Global Preparers Forum meeting

Date **3 March 2023**

Topic **IASB Update**

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Overview

This update is prepared as of end of February 2023

- Update on current work plan
- Overview: Research projects
- Overview: Standard-setting projects
- Overview: Post-implementation reviews
- Overview: Maintenance projects
- New requirements
- Appendix: International Tax Reform—Pillar Two Model Rules

Update on current work plan

Developments since the last meeting

Project	
Post-implementation Review of IFRS 9—*Classification and Measurement*	Feedback Statement
International Tax Reform—Pillar Two Model Rules	Exposure Draft

IFRS Accounting

Final amendments

Recently issued

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Non-current Liabilities with Covenants (Amendments to IAS 1)

Forthcoming

- Lack of Exchangeability (Amendments to IAS 21)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Project summary on Targeted Standards-level Review of Disclosures

Consultation

Recently published

Exposure Draft
Third edition of the IFRS for SMEs Accounting Standard

Comments due by **7 March 2023**

Exposure Draft
International Tax Reform—Pillar Two Model Rules

Comments due by **10 March 2023**

Feedback Statement
PIR of IFRS 9—Classification and Measurement

Forthcoming

Expected Q1 2023:

- Exposure draft proposing narrow-scope amendments to IFRS 9 and IFRS 7

Expected Q2 2023:

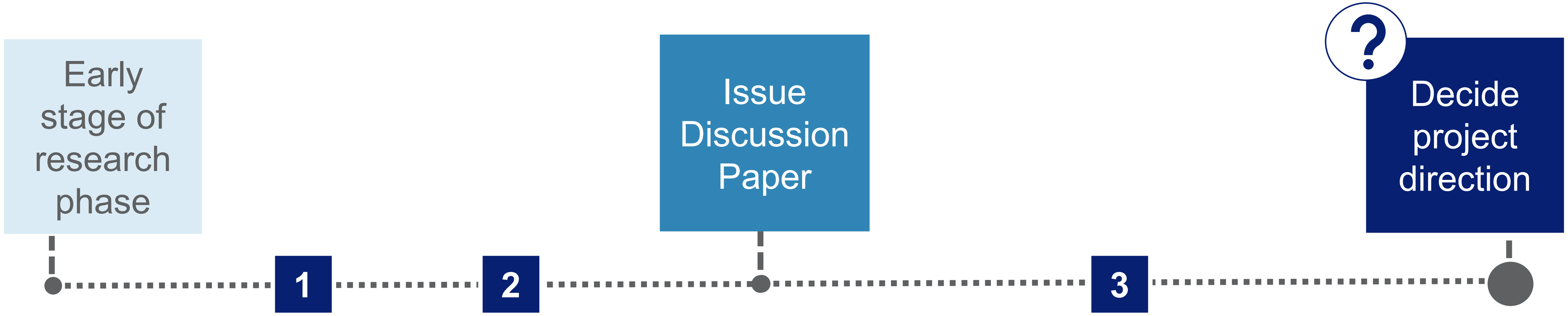
- Request for information on PIR of IFRS 9—*Impairment*
- Request for information on PIR of IFRS 15

Expected H2 2023:

- Exposure draft proposing amendments to IAS 32 (FICE)

Overview: Research projects

Overview: research projects



1. **Equity Method**
2. **Extractive Activities**
3. **Business Combinations under Common Control**

IFRS Accounting

Equity Method

Objective

- Assess whether application questions with the equity method as set out in IAS 28 *Investments in Associates and Joint Ventures* can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28

Project plan

- Identify application questions in the equity method and decide which of these problems to address
- Address application questions by identifying and explaining the principles that underlie IAS 28

Next steps

- Continue to discuss other application questions identified within the scope of the project
- Decide project direction

Extractive Activities

Objective

- Provide more useful information about exploration and evaluation expenditure and activities accounted for applying IFRS 6 *Exploration for and Evaluation of Mineral Resources* by improving the transparency and comparability of this information

