Financial Reporting Update for Executives 2021

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What we will cover:

- Future horizon: IASB project update including
  - ED: Disclosure Requirements in IFRS Standards – A Pilot Approach
  - ED: Subsidiaries without Public Accountability
  - ED: Management Commentary
- Business implications of amendments to IFRSs including:
  - Definition of Accounting Estimates (Amendments to IAS 8)
  - Disclosure Initiative: Accounting Policies (Amendments to IAS 1)
  - IBOR Reform and its Effects on Financial Reporting—Phase 2
  - Covid-19-related Rent Concessions (Amendments to IFRS 16)
- Business implications of recent IFRIC Agenda Decisions:
  - Configuration or Customisation Costs in a Cloud Computing Arrangement
  - Hedging Variability in Cash Flows due to Real Interest Rates
  - Preparation of Financial Statements when an Entity is No Longer a Going Concern
  - Costs Necessary to Sell Inventories

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WHAT'S THE IASB WORKING ON?

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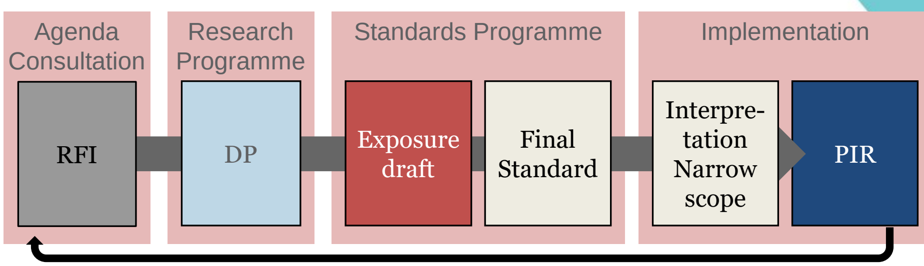
IASB work process



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Research Projects

- Business Combinations under Common Control
- Dynamic Risk Management
- Extractive Industries
- Goodwill and Impairment
- Pension Benefits that Depend on Asset Returns
- PIR IFRS 10, 11 , 12
- Equity method
- PIR IFRS 9: Classification and measurement

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Standard setting projects

Management Commentary	• ED Q2 2021 -> 23/11/21
Primary Financial Statements	• IFRS Standard ?
Rate-Regulated Activities	• ED out until 30/07/21
DI: Subsidiaries that are SMEs	• ED Q3 2021 -> H1 2022
DI: Targeted Standards-level Review of Disclosures	• ED -> 21/10/21
Financial Instruments with Characteristics of Equity	• ED
Comprehensive review of IFRS for SMEs	• ED

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Maintenance projects

- Lease Liability in Sale and Leaseback
- Availability of a Refund (IFRIC 14)
- Lack of Exchangeability (IAS 21)
- Provisions – Targeted improvements
- Classification of debt with covenants as Current or Non-current (IAS 1)
- Supplier Finance Arrangements
- Initial Application of IFRS 17 & IFRS 9

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BETTER COMMUNICATION

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Central theme of the Board's work

Better Communication in Financial Reporting

Information outside financial statements

Content

Primary Financial Statements

Disclosure Initiative

Management Commentary

Delivery

IFRS Taxonomy

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Disclosure Initiative—the disclosure problem

- The Board has identified <u>three main concerns</u> about disclosures in financial statements:
  - not enough relevant information
  - too much irrelevant information
  - ineffective communication

enabling preparer judgement + improved disclosure requiremen ts = improved disclosures & better communicat ion

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Materiality

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Materiality judgements are pervasive

Entity makes materiality judgements on:

- **Recognition and measurement issues**
  - IFRS applies where material
  - E.g.: When to capitalise or expense a small item of PP&E
- **Presentation and disclosure requirements**
  - Don't need to disclose everything in the CHECKLIST
  - E.g.: IAS 16 requires disclosure of contractual commitments for acquisition of PP&E

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Example, extracts from IAS 1 dealing with aggregation of disclosures:

An entity shall *present separately each material class of similar items*. An entity shall present separately items of a dissimilar nature or function *unless they are immaterial*…

…Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function.…If a *line item is not individually material, it is aggregated with other items* either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

…Some *IFRSs specify information that is required to be included in the financial statements*, which include the notes. An entity *need not provide a specific disclosure* required by an IFRS *if the information resulting from that disclosure is not material*.

