, applies to all insurance contracts and all reinsurance contracts of the company.

As a result, companies in a consolidated group that report on different dates no longer need to maintain two sets of records to reflect the different accounting estimates applied in interim and annual reports.

If a company chooses not to change the estimates made in previous interim financial statement, it shall determine the contractual service margin or loss component at the transition date, as if the company had not prepared interim financial statements before the transition date.

Allocation of insurance acquisition cash flows to related expected contract renewals

The amendment requires companies to allocate part of the insurance acquisition cash flows to related expected contract renewals, unless the companies choose to recognise them as expenses when the coverage period is less than a year. An asset will be recognised in terms of insurance acquisition cash flows paid or payable until the company recognises the contract renewals. These requirements apply similarly to insurance contracts acquired in business combinations.

The asset recognised will be assessed for impairment (i.e. when the company no longer expects the contract renewal supporting the recognised asset to occur) at each reporting date and subject to additional disclosure requirements and transitional guidance.

The amendment is expected to:

- result in the recognition of larger, longer-lived assets for acquisition costs; and
- prevent the presentation of some insurance contracts as loss making because the acquisition costs exceed to premium of the initial contract, but future renewals are expected.

Recognition of expected recoveries of losses from reinsurance contracts

The amendment requires a company to recognise the following items separately, but at the same time:

- losses on loss-making insurance contracts on initial recognition; and
- the expected recoveries of those losses from reinsurance contracts held.

A company determines the amount of a loss recovered from a reinsurance contract held by multiplying:

- the loss it recognises on the underlying insurance contracts; and
- the percentage of claims on the underlying insurance contracts it expects to recover from the reinsurance contract held.

The amendment is intended to reduce the accounting mismatches for reinsurance and make it easier to explain the accounting for reinsurance contracts held

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2023 (continued)

to investors.

The reinsurance contracts shall be entered into before or at the same time as the loss-making insurance contracts were recognised. At transition, if a company does not know the date it entered into a reinsurance contract, it shall not identify a loss-recovery component for the group of reinsurance contracts held.

Recognition of profit from insurance contracts without direct participation features

The amendment also requires a company that issues insurance contracts without direct participation features to recognise profit when:

- the company performs investment activities to enhance benefits from insurance coverage to the policyholder; or
- the company provides an investment-return service.

Insurance contracts without direct participation features may provide an investment-return service if:

- an investment component exists, or the policyholder has a right to withdraw an amount;
- such component is expected to include an investment return (which could be below zero, for example, in a negative interest rate environment); and
- the company expects to perform investment activity to generate that investment return.

The amendment is expected to change the pattern of profit recognition to better align it with the provision of different services when a company provides investment services.

Application of the risk mitigation option

IFRS 17 allows a company to apply the risk mitigation option (i.e. recognising changes in the mitigated financial risks in profit or loss, instead of adjusting the contractual service margin) when it uses derivatives to mitigate financial risks arising from insurance contracts with direct participation features.

The amendment also enables a company to apply the risk mitigation option when mitigating financial risks using reinsurance contracts held, or non-derivative financial instruments measured at fair value through profit or loss.

The amendment is expected to reduce accounting mismatches and make it easier to explain the accounting for insurance contracts to investors.

Additional transitional reliefs

The amendment provides three additional transitional reliefs:

- contracts acquired before transition – The amendment permits a company to account for a liability for claims settlement of a contract acquired before the date of transition to IFRS 17 as a liability for incurred claims, instead of as a liability for remaining coverage. As a result, a company uses one system to manage all liabilities for claims settlement will not need to distinguish between contracts it issued and contracts it acquired.
- risk mitigation option at transition – The amendment permits a company to apply the risk mitigation option prospectively from the beginning of the comparative period (i.e.. one year earlier than previously permitted). A company is also permitted, in some circumstances, to use the fair value transition approach to measure a group of insurance contracts at transition that the company would otherwise account for retrospectively.
- Investment contracts with discretionary participation features – The amendment permits a company, in some circumstances, to use information available at the date of transition to IFRS 17 (instead of at inception or initial recognition of a contract), to assess whether a contract is an investment contract with discretionary participation features.