Project scope

- Explore developing requirements or guidance to improve a company's disclosures about its exploration and evaluation expenditure and activities
- Explore removing the temporary status of IFRS 6

Next steps

- Decide project direction

IFRS Accounting

Business Combinations under Common Control

Objective

- Develop reporting requirements to reduce diversity in practice and improve transparency

Project update

- In March 2022 the IASB tentatively decided not to expand the project's scope

Next steps

- Deliberations will initially focus on selecting the measurement method(s) to apply
- How to apply the measurement method(s) and other topics to be deliberated subsequently

Overview: Standard-setting projects

Overview: standard-setting projects

Publish Exposure Draft

- Financial Instruments with Characteristics of Equity
- Dynamic Risk Management
- Business Combinations—Disclosures, Goodwill and Impairment

Discuss feedback on Exposure Draft

- Review of the *IFRS for SMEs* Accounting Standard

Decide project direction

- Management Commentary

- Targeted Standards-level Review of Disclosures
- Subsidiaries without Public Accountability: Disclosures
- Primary Financial Statements
- Rate-regulated Activities

IFRS Accounting Standard

Amendments to the Standard

Other

(eg Project Summary)

Financial Instruments with Characteristics of Equity

Purpose

- Improve the information that companies provide in their financial statements about financial instruments that they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

Approach

- Clarify IAS 32 classification principles to address practice issues (eg classification of financial instruments settled in the issuer's own equity instruments)
- Provide classification guidance and illustrative examples
- Improve presentation and disclosure

Next milestone

- Publish Exposure Draft

Dynamic Risk Management

Objective

- Develop an accounting model to better reflect the effect of dynamic risk management in a company's financial statements

DRM model

- A DRM adjustment is recognised in the statement of financial position to represent the extent to which the designated derivatives successfully mitigated the variability in both the fair value of and the net interest income from the risk mitigation intention, and achieved the entity's target profile
- Please refer to these webcasts for an overview of the DRM model based on the IASB's tentative decisions to date

Next milestone

- Further discussions on the DRM model

Business Combinations—Disclosures, Goodwill and Impairment

Objective

- Improve information companies provide about their acquisitions at a reasonable cost

Current focus

- A package of disclosure requirements about business combinations (decision on some key aspects made in September 2022)
- Changes to the impairment test of cash-generating units containing goodwill in IAS 36 *Impairment of Assets*

Next milestone

- Publish Exposure Draft

Review of the *IFRS for SMEs* Accounting Standard

Objective

- Update the *IFRS for SMEs* Accounting Standard to reflect improvements made in full IFRS Accounting Standards (in the scope of the second comprehensive review) while keeping the simplicity of the Standard

Approach

- Apply 'alignment approach' to update the *IFRS for SMEs* Accounting Standard
- The alignment approach uses the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to identify possible amendments

Next milestone

- Exposure Draft open for comment until March 2023

Management Commentary

Objective

- Overhaul IFRS Practice Statement 1—building on innovations in narrative reporting and focusing on capital market needs

Evolving landscape

- Feedback on ED indicated support for the project, in particular from investors
- Calls to work together with the ISSB—possible joint project to be considered in ISSB Agenda Consultation
- Commitment to explore similarities and differences with *Integrated Reporting Framework*

Next milestone

- Consider project direction

Targeted Standards-level Review of Disclosures

Objective

Help address the **disclosure problem** by:

- improving the IASB's approach to developing and drafting disclosure requirements
- enabling preparers to improve the usefulness of disclosures in the notes

Project Update

In October 2022, the IASB decided:

- to use the methods proposed in the ED for developing disclosure requirements
- to use a **middle ground approach** to drafting disclosure requirements
- not to finalise the proposed amendments to **IFRS 13** and **IAS 19** disclosure requirements

Next milestone

- Publish a project summary and feedback statement

Subsidiaries without Public Accountability: Disclosures

Objective

- Permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Accounting Standards

Current focus

- Discuss proposals in the Exposure Draft to develop a new IFRS Accounting Standard