Example, extracts from IAS 1 dealing with SOCI disclosures:

When items of income or expense are *material*, an entity shall disclose their nature and amount separately.…

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Disclosure Initiative—completed projects

- Amendments to IAS 1 and IAS 8—**Definition of Material**
- **Materiality Practice Statement**
- Better Communication **Case Studies**
- Amendments to IAS 1 to remove barriers **to application of judgement**
- **Amendments to IAS 7** to improve disclosure of changes in liabilities (including non-cash flows) in financing activities
- Accounting Policies

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LOOKING FORWARD
DISCLOSURE INITIATIVE

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Primary Financial Statements project

Objective: To improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss

2015	2016-2019	Q4 2019	Q1–Q3 2020	Q4 2020
Agenda Consultation identified the project as a priority	Board discussions to develop Exposure Draft	Exposure Draft published for public comment	Comment period* (ends 30 September)	Board starts redeliberations

*Extended from 30 June due to covid-19 pandemic.

The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements*

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Project responds to investor needs

What investors say	Board's main proposals
Subtotals in the statement of profit or loss need to be comparable between different companies.	1 Require companies to present additional defined subtotals in the statement of profit or loss.
Companies should provide more granular information and information grouped in a way that provides better inputs for our analysis.	2 Strengthen requirements for disaggregating information.
Performance measures defined by management can provide useful information, but should be used in a more transparent and disciplined way.	3 Require companies to disclose information about management performance measures in the notes.

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	Revenue	347,000	Operating
	Other income	3,800	
	Changes in inventories of finished goods and work in progress	3,000	
	Raw materials used	(146,000)	
	Employee benefits	(107,000)	
	Depreciation	(27,000)	
	Amortisation	(12,500)	
	Impairment of property, plant and equipment	(8,000)	
	Impairment of trade receivables	(6,500)	
	Professional fees and other expenses	(5,530)	
1	**Operating profit**	**41,270**	
	Share of profit or loss of integral associates and joint ventures	(600)	Integral associates and joint ventures
2	**Operating profit and income and expenses from integral associates and joint ventures**	**40,670**	
	Share of profit or loss of non-integral associates and joint ventures	3,380	Investing
	Dividend income	3,550	
3	**Profit before financing and income tax**	**47,600**	
	Expenses from financing activities	(3,800)	Financing
	Unwinding of discount on pension liabilities and provisions	(3,000)	
	Profit before tax	40,800	
	Income tax	(7,200)	
	Profit for the year	33,600	

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The Exposure Draft

New IFRS Standard	Proposed **new** presentation and disclosure requirements +	Related requirements brought forward from **IAS 1** with limited wording changes
Amendments to other Standards	• IAS 7—statement of cash flows • IFRS 12—associates and JVs • IAS 33—earnings per share • IAS 34—interim reporting	Other requirements of **IAS 1**—moved to IAS 8 and IFRS 7

Withdraw IAS 1

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Disclosure Initiative—Targeted Standards-level Review of Disclosures

Objective

- help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- develop guidance for the Board to use when developing and drafting disclosure objectives and requirements (as a set of Board decisions)
- **not to change the volume of disclosure requirements**, although this may be a consequence

Next steps

- test the draft guidance for the Board by applying it to **IAS 19 *Employee Benefits*** and **IFRS 13 *Fair Value Measurement***
- publish an exposure draft of amendments to the disclosure requirements in IAS 19 and IFRS 13, where formal stakeholder feedback on the draft guidance for the Board will be obtained

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Subsidiaries without public accountability

Objective

- Board is proposing a new IFRS Standard that will **permit subsidiaries** that are **SMEs to apply:**
  - recognition and measurement requirements of IFRS Standards; and
  - disclosure requirements of the *IFRS for SMEs* Standard

Current stage

- ED published July 2021
- Eliminate the need to maintain an additional set of accounting records for reporting purposes (if sub currently does not apply IFRS Standards in its own financial statements);
- New Standard will be optional for a subsidiary that is eligible to apply it;
- Set out disclosure requirements for a subsidiary that elects to apply the Standard; and
- Specifies the disclosure requirements in other IFRS Standards that do not apply and are replaced if a subsidiary elects to apply the draft Standard

Next steps

- Comment period closes end January 2022.

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Management Commentary

Objective

- Management commentary is information prepared for a company's investors and creditors to complement the company's financial statements.
- Helps explain the amounts reported in those financial statements and it gives management's insights into factors that could affect the company's future prospects.

Current stage

- ED published May 2021
- New proposals for a comprehensive framework that would enable companies to bring together the information investors and creditors need to assess a company's long-term prospects, including information about the company's intangible resources and relationships and about sustainability matters affecting the company.
- New framework Is intended to replace IFRS Practice Statement 1, providing both:
  - sufficient flexibility for a company to be able to tell its unique story, focusing on what is important to the company's long-term prospects; and
  - an effective basis for regulators to enforce the revised Practice Statement and for auditors to assess compliance with it.

Next steps

- Comment period closes November 2021.