03

Post-Implementation Reviews

Post-Implementation Reviews – Purpose and process

After approximately two years following the global application of a new standard or a significant amendment to an existing standard, the IASB carry out a Post-Implementation Review ("PIR") that takes a holistic look at an entire standard and considers whether it can be improved.

The purpose is to consider, with input from stakeholders, whether the standard functions as expected and whether the information it requires entities to provide is useful to users of financial statements. A PIR also assesses whether any unexpected costs have arisen during implementation.

The IASB's Due Process Handbook outlines why, when and how PIRs are conducted. A PIR is not intended to be a cover-to-cover reconsideration of the entire underlying standard, but it does start with an initial assessment of how well the new standard is performing in practice and includes outreach to the IASB's consultative network.

After the initial assessment, the IASB may determine no additional research is necessary. However, if important issues are identified, then a formal Request for Information ("RFI") will be published, seeking input on specific topics from any interested constituent. After the RFI responses are analysed, the IASB then determines the next steps, which could range from standard-setting to a conclusion that no additional work is necessary.

Currently, the IASB has the following PIRs on-going and completed:

- IFRS 8 *Operating Segments* – Completed July 2013
- IFRS 3 *Business Combinations* – Completed June 2015
- IFRS 13 *Fair Value Measurement* – Completed March 2018
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* – On-going

IFRS 8 *Operating Segments*

The review of IFRS 8 concluded that the standard is generally functioning as anticipated.

IFRS 3 *Business Combinations*

The review of IFRS 3 identified that stakeholders found difficulties in certain areas of the requirements of IFRS 3 and therefore the IASB decided to undertake two follow-up projects relating the definition of a business and to goodwill and impairment.

Definition of a business

The project on the definition of a business resulted in the amendments made to IFRS 3, which are effective for accounting periods beginning on or after January 2020.

Goodwill & Impairment

The goodwill and impairment project is currently on-going; further details can be found on the IASB's website: Goodwill & Impairment.

Currently the project is at the preliminary consultation phase, with the issue of the *Discussion Paper: Business Combinations – Disclosures, Goodwill and Impairment*,. The IASB's preliminary views, which would affect IAS 36 *Impairment of Assets* ("IAS 36") in relation to goodwill and impairment testing and IFRS 3 *Business Combinations* ("IFRS 3") in relation to acquisition disclosures, include:

- enhancing disclosures about acquired businesses and subsequent performance of those businesses;
- requiring the presentation of the total amount of equity excluding goodwill on entities' balance sheets;

Post-Implementation Reviews (continued)

- providing relief from performing mandatory annual quantitative impairment testing;
- simplifying the requirements for determining value in use, for example by permitting entites to use post-tax cashflows and discount rates (rather than pre-tax values); and
- not changing the current impairment test for goodwill, including not reintroducing amortisation of goodwill.

The original deadline for responding is 15 September 2019. In April 2020 the IASB has decided to extend the deadline by three months to 31 December 2019.

IFRS 13 *Fair Value Measurement*

The IASB 's review found that IFRS 13 is generally working as intended, in particular:

- the information required by IFRS 13 is useful to users of financial statements;
- some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement. However, evidence suggests that practice is developing to resolve these challenges; and
- no unexpected costs have arisen from application of IFRS 13.

As a follow-up, the IASB has decided to:

- feed the PIR findings regarding the usefulness of information disclosed into the work on Better Communication in Financial Reporting, in particular into the projects on Targeted Standards-level Review of Disclosures and the Primary Financial Statements;
- continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and
- conduct no other follow-up in response to findings from the PIR.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

The IASB has launched the second phase of the post-implementation review ("PIR") of the consolidation standards, IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 *Joint Arrangements* ("IFRS 11") and IFRS 12 *Disclosures of Interests in other Entities* ("IFRS 12").