Next milestone

- Issue IFRS Accounting Standard

Primary Financial Statements

Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Proposals

- Require additional defined subtotals in statement of profit or loss
- Strengthen requirements for disaggregating information
- Require disclosures about management performance measures

Next milestone

- Issue IFRS Accounting Standard

Rate-regulated Activities

Objective

- Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on companies' financial performance and financial position

Proposals

- Require recognition of regulatory assets, regulatory liabilities, regulatory income and regulatory expense
- Reflect compensation for goods or services in financial performance in the period in which goods or services are supplied
- Measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique

Next milestone

- Issue IFRS Accounting Standard

Post-implementation reviews

Post-implementation reviews

Recently completed

PIR of IFRS 9—Classification and Measurement

PIR of IFRS 9—Impairment

Ongoing

PIR of IFRS 15 *Revenue from Contracts with Customers*

PIR of IFRS 16 *Leases*

Forthcoming

PIR of IFRS 9—Hedge Accounting

PIR of IFRS 9—*Financial Instruments:* Impairment

Objective

- Assess the effects of applying the requirements for recognition of expected credit losses for all financial instruments on stakeholders

Project plan

- Perform outreach with all stakeholder groups, including preparers, auditors, users of financial statements, regulators and standard-setters
- Review academic and other research related to the implementation of the impairment requirements and related disclosures

Next milestone

- Publish Request for Information in Q2 2023

PIR of IFRS 15—*Revenue from Contracts with Customers*

Objective

- Assess whether the effects of applying IFRS 15 on users of financial statements, preparers, auditors and regulators are as intended when the Standard was issued

Project plan

- Outreach with preparers, users of financial statements, auditors, regulators and standard-setters
- Review of academic and other research related to the implementation of IFRS 15
- Review of up-to-date findings of the US FASB's PIR of ASC Topic 606 that is substantially converged with IFRS 15

Next milestone

- Publish Request for Information in Q2 2023

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Maintenance projects

Overview: maintenance projects

Publish Exposure Draft

Decide project direction

Issue amendment

Provisions—Targeted Improvements

Amendments to the Classification and Measurement of Financial Instruments

International Tax Reform—Pillar Two Model Rules

Lack of Exchangeability

Supplier Finance Arrangements

Provisions—Targeted Improvements

Objective

- Develop proposals for three targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Areas of focus

- Align requirements for identifying liabilities with *Conceptual Framework*
- Clarify which costs to include in measure of a provision
- Specify whether discount rates used should reflect non-performance risk

Next milestone

- Decide project direction

Amendments to IFRS 9: Classification and Measurement

Objective

- Narrow-scope amendments in response to the Post-implementation Review of IFRS 9 Classification and Measurement

Areas of focus

- Contractual cash flow characteristics of financial assets
- Derecognition of financial liabilities settled through electronic cash transfers
- Disclosure requirements for equity instruments for which fair value changes are presented in OCI

Next milestone

- Publish Exposure Draft

International Tax Reform—Pillar Two Model Rules

Objective

- Respond to stakeholders' concerns about the potential implications of the imminent implementation of the OECD's Pillar Two model rules for income tax accounting

Proposals

- Introduce a temporary exception to the accounting for deferred taxes arising from the implementation of the rules
- Require targeted disclosures for affected companies

Next milestone

- Exposure Draft Feedback

IFRS Accounting

Lack of Exchangeability

Objective

- Improve usefulness of information provided by requiring a consistent approach to determining whether a currency is exchangeable into another currency and the exchange rate to use when it is not

Proposals

- Specify when exchangeability is lacking and how to make that assessment
- Estimate the spot exchange rate when exchangeability is lacking
- Disclose how the lack of exchangeability affects financial performance, financial position and cash flows

Next milestone

- Issue IFRS Accounting Standard amendments

Supplier Finance Arrangements

Objective

- Provide information to enable investors to assess the effects of supplier finance arrangements on a company's liabilities, cash flows and exposure to liquidity risk

Proposals

- Describe the arrangements for which the proposed disclosure would be required
- Add qualitative and quantitative disclosure requirements
- Highlight the required disclosure of liquidity risk and risk management

Next milestone

- Issue IFRS Accounting Standard amendments

New requirements

What is required when?