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OTHER PROJECTS

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Other projects

Third Agenda Consultation

- Initiated September 2019 with input from IFRS Advisory Council
- Delayed due to COVID-19
- RFI issued March 2021, comments due end September 2021

IFRS Taxonomy Updates

- 2020 General Improvements and Common Practice
- Amendments to IFRS 17, IFRS 4 and IAS 16
- Interest Rate Benchmark Reform—Phase 2

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EFFECTS OF CLIMATE-RELATED MATTERS ON FINANCIAL STATEMENTS

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IASB Educational Guidance

- Guide published in November 2020
- Highlights:
  - climate change is a topic in which IFRS stakeholders are increasingly interested because of its potential effect on companies' business models, cash flows, financial position and financial performance.
  - IFRS Standards do not refer explicitly to climate-related matters.
  - Companies must consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements taken as a whole.
  - Non-exhaustive examples of client-related matters

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Examples of climate-related matters

- IAS 1 Presentation of Financial Statements
  - Sources of estimation uncertainty and significant judgements
  - Going concern
- IAS 2 Inventories
  - Net realisable value: obsolescence
- IAS 12 Income Taxes
  - Recoverability of deductible temporary differences and tax credits

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Examples of climate-related matters

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
  - R&D to change or adapt business practices, recognition of costs
  - Residual values, useful lives
- IAS 36 Impairment of Assets
  - Climate-related indicators of impairment, composition of cashflows

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Examples of climate-related matters

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21 Levies
  - Regulatory provisions
  - Levies
  - Onerous contracts
  - Restructurings
- IFRS 7 Financial instruments: Disclosures
  - Risk disclosures

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Examples of climate-related matters

- IFRS 9 Financial Instruments
  - Classification of financial instruments
  - Exposure to credit losses
- IFRS 13 Fair Value Measurement
  - Market values
  - Sensitivity of unobservable inputs
- IFRS 17 Insurance Contracts
  - increase tin frequency or magnitude of insured events
  - Acceleration of timing of occurrence.

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Amendments and Interpretations (effective date)

Topic	Effective date
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Annual Improvements to IFRS® Standards 2018–2020 • IFRS 1 First-time Adoption of International Financial Reporting Standards Subsidiary as a First-time Adopter • IFRS 9 Financial Instruments Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities • Illustrative Examples accompanying IFRS 16 Leases Lease Incentives • IAS 41 Agriculture Taxation in Fair Value Measurements	1 January 2022
Covid-19-Related Rent Concessions (Amendment to IFRS 16)	1 June 2020
Amendments to IFRS 17 and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023
Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021

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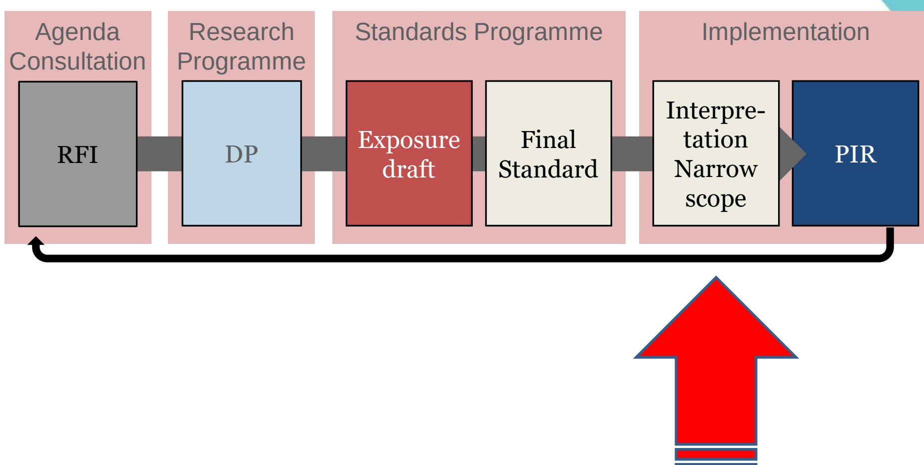

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IFRIC agenda decisions

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Who is the IFRIC?

IFRS Foundation Monitoring Board

IFRS Foundation Trustees

IFRS Advisory Council

IFRS Foundation

International Accounting Standards Board

IFRS Interpretations Committee

ASAF

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Hedging Variability in Cash Flows due to Real Interest Rates (IFRS 9)

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Lets look at Cash Flow Hedging

Fair value hedge	Hedge exposure to changes in fair value attributable to specific risk & could impact profit or loss
Cash flow hedge	Hedge exposure to variability in cash flows attributable to specific risk & could affect profit or loss
Net investment in foreign operation	If hedging instrument is designated as hedge of reporting entity's interest in net assets in a foreign operation, any gain / loss on the effective portion recognised in equity

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IFRS 9 Hedge Accounting

- The objective of hedge accounting is to represent the entity's **effect of an entity's risk management activities** that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income).
- An entity may designate an item in its entirety, or a component of an item, as a hedged item.
- A **risk component** may be designated as the hedged item if, based on an assessment within the context of the particular market structure, the risk component is **separately identifiable and reliably measurable**
- With respect to inflation risk, IFRS 9 states 'there is a rebuttable presumption that unless **inflation risk is contractually specified**, it is **not separately identifiable and reliably measurable** and hence **cannot** be designated as a risk component of a financial instrument.