The first phase began in September 2019 involving an initial identification and assessment of the matters to be examined. This phase focuses on specific application issues across the three standards:

Within IFRS 10, the review focuses on:

- evaluating the conditions for assessing the existence of control, including: (i) the assessment of "power" when several investors each have rights over different relevant activities, or when the distinction between protective and substantive rights is complex, or when an investor has less than a majority of the voting rights and the other shareholdings are widely dispersed; and (ii) assessment of the status of a decision maker (i.e. principal or agent) where remuneration is dependent on future events, or where there is a de facto agency relationship;
- the consolidation exception for interests held by an investment entity: the principles defining an investment entity can be difficult to apply and the information may be less relevant than in the case of consolidation; and
- the absence of an explicit accounting treatment for situations in which the relationship between the parent and its subsidiary alters, leading to loss of control of a subsidiary, and uncertainties about how to consolidate a subsidiary which does not constitute a business.

Within IFRS 11, the review focuses on:

- relevance of the equity method to collaborative arrangements without joint control;
- the complexity of determining whether a joint arrangement is a joint operation or a joint venture in light of the "other facts and circumstances"; and
- the complexity of the accounting treatment of joint operations: (i) when the share of ownership differs from the share of revenue; or (ii) where a joint operator has entered into agreements on behalf of the joint operation.

Within IFRS 12, the review considers whether the requirements are too detailed, or potential inadequate, for disclosures of interests in other entities and disclosures on significant non-controlling interests.

04

Other useful publications for IFRS reporters

Introduction

The IASB, and other regulatory bodies such as the IFRS Foundation ("Foundation") and the European Securities and Market Authority ("ESMA"), may issue publications that provide supplementary guidance to entities when preparing their annual reports and financial statements.

Useful publications, currently in issue, are as follows:

- IFRS Foundation – Guide to Selecting and Applying Accounting Policies under IAS 8 (November 2019)
- IASB – Guidance to assist in applying IFRS 16 in relation to lease modifications (April 2020)
- ESMA – Guidelines on Alternative Performance Measures ("APMs") updated for the impact of Covid-19 (April 2020)
- IFRS Foundation – Compilation of Agenda Decisions: January 2019 to September 2019 (October 2019)
- IFRS Foundation – Compilation of Agenda Decisions: October 2019 to March 2020 (April 2020)
- IFRS Foundation – Compilation of Agenda Decisions: April 2020 to October 2020 (October 2020)
- ESMA – Public statement calling for transparency in half-yearly reports from the impact of Covid-19 (May 2020)
- IFRS Foundation – Guidance to support the application of the IFRS going concern requirements (January 2021)

Other useful publications for IFRS reporters (continued)

IFRS Foundation – Guide to Selecting and Applying Accounting Policies under IAS 8

The IFRS Foundation has published: *Guide to Selecting and Applying Accounting Policies – IAS 8* to help entities make judgements surrounding, the often difficult area of, selecting and applying accounting policies, under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8"), particularly when an IFRS standard does not specifically deal with a transaction, event or condition.

Key aspects of the guidance

The guide provides a useful and simple step-by-step process to help entities work out whether they should be applying: (a) a specific IFRS standard; (b) another IFRS standard with a similar or related issue; or (c) the Conceptual Framework, to apply or determine an accounting policy. The guide sets out a three key step process, includes practical illustrative examples to demonstrate how the process should be used and what judgements entities should consider, as well as containing disclosure guidance.

Three key step process

The three key step process is as follows:

Step 1: Does an IFRS standard specifically apply to the transaction, other event or condition? If yes, the entity shall apply the requirements of that standard, even if they contradict the *Conceptual Framework.*

Step 2: If there is no IFRS standard that specifically applies to the transaction, other event or condition, do any IFRS standards include requirements for similar or related issues? If yes, the entity shall apply these requirements. The guide specifies that preparers shall use their judgement on whether to apply all aspects of a standard that are applicable to a particular issue (including disclosure requirements, where relevant). In other words, in some cases it may be appropriate to apply all, or more than one part, of the requirements of an IFRS standard that deals with similar or related issues, if there are other requirements in that standard that also relate to the transaction for which the accounting policy is being developed. In other cases, it may not be necessary to apply all the requirements of the standard.

Step 3: If there is no IFRS standard that deals with similar or related issues, entities must consider the applicability of the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses set out in the Conceptual Framework.