1 January 2023

- IFRS 17 *Insurance Contracts*
- *Definition of Accounting Estimates*
- *Disclosure of Accounting Policies*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12)

1 January 2024

- *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)
- *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1)
- *Non-current Liabilities with Covenants* (Amendments to IAS 1)

IFRS 17 *Insurance Contracts*

More useful and transparent information

Better information about profitability

- Requires **consistent accounting** for all insurance contracts
- Based on a **current measurement** model
- Provides useful information about the **profitability** of insurance contracts
- Presents **comparable** data across companies
- Assists investors to fulfil **stewardship** responsibilities

Effective date Annual reporting periods beginning on or after 1 January 2023

Definition of Accounting Estimates

Identified problem

- Companies can find it difficult to distinguish between a change in accounting policy and a change in accounting estimate, especially when it relates to a change in a measurement method

The amendments

- Introduce a definition of ‘accounting estimates’
- Provide clarifications, such as
    - estimation techniques and valuation techniques are examples of measurement techniques used to develop accounting estimates
    - a change in accounting estimate that results from new information or new developments is not the correction of an error

Effective date Annual reporting periods beginning on or after 1 January 2023

Disclosure of Accounting Policies

Identified problem

- Users say that accounting policy disclosures today are often not useful
- Stakeholders’ views differ about ‘significant’ accounting policies required by IAS 1 *Presentation of Financial Statements*

The amendments

- Amend IAS 1 to require companies to disclose their material accounting policy information rather than their significant accounting policies
- Clarify that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements
- Add guidance and examples to the materiality practice statement, which will explain how to apply the materiality process to identify material accounting policy information

Effective date Annual reporting periods beginning on or after 1 January 2023

Amendments to IAS 12 –*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Objective

- Clarify the deferred tax accounting for transactions for which an entity recognises, on initial recognition, both an asset and a liability, such as leases and decommissioning obligations

The amendments

- Narrow the scope of the recognition exemption in IAS 12 so that it does not apply to transactions that give rise to equal amounts of taxable and deductible temporary differences
- Will result in all entities recognising deferred tax for leases and other transactions in the scope of the amendments, reducing diversity in reporting

Effective date Annual reporting periods beginning on or after 1 January 2023

Lease Liability in a Sale and Leaseback

Objective

- Improve the measurement requirements for sale and leaseback transactions — particularly those with variable payments

The amendments to IFRS 16

- Specify subsequent measurement requirements for the lease liability in a sale and leaseback transaction
- Require retrospective application of the amendments applying IAS 8

Effective date Annual reporting periods beginning on or after 1 January 2024, with earlier application permitted

Classification of Liabilities as Current or Non-current

Liability is classified as non-current only if a company has right to defer settlement for at least 12 months after reporting period → The amendments to IAS 1 clarify this criterion

General clarifications	Clarifications affecting convertible bonds
• Right to defer settlement must exist at end of reporting period* • Classification is unaffected by expectations about *whether* company will exercise its right	• Counterparty conversion option disregarded when assessing classification if recognised separately as equity component of compound financial instrument • Any other obligation to convert liability is considered when assessing classification—ie conversion is regarded as settlement

Effective date Annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

* *Non-current Liabilities with Covenants* include further amendments on the classification of liabilities with covenants.

Non-current Liabilities with Covenants

Objective

- Improve the information about liabilities with covenants

The amendments to IAS 1

- Specify that covenants with which an entity must comply after the reporting period do not affect classification of a liability as current or non-current at the reporting date
- Add disclosure requirements for non-current liabilities subject to covenants

Effective date Annual reporting periods beginning on or after 1 January 2024, with earlier application permitted

Appendix: International Tax Reform—Pillar Two Model Rules

Background

In December 2021, the Organisation for Economic Co-operation and Development (OECD) published its Pillar Two model rules. The rules are part of a two-pillar solution to address the tax challenges arising from the digitalisation of the economy and were agreed by more than 135 countries and jurisdictions representing more than 90% of global GDP.