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IFRS 9 Hedge Accounting

- An entity cannot simply impute the terms and conditions of an inflation hedging instrument by projecting its term and conditions onto a nominal interest rate debt instrument.
- Therefore, North Ltd **cannot designate the swap** as a cash flow hedge as the inflation risk is not contractually agreed on in the contract as such, is considered separable and measurable. Thus, hedge accounting cannot be applied.
- There **is no exposure to variability in cash flows that is attributable to changes in the real interest rate** in the proposed cash flow hedging relationship and, thus, the requirements of IFRS 9 are not met.
- Consequently, **the real interest rate risk component** in the proposed cash flow hedging relationship **does not meet the requirements in IFRS 9 to be designated as an eligible hedged item**

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Preparation of Financial Statements when an Entity is No Longer a Going Concern

(IAS 1 and IAS 10)

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IAS 1 requirement Going concern recap

- An entity ***shall prepare financial statements on a going concern basis*** **unless**
  - management either intends to liquidate the entity or
  - to cease trading, or has no realistic alternative but to do so

- When an entity does not prepare financial statements on a going concern basis,
  - it shall **disclose that fact**,
  - together with the **basis on which it prepared the financial statements**

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IAS 1 requirement Going concern

- Management shall make an *assessment* of an entity's ability to continue as a going concern
  - will it be able to continue its operations for the foreseeable future (considering at least, twelve months from the end of the reporting period), and
  - will not liquidate or be forced to discontinue operations

- When management is **aware of material uncertainties** related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those ***uncertainties***

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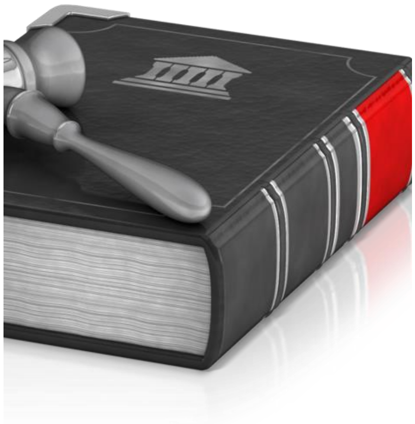
An exception to IAS 10



- If the **going concern** assumption becomes inappropriate only **after** reporting date but before the Annual Financial Statements are approved, the Annual Financial Statements should **not** be prepared on a going concern basis!

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IFRIC Agenda decision

- IAS 1.25 and IAS 10.14 require an entity to prepare financial statements on a going concern basis ‘unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.
- Therefore, an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.
- An entity does not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis.

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Costs Necessary to sell Inventories (IAS 2)

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Measurement

- Measurement is at the lower of
  - **Cost;** and
  - Selling price, less costs to complete and sell **(NRV)**

- Comprises all
  - Costs of purchase
  - Costs of conversion
  - Other costs incurred in bringing the inventories to their present location & condition

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Definitions

Net realisable value is

- the estimated selling price in the ordinary course of business, *less*
- the estimated costs of completion and the estimated costs necessary to make the sale

Fair value is the amount for which

- is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13)

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IFRIC Agenda decision

- IAS 2 defines NRV as 'the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale'.
- IAS 2 describes the objective of writing inventories down to their NRV —that objective is to avoid inventories being carried 'in excess of amounts expected to be realised from their sale
- when determining the NRV, an entity estimates the costs necessary to make the sale in the ordinary course of business. An entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories

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Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)

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Definition of an intangible asset

An intangible asset is an **identifiable non-monetary asset without physical substance**.

Key characteristics:

- It is identifiable
- It is an asset

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Identifiability

- Asset is identifiable when:
  - It is separable
    - i.e. capable of being separated/ divided from the entity and sold/ transferred/ licensed either individually or together with a related contract/ asset/ liability
    - OR
  - It arises from contractual or other legal rights

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IFRIC response

- Applying IAS 38, an entity recognises an intangible asset when the entity demonstrates that the item meets both the definition of an intangible asset and the recognition criteria.
- IAS 38 defines an intangible asset as 'an identifiable non-monetary asset without physical substance'.
- IAS 38 notes that an asset is a resource controlled by an entity and an entity controls an asset if it has 'the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits'.

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IFRIC response

- In the fact pattern described, the supplier controls the application software to which the customer has access.
- The assessment of whether configuration or customisation of that software results in an intangible asset for the customer depends on the nature and output of the configuration or customisation performed.
- The customer often would not recognise an intangible asset because it does not control the software being configured or customised and those configuration or customisation activities do not create a resource controlled by the customer that is separate from the software.
- In some circumstances, however, the arrangement may result in, for example, additional code from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits. In that case, in determining whether to recognise the additional code as an intangible asset, the customer assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38.