Illustrative examples

For each step, the guide provides illustrative examples, as follows

Example 1: A levy triggered when an entity generates revenue in two years demonstrating that IFRS 21 applies over the Conceptual Framework (step 1);

Example 2: Classification of a financial instrument with no contractual obligation to deliver cash or another financial asset demonstrating that IAS 32 applies over the Conceptual Framework (step 1);

Example 3: Back-to-back commodity loans demonstrating the process and judgements that an entity would need to consider if it is concluded that there is no IFRS standard that specifically applies (step 2); and

Example 4: Tax deposit demonstrating the process and judgements that an entity would need to consider if it is concluded that there is no IFRS standard that specifically applies and how the Conceptual Framework could be applied (step 3).

Disclosure guidance

The guide makes it clear that in situations where no IFRS standard applies specifically to a given transaction (and there are thus no disclosure requirements that apply specifically to that transaction), IAS 1 lists general disclosure requirements that must be met.

IASB – Guide to applying IFRS 16 in relation to lease modifications

The International Accounting Standards Board ("IASB") issued an amendment to IFRS 16 *Leases* ("IFRS 16") (May 2020), which grants lessees an optional relief from the need to assess whether Covid-19-related rent concessions should be accounted for as lease modifications. However, entities can choose not to take advantage of the relief – in that regard, the IASB has also issued some guidance to help entities apply IFRS 16, specifically in relation to the assessment of, and accounting for lease modifications.

Key aspects of the guidance

The Covid-19 pandemic has seen some lessors providing rent holidays to commercial lessees, which result in changes in lease payments. The guidance aims to address some issues in applying IFRS 16 in this context, including:

- *Accounting treatment for rent concessions* – Whether to account for the resulting changes in lease payments as a lease modification, variable lease payment or partial de-recognition of lease liability?

Other useful publications for IFRS reporters (continued)

- *Impairment of assets* – How to assess whether the rent concessions have caused impairment to right-of-use assets (for lessees) and underlying assets of the lease contracts (for lessors)?
- *Disclosure* – What disclosure requirements should be met?

Three key step process – Accounting for rent concessions

The three key step process is as follows:

Step 1: To assess whether the rent concessions have caused a **change in the scope of a lease**, or the **consideration for a lease**.

- **Whether there has been a change in the scope of the lease** -– an entity considers whether there has been a change in the right of use conveyed to the lessee by the contract. Examples of a change in the scope of a lease include adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term. A rent holiday or rent reduction alone is not a change in the scope of a lease.
- **Whether there has been a change in the consideration for a lease** -– an entity considers the overall effect of any change in the lease payments. For example, if a lessee does not make lease payments for a three-month period, the lease payments for periods thereafter may be increased proportionally in a way that means that the consideration for the lease is unchanged. However, if there is no subsequent change to the future lease payments following the three-month period, then the consideration for the lease will have changed.

If there is no change in either the scope of the lease or the consideration for the lease, then there is no lease modification. The entity would account for the rent concessions as a variable lease payment.

If there has been a change in either the scope of or the consideration for the lease, please proceed to Step 2.

Step 2: To consider whether that change was **part of the original terms and conditions** of the lease.

In this assessment, the entity considers both the terms and conditions of the contract and all relevant facts and circumstances, including statutory or other law or regulation applicable to lease contracts.

For example, lease contracts or applicable law or regulation may contain clauses that result in changes to payments if particular events occur or circumstances arise. Government action (for example, requiring the closure of retail stores for a period of time because of Covid-19) might be relevant to the legal interpretation of clauses, such as force majeure, that were in the original contract or in applicable law or regulation.

Changes in lease payments that result from clauses in the original contract or in applicable law or regulation are part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the Covid-19 pandemic) was not previously contemplated. In such a case there is no lease modification. The entity would account for the rent concessions as a variable lease payment.

Step 3: The accounting for a change which results from a lease modification.

If the entity does not consider the change to be incorporated in the original terms and conditions of the lease, it would account for the rent concessions as a lease modification. A lessee applies paragraphs 44-46 of IFRS 16 and a lessor applies paragraphs 79-80 or paragraph 87 of IFRS 16 in respect of a lease modification. In lessee accounting, this may result in a change to the lease liability and the right of use asset (depending on if the change does not otherwise change the scope of the lease).