The Pillar Two model rules provide a template for the implementation of a minimum corporate tax rate of 15% that large multinational entities would pay on income generated in each jurisdiction in which they operate.

We have been informed that some jurisdictions are expected to enact the rules as early as the first half of 2023, although this is still uncertain.

This fact sheet developed by the OECD summarises the operation of the model rules.

Potential implications for income tax accounting

Stakeholders informed the IASB of concerns about the implications of the imminent implementation of the Pillar Two model rules for income tax accounting.

Stakeholders’ concerns relate to:

a) how an entity would account for top-up tax arising from the Pillar Two model rules.

b) the usefulness of the information that could result from accounting for deferred taxes related to top-up tax.

c) the urgent need for clarity in the light of the imminent enactment of tax law to implement the rules in some jurisdictions.

Proposed amendments to IAS 12

In January 2023, the IASB published the Exposure Draft *International Tax Reform—Pillar Two Model Rules*, which proposes amendments to IAS 12 *Income Taxes*.

The proposals in the Exposure Draft would introduce:

a) a **temporary exception** to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and

b) **targeted disclosure requirements**.

The IASB expects the proposed amendments to provide timely relief for affected entities and avoid inconsistent interpretations of IAS 12 developing in practice. The proposed amendments would also require an entity to provide specific information to users of financial statements before and after the Pillar Two model rules are in effect.

The following slides include further details about the IASB's proposals.

Temporary exception to deferred tax accounting

The IASB proposes to:

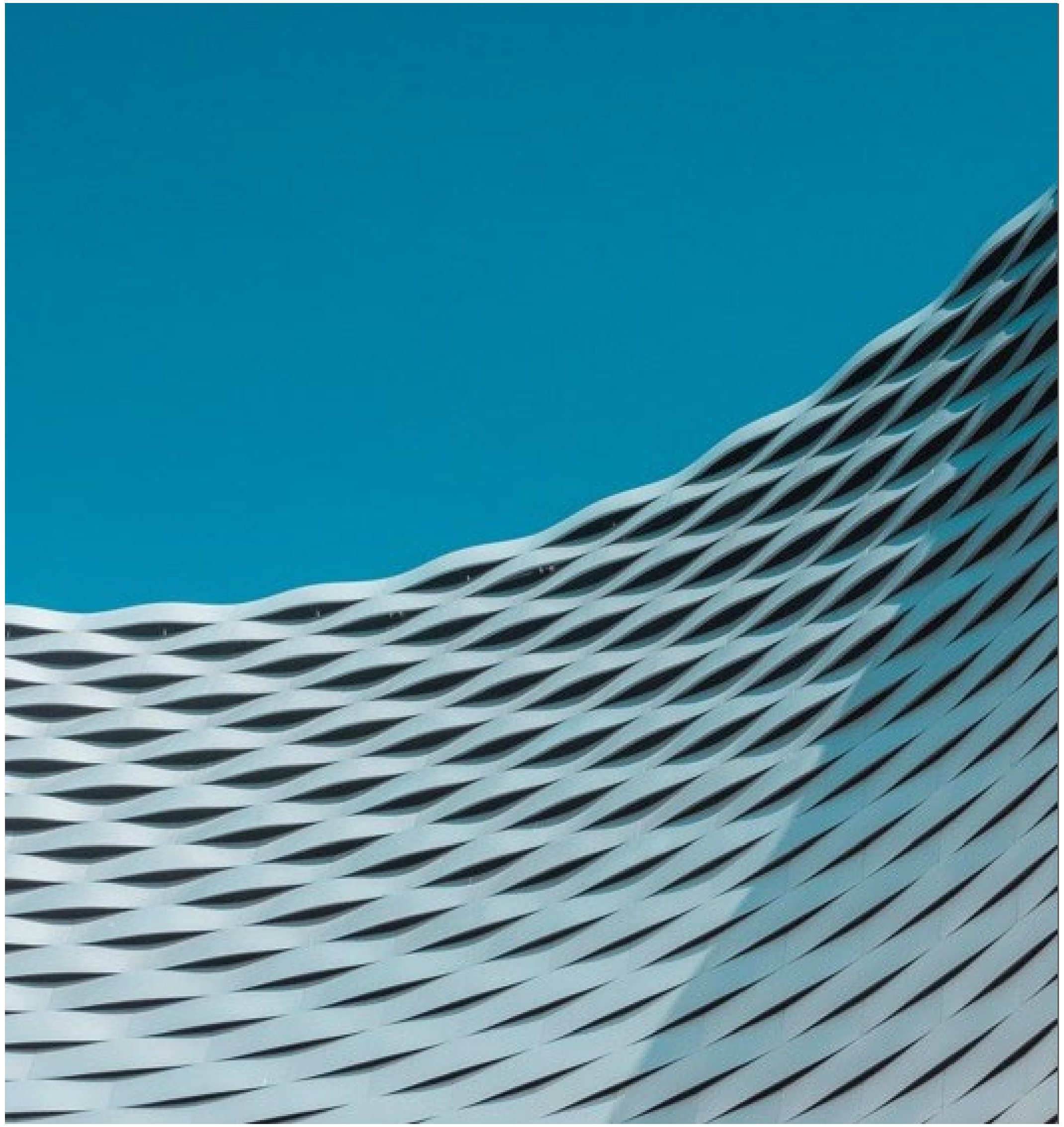
a) introduce a **temporary exception** to the requirement to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes (including any qualified domestic minimum top-up tax).