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IFRIC response

- If the customer does not recognise an intangible asset in relation to configuration or customisation of the application software, the customer recognises the costs as an expense when it receives the configuration or customisation services.
- In terms of IAS 38 'services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service'.
- In assessing when to recognise the costs as an expense, IAS 38 therefore requires the customer to determine when the supplier performs the configuration or customisation services in accordance with the contract to deliver those services.

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Recent amendments to IFRS Standards

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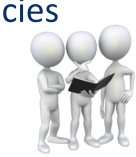
Notes

- Notes to **disclose**:
  - Basis of preparation;
  - Information required by standards; and
  - Any other information relevant to enhancing understanding of the financial statements.
- Must be **cross referenced** to the primary statements
- Disclose **summary** of significant accounting policies covering:
  - Measurement basis used; and
  - Other relevant accounting policies.



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IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

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IAS 8 Issues

- **Scope**
  - Selecting & applying accounting policies
  - Changes in accounting policies
  - Changes in accounting estimates
  - Correction of errors
- **Selecting Accounting Policies**
  - Applicable IFRS/ Interpretation
  - Judgement – reliable and relevant info
  - Implementation Hierarchy
  - Fall-back on other standard setters/ industry practice
- **Change in Policies**
  - Consistent application
  - If change permitted, apply transitional provisions
  - Retrospective application, unless impracticable
- **Errors**
  - Material?
- **Change in accounting estimates**
  - Prospective

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AMENDMENT TO IAS 8 RELATING TO ACCOUNTING ESTIMATES

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Definition of Accounting estimates introduced

Objective:

To clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors

- Current version of IAS 8 does not provide a definition of accounting estimates
- Made application of guidance for change in estimates ito IAS 8 difficult

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Definition of Accounting estimates introduced

Accounting estimates defined:
"**monetary amounts in financial statements that are subject to measurement uncertainty**"

To clarify the interaction between an accounting policy and an accounting estimate:

"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**. In such cases, an **entity develops an accounting estimate** to achieve the objective set out by the accounting policy". Accounting estimates typically **involve the use of judgements or assumptions** based on the latest available reliable information."

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Definition of Accounting estimates introduced

- Amendment provides **guidance on the use of measurement techniques and inputs to develop accounting estimates** and states that these can include estimation and valuation techniques
- Amendment clarifies that not all estimates will meet the definition of an accounting estimate, but rather may refer to inputs used in developing accounting estimates
- Amendment clarifies that the **effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates** if they do not result from the correction of prior period errors

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Illustrative examples

Example 4 – Fair value of an investment property

Example 4 refers to an entity which applies the fair value model in IAS 40 *Investment Property* and has elected to change its valuation technique consistent with the income approach to one consistent with the market approach due to a change in market conditions as permitted by IFRS 13 *Fair Value Measurement*. The example states that the fair value of the investment property is an accounting estimate because:

- the fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty;
- the fair value of the investment property is an output of a measurement technique used in applying the accounting policy; and
- in developing its estimate of the fair value of the investment property, the entity uses judgements and assumptions.

The change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in accounting estimate because the accounting policy (i.e. to fair value investment property) has not changed.

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Illustrative examples

Example 5 – Cash-settled share-based payment liability

Example 5 refers to an entity that changes the estimate of the expected share price volatility in its option pricing model for its previously issued share appreciation rights, as a result of changes in the market conditions. The example states that the fair value of the liability is an accounting estimate because:

- the fair value of the liability is a monetary amount in the financial statements that is subject to measurement uncertainty;
- the fair value of the liability is an output of a measurement technique used in applying the accounting policy; and
- to estimate the fair value of the liability, the entity uses judgements and assumptions.

The change in the expected volatility of the share price is a change in an input used to measure the fair value of the liability. The effect of this change is a change in accounting estimate because the accounting policy (i.e. to measure the liability at fair value) has not changed.

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When is it effective?

- Issued February 2021
- Effective for annual periods beginning on or after

  1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period

- Earlier application is permitted

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BACK TO IAS 1…

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Amendment to IAS 1 and Materiality Practice statement

- The amendments to IAS 1 require companies to disclose their **material accounting policy** information rather than their significant accounting policies.
- The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

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Accounting Policy Disclosure amendments

SUMMARY

- An entity is now required to **disclose its material accounting policy** information **instead of its significant** accounting policies
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give **examples of when accounting policy information is likely to be material**
- Amendments clarify:
  - that accounting policy information may be **material because of its nature**, even if the related amounts are immaterial
  - the amendments clarify that accounting policy information is **material if users** of an entity's financial statements would **need it to understand** other material information in the financial statements and
  - the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

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“Material” replaces “significant”

- No definition of “significant” in IFRS
- Therefore replace it with “**material”**
- **‘Material’** is a defined term in IFRS and is widely understood by the users of financial statements
- Material accounting policy information is defined as:

“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.”