Modifications to leases (which are not recognised as a separate lease) result in the remeasurement of the lease liability using the discount rate at the date of the modification.

Further, if a change in lease payments results in the extinguishment of a part of a lessee's obligation specified in the contract (for example, a lessee is legally released from its obligation to make specifically identified payments), the lessee would consider whether the requirements for derecognition of a part of the lease liability are met applying paragraph 3.3.1 of IFRS 9 *Financial Instruments*.

Key aspects of the guidance – Impairment of assets

IAS 36 *Impairment of Assets* applies in determining whether right-of-use assets (for lessees) and items of property, plant and equipment subject to an operating lease (for lessors) are impaired.

The circumstances that give rise to Covid-19 related rent concessions are likely to indicate that assets may be impaired. For example, loss of earnings during the period covered by a rent concession may be an indicator of impairment of the related right-of-use asset. Similarly, longer-term effects of the Covid-19 pandemic could affect the expected ongoing economic performance of right-of-use assets. Lessors will also need to consider the applicable requirements of IFRS 9, for example when accounting for any impairment of lease receivables.

Other useful publications for IFRS reporters (continued)

Key aspects of the guidance – Disclosure

Lessees and lessors must also apply the disclosure requirements of IFRS 16 and other IFRS Standards, such as IAS 1 *Presentation of Financial Statements*. The information disclosed will need to be sufficient to enable users of financial statements to understand the impact of Covid-19 related changes in lease payments on the entity's financial position, financial performance and cash flows.

ESMA – Guidelines on Alternative Performance Measures ("APMs")

The European Securities and Market Authority (ESMA) has updated its guidelines on Alternative Performance Measures ("APMs"), to include a new guideline in relation to use of APMs in the context of Covid-19.

ESMA guidelines are aimed at entities who are required to follow the Transparency Directive (i.e. listed entities), however they are applicable to all entities reporting APMs.

Key aspects of the guidance

ESMA clarifies in Question 18 of the guidelines that it may not be appropriate to include new APMs or to adjust previous APMs when the impact of Covid-19 has a pervasive effect on the financial statements of an issuer. Instead, ESMA urges issuers to improve their disclosures and include narrative information to explain how Covid-19 is expected to impact their operations and performance, the level of uncertainty and the measures adopted to address the impact of Covid-19. These explanations may include, where applicable, details on how the specific circumstances related to Covid-19 affected the assumptions and estimates used in the determination of inputs to APMs, for example impairment losses, expected lease payment reductions or grants received.

ESMA reminds issuers that the definition and calculation of an APM should be consistent over time; and further reminds issuers that, before making adjustments to previously used APMs or including new APMs, issuers should carefully assess whether the intended adjustments or new APMs would provide transparent and useful information to the market, improve comparability, reliability and/or comprehensibility of APMs and of the financial information disclosed to the market.

IFRS Foundation – Compilation of agenda decisions from January 2019 to September 2020 (Volumes 1 to 3)

The IFRS Interpretations Committee ("Committee") publishes an agenda decision when, following consultation, it concludes that standard-setting is not required to address a question it receives about the application of IFRS Standards. Standard-setting is often not required because principles and requirements in the Standards are adequate to address the question.

In such situations, the agenda decision includes material that explains how the applicable principles and requirements in the Standards apply to the transaction or fact pattern described in the Agenda Decision. These agenda decisions are therefore useful in assisting issuers apply existing IFRS requirements when they have similar transactions.