b) require an entity to disclose that it has applied the exception.

The exception would apply until the IASB either removes the exception or makes it permanent.

Proposed effective date

- *Immediately upon issue of the amendments.*



Disclosures

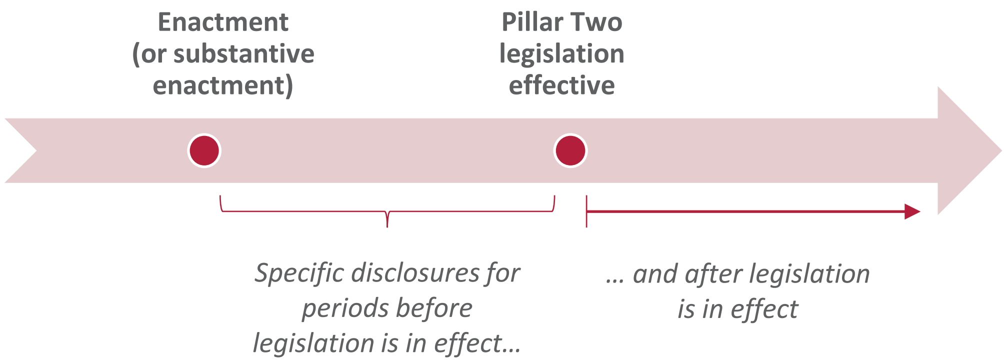
The IASB proposes to require an entity to disclose:

Before legislation is in effect

a) information about legislation enacted (or substantively enacted) to implement Pillar Two model rules.

b) the jurisdictions in which the entity's effective tax rate—calculated based on IAS 12—for the current period is below 15%. An entity would also disclose the tax expense and accounting profit for these jurisdictions in aggregate, and the resulting weighted average effective tax rate.

c) whether work the entity has done in preparing to comply with Pillar Two legislation indicates anything different from (b).



After legislation is in effect

Current tax expense related to Pillar Two income tax.

Proposed effective date:

- *Annual reporting periods beginning on or after 1 January 2023.*

Staff illustrative disclosures

Ref.

Illustrative disclosures for periods before legislation is in effect

During the period, Country A enacted legislation implementing the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD). [Entity to provide further information about specific legislation.] *Slide 48 **item (a)***

The Group applied the exception in IAS 12 *Income Taxes* to the requirement to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. *Slide 47 **item (b)***

The Group's average effective tax rates in **countries B**, **C** and **