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Application of materiality definition

- Although a transaction to which the accounting policy information relates may be material, it does **not necessarily mean** that the corresponding accounting policy information is material to the entity’s financial statements
- Amendments highlight that other disclosures required by IFRS may be material **despite** the corresponding accounting policy information being immaterial
- Amendment explicitly acknowledges disclosure of immaterial accounting policy information *may be acceptable*, although it is not required.
- However, if an entity decides to disclose accounting policy information that is not material, it **needs to ensure that immaterial information does not obscure material information**

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Application of materiality definition

The Board added examples of circumstances in which an entity is likely to consider accounting policy information to be material when:

- A change of accounting policy results in a material change to the information in the financial statements
- A choice of accounting policy is permitted by IFRS
- An entity develops an accounting policy in accordance with IAS 8 in the absence of an IFRS that specifically applies
- Application of accounting policy requires significant judgements or assumptions
- It is difficult to understand material transactions, other events or conditions because they require complex accounting, e.g., when more than one IFRS is applied

List of examples is not exhaustive

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Disclosure of standard information

The problem:

- Entities often disclose information to describe how they have applied the requirements of a specific standard and provide standardised information
- Or information duplicates or summarises the requirements of the IFRSs

Amendment:

- Highlights that it is generally **more useful** to provide information that **reflects an entity's own specific circumstances**, rather than just repeating what the applicable IFRS generally requires

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Disclosure of standard information

Amendment to Practice Statement:

Amendments to the PS provides examples of situations **when generic or standardised information summarising or duplicating the requirements** of IFRS **<u>may be considered material accounting policy information</u>**:

- The information is necessary for the users to understand other material information provided in the financial statements.
- The entity reports in a jurisdiction where entities also report under local accounting standards
- Complex accounting is required by IFRS and the standardised information is needed to understand the accounting

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Expectations:

- Amendments will impact the accounting policy disclosures of entities
- Possibly less lengthy accounting policy disclosure
- Determining whether accounting policies are material or not requires greater use of judgement
- Entities to consider boilerplate accounting policies and whether they need to be disclosed
- Tailored/entity specific accounting policies

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When is it effective?

- Issued February 2021
- **Effective for annual periods beginning on or after**

  1 January 2023

- Earlier application is permitted
- Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2

Note: PS is not authoritative

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COVID-19-RELATED RENT CONCESSIONS (AMENDMENT TO IFRS 16)

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Lessee accounting

ASSET
(right of use)

LIABILITY

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Subsequent Measurement - Liability

- Liability ***subsequently*** measured by:
  - **increasing** the carrying amount to reflect interest on the lease liability;
  - **reducing** the carrying amount to reflect the lease payments made; and
  - remeasuring the carrying amount to reflect any **reassessment** or lease **modifications** or to reflect revised in-substance fixed lease payments.

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Lease Modifications

- A **lease modification** is a change in the lease **scope** or **consideration** that was NOT part of the original lease
  - Scope: change in the right of use conveyed to the lessee
  - Consideration: overall effect of any change in the lease payments

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Modifications

- If a lease is ***modified***, the lessee determines the revised lease liability taking into account:
  - The revised lease term
  - The revised lease payments
  - The revised discount rate over the remaining lease term
- For adjustments to the lease liability that **reduce** the scope of the lease:
  - Adjust the right-of-use asset to reflect the partial/full termination
  - Recognise any gain/loss on termination in profit or loss
- For adjustments to the lease liability that **increase** the scope of the lease:
  - Adjust the right-of-use asset

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MANY LESSORS HAVE PROVIDED RELIEF IN THE FORM OF RENT CONCESSIONS TO LESSEES DURING THE COVID-19 PANDEMIC

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Lease modifications

- If there is a lease modification, should adjust the lease as per para 44 – 46 of IFRS 16
- I.e.: if economic relief was provided to a lessee impacting the payments (but not the scope), this would be a modification and the lessee would remeasure the liability by discounting the revised lease payments by the revised discount rate
  - Adjustment recorded against the ROU asset

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IASB amendment to IFRS 16 for COVID-19 rent concessions

- Introduction of a **limited** practical expedient from assessing whether a COVID-19 **rent concession** is a **lease modification** for rent concessions in which **all** of the following conditions apply:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and

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

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IASB amendment to IFRS 16 for COVID-19 rent concessions

- If expedient is applied, any qualifying rent concessions will be accounted for as if they are **not lease modifications** – e.g. extinguishment of debt or change in pattern of amortisation or both.
- Lessees applying the exemption will be required to disclose that fact.
- No change for lessors.