The *Compilation of Agenda Decisions – Volume 1* brings together agenda decisions published by the IFRS Interpretations Committee from January 2019 to September 2020. The agenda decisions included in the Complication of Agenda Decisions – Volume 1 are:

- Credit Enhancement in the Measurement of Expected Credit Losses; Curing of a Credit-impaired Financial Asset; Physical Settlement of Contracts to Buy or Sell a Non-financial Item; and Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9 *Financial Instruments*);
- Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument ((IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*);
- Liabilities in relation to a Joint Operator's Interest in a Joint Operation; and Sale of Output by a Joint Operator (IFRS 11 *Joint Arrangements*);
- Assessment of promised goods or services; Costs to Fulfil a Contract; and Compensation for Delays or Cancellations (IFRS 15 *Revenue from Contracts with Customers*);
- Subsurface Rights; and Lessee's Incremental Borrowing Rate (IFRS 16 *Leases*);
- Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1 *Presentation of Financial Statements*);
- Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7 *Statement of Cash Flows*);
- Effect of a Potential Discount on Plan Classification (IAS 19 *Employee Benefits*);
- Over Time Transfer of Constructed Good (IAS 23 *Borrowing Costs*);

Other useful publications for IFRS reporters (continued)

- Investment in a subsidiary accounted for at cost: Partial disposal; and Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*);
- Deposits relating to taxes other than income tax (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*);
- Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud (IAS 38 *Intangible Assets*);
- Holdings of Cryptocurrencies (IAS 38 *Intangible Assets* and IAS 2 *Inventories*); and
- Subsequent Expenditure on Biological Assets (IAS 41 *Agriculture*).

The *Compilation of Agenda Decisions – Volume 2* brings together agenda decisions published by the IFRS Interpretations Committee from October 2019 to March 2020. The agenda decisions included in the Complication of Agenda Decisions – Volume 2 are:

- Training Costs to Fulfil a Contract (IFRS 15 *Revenue From Contracts With Customers and* IAS 38 *Intangible Assets*);
- Definition of a Lease - Decision-making Rights (IFRS 16 *Leases*);
- Lease Term and Useful Life of Leasehold Improvements (IFRS 16 *Leases* and IAS 16 *Property, Plant And Equipment*);
- Translation of a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 *The Effects Of Changes In Foreign Exchange Rates* and IAS 29 *Financial Reporting In Hyperinflationary Economies*);
- Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (as above); and
- Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary (as above).

The *Compilation of Agenda Decisions – Volume 3* brings together agenda decisions published by the IFRS Interpretations Committee from April 2020 to September 2020. The agenda decisions included in the Complication of Agenda Decisions – Volume 3 are:

- IFRS 16 *Leases* – Sale and Leaseback with Variable Payments (June 2020);
- IAS 12 *Income Taxes* – Multiple Tax Consequences of Recovering an Asset (April 2020);
- IAS 12 *Income Taxes* – Deferred Tax related to an Investment in a Subsidiary (June 2020); and
- IAS 38 *Intangible Assets* – Player Transfer Payments (June 2020)

ESMA – Public statement calling for transparency in half-yearly reports

The European Securities and Market Authority ("ESMA") has issued a public statement calling for transparency and the consistent application of European requirements when providing information on Covid-19 in entities' half-year financial reports. The statement covers both IFRS interim financial statements and interim management reports for 2020 half-yearly reporting periods.

Although ESMA acknowledged that entities may publish their interim financial statements later than usual, it emphasizes the need to provide timely and relevant information as well as disclosing material events after the interim period. Specifically, ESMA draws attention to a number of issues in the 2020 half-year financial reports and other interim reports prepared under IAS 34 *Interim Financial Reporting* ("IAS 34").

Key aspects of the guidance

ESMA draws attention to a number of issues in the 2020 half-year financial reports and other interim reports prepared under IAS 34, including:

- ***Update on Covid-19 as a significant event since the end of the last annual reporting period*** – ESMA expects this update to be particularly extensive for the upcoming half-year reports, as Covid-19 would constitute a significant event for many issuers. ESMA also urges the need to go beyond minimum disclosures under IAS 34 when additional disclosures are necessary to enable a user's understanding. This means that some disclosures would be as extensive as provided in a complete set of financial statements.
- ***Transparency on relief and support measures which require compliance with certain conditions*** – ESMA recommends that issuers provide transparency on those measures, including eligibility, conditions, consequences and underlying judgements. To this end, they might consider disclosure requirements in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, IAS 12 *Income Taxes* and IFRS 16 *Leases*.