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IBOR REFORM: *PHASE 2*

85

1. What is meant by IBOR and what are the reasons for the reform?

An **Interbank Offered Rate (IBOR)**

is a

benchmark interest rate

at which major global banks lend to one another in the international interbank market for short-term loans

IBOR underpins trillions of dollars of financial transactions and is used to price ***loans*** and

more ***complex derivatives products***.

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1. What is meant by IBOR and what are the reasons for the reform?

Reason 1 Risk of manipulation by banks

Risk of manipulation because of the way IBOR is determined and published on a daily basis.

Major banks allegedly colluded to manipulate the IBOR rates. They took traders' requests into account and submitted artificially low IBOR rates to keep them at their preferred levels. The intention behind the alleged malpractice was to bump up traders' profits who were holding positions in IBOR-based financial securities

Reason 2 The lack of representation of the cost of funding in the interbank market

IBOR does not represent the cost of funding between the banks because most of the banks are using the ***overnight market*** to fund themselves and ***IBOR*** is **NOT** an overnight rate. This is really triggering the industry to move away from IBOR

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2. The latest developments of Risk Free Rates (RFR)

- **US**
  - Secured Overnight Financing Rate (***SOFR***)
- **Europe**
  - Euro Short Term Rate (***€STR***)
- **UK**
  - Sterling Overnight Index Average (***SONIA***)

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IASB involvement in the timeline

IASB started work on the reform in **2018** following the decisions of regulators to replace InterBank Offered Rates **(IBORs)** with alternative risk-free rates **(RFRs).** The work was separated into two phases…

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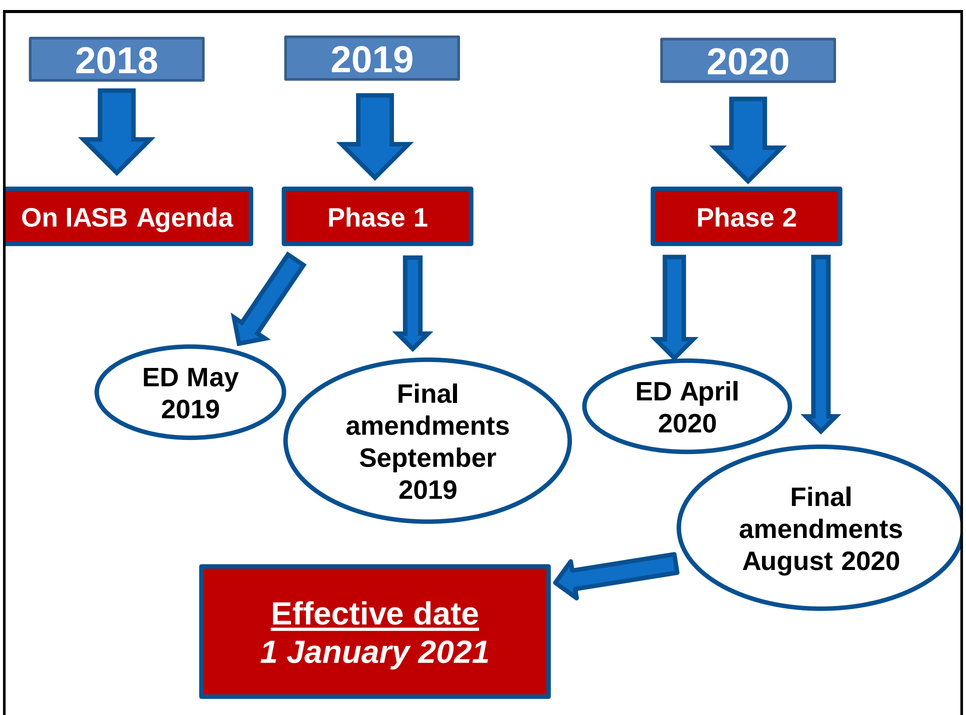

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4. Recap on Phase 1 amendments

- **IASB** amended ***IFRS 9/IAS 39*** in September 2019 to provide **temporary exceptions** to specific *hedge accounting requirements* and added related *disclosure requirements to IFRS 7.*
- Companies would apply these specific hedge accounting requirements assuming the reform **HAS NOT** changed the interest rate benchmark.
- Applying these exceptions, companies ***WOULD NOT BE*** required to discontinue hedge accounting solely because of the uncertainty arising from the reform.

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5. Phase 2 amendments

IASB finalised the
IBOR reform phase 2
in
August 2020
with consequential amendments to
IFRS 9, IFRS 7, IFRS 4 and IFRS 16 relating to:

A modifications of financial assets and financial liabilities and lease liabilities;

B hedge accounting; and

C disclosures.

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That's it!

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CASE STUDIES

95

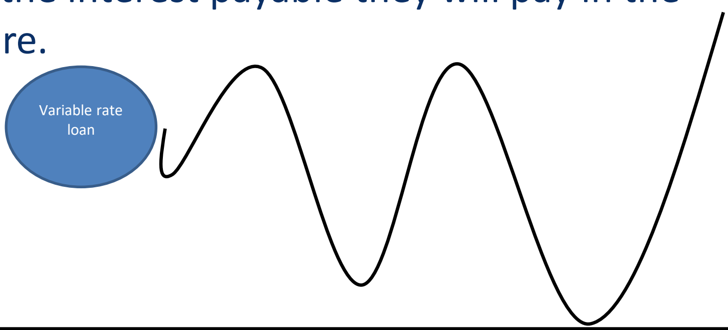
Hedging Variability in Cash Flows due to Real Interest Rates (IFRS 9)

96

Cash Flow Hedge

Let’s look at an example

North Limited issued bonds with the LIBOR plus 3% charged as the interest rate (black line). Its concern is that as the interest rates change, so will the interest payable they will pay in the future.



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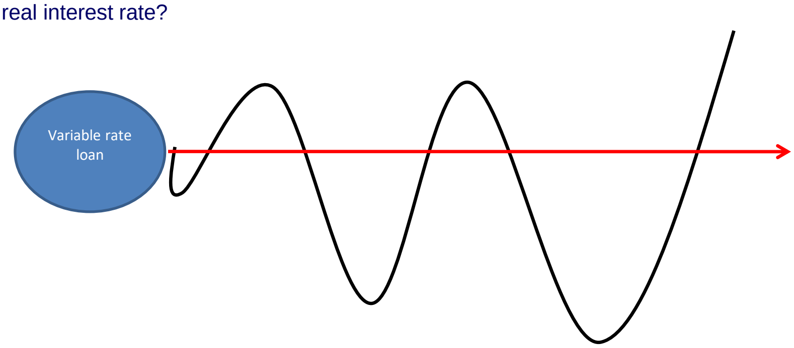
Cash Flow Hedge

To hedge against the risk of changes in the future cash flows, North Ltd enters into an inflation swap in the cash flow hedge. This would allow them to ‘swap’ the floating interest they pay on the loan for variable cash flows based on an inflation index (red line).
The swap agreement does not cover inflation risk.

Question
Can North Ltd designate the swap in a cash flow hedging relationship to hedge changes in the variable interest payments for changes in the real interest rate?



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Preparation of Financial Statements when an Entity is No Longer a Going Concern

(IAS 1 and IAS 10)

99

Question

- Quest Ltd owns hotel and conference facilities and has experienced losses over the past three years.
- Its non-current liabilities exceed its non-current assets, and its net equity is less than its annual operating expenses for the current reporting period ended June 2021.
- International and domestic travel limitations due to Covid-19 restrictions has had a server impact on Quest's operations and with the uplifting of the travel restrictions people are going to be cautious for a long time after the pandemic is contained for them to resume leisure activities.
- As such, Quest is struggling to keep afloat with its debt and applied for the bank to roll over its facilities which will enable the Quest to continue operating and trade out of its loss position.
- 30 July 2021, the bank decided not to roll over the facilities and Quest has no other plans to keep trading without assistance from the bank.
- Quest prepared its prior year financial statements on a going concern basis.

Required:

- Should Quest prepare its financial statements on a going concern basis for the current reporting period?
- If no, should Quest restate prior year comparatives to reflect the accounting used in the current reporting period?

100

Costs Necessary to sell Inventories (IAS 2)

101

Question

- Entity XYZ is in the manufacturing industry. XYZ manufactures and distributes widgets to retail stores nationwide. Costs the entity considers when manufacturing and supplying the items of widgets are as follows;

- Direct labour
- Indirect labour
- Manufacturing overheads
- Packaging
- Marketing
- Delivery costs

- In determining the NRV - what costs are considered incremental in making the sale?

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Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)

103

Question

- A customer enters into a Software as a Service (“SaaS”) arrangement with a supplier. The contract conveys to the customer the right to receive access to the supplier’s application software over the contract term. That right to receive access does not provide the customer with a software asset and, therefore, the access to the software is a service that the customer receives over the contract term.
- The customer incurs costs of configuring or customising the supplier’s application software to which the customer receives access.
  - **A.** **configuration involves** the setting of various ‘flags’ or ‘switches’ within the application software, or defining values or parameters, to set up the software’s existing code to function in a specified way.
  - **B.** **customisation involves** modifying the software code in the application or writing additional code. Customisation generally changes, or creates additional, functionalities within the software.
- The customer receives no other goods or services.

1. Should the customer recognise an intangible asset in relation to configuration or customisation of the application software?
2. If an intangible asset is not recognised, how should the customer account for the configuration or customisation costs?

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Recent amendments to IFRS Standards

105

What comprises a complete set of financial statements?





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