Other useful publications for IFRS reporters (continued)

- ***Disclosures reflecting significant uncertainties linked to Covid-19*** – ESMA urges issuers to update the assumptions about major sources of estimation uncertainty in relation to the carrying amounts of assets and liabilities. In addition, it notes that IAS 34 requires disclosure of the nature and amount of changes in estimates since the last financial reporting period.
- ***Going concern*** – When Covid-19 casts doubt on an issuer's ability to continue as a going concern, the uncertainties shall be disclosed reflecting all available information at a minimum of twelve months forward, including the expected profitability and any restrictions to access financial resources. If significant judgment is involved in concluding that no material uncertainties remain on going concern, such judgement shall be disclosed
- ***Financial risks triggered by Covid-19*** – Event and transactions that might unveil financial risks include, for example, debt renegotiations, new financial arrangements and the breach of debt covenants. ESMA reminds issuers to update information on the exposure to credit risk, liquidity risk, and other risks and related sensitivities as required under IFRS 7 *Financial Instruments: Disclosures*. These disclosures may also be relevant to the calculation of expected credit losses under IFRS 9 *Financial Instruments*, including disclosures to explain the assumptions and judgements applied, which are addressed in another public statement.
- ***Impairment of non-financial assets*** – ESMA reminds issuers to assess whether Covid-19 has triggered any impairment indicators in IAS 36 *Impairment of Assets*. ESMA also notes that the estimation of recoverable amount may require weightings of multiple scenarios on the basis of reasonable, supportable and realistic estimates and assumptions. If reasonable approximations are used for such estimations, the approximations shall be carefully assessed considering the level of risk that an impairment loss may occur for the tested asset. In addition, ESMA specifically highlights the need to use appropriate discount rates as required under IAS 36, as well as updating the disclosure of significant judgement, assumptions and sensitivity analyses in relation to impairment assessments.
- ***Quantitative disclosure of the impacts of Covid-19 in the notes*** – ESMA cautions against any separate presentation of the impacts of Covid-19 in issuers' profit or loss statement. However, ESMA encourages quantitative disclosure of the impacts of COVID-19 in the notes, as part of the explanations of amounts in the statement of profit or loss.
- ***Other disclosure requirements*** – ESMA highlights other disclosure requirements for issuers to consider, including the recognition of deferred tax assets and tax reliefs in accordance with IAS 12 *Income Taxes*, fair value measurement in accordance with IFRS 13 *Fair Value*, provisions and onerous contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and insurance contracts liabilities.
- ***Interim management reports*** – ESMA recommends that issuers disclose the impact of Covid-19 on their strategy, business operations, financial position and performance and cash flows, as well as mitigating actions to address the impact. If available, issuers are also encouraged to disclose the expected future impact on the business as well as contingency measures to mitigate the expected impact, risks and uncertainties.

IFRS Foundation – Guidance to support the application of the IFRS going concern requirements

The IFRS Foundation has published useful guidance: *Going concern – A focus on disclosure* to support entities in the application of the IFRS when preparing their financial statements on a going concern basis.

Key aspects of the guidance

Given the current environment, many entities have seen a downturn in their revenue, profitability and hence liquidity which may raise questions to a greater, or lesser, extent about their ability to continue as a going concern.

This guidance therefore is helpful at explaining the IFRS requirements surrounding going concern, specifically given that making the going concern assessment at this time (i.e. deciding whether the financial statements should be prepared on a going concern basis or not) will likely involve a greater degree of judgement than usual.

The guidance specifically considers the disclosures required and highlights the interactions between the general requirements of IAS 1 *Presentation of Financial Statements* ("IAS 1") to disclose the basis of preparation and the specific requirements for reporting on a going concern basis, whilst also reflecting the impact of significant judgements made when making the going concern assessment.

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:

Steve Brice

Partner, Accounting Technical Services

T : +44 (0) 7795 348657

E: steve.brice@mazars.co.uk

Jessica Howard

Director, Accounting Technical Services

T: +44 (0) 7794 031373

E: jessica.howard@mazars.co.uk

mazars

The contents of this document are confidential and not for distribution to anyone other than the recipients. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP.

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 42,000 professionals – 26,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners' names is available for inspection at the firm's registered office, Tower Bridge House, St Katharine's Way, London E1W 1DD. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

© Mazars 2021

www.mazars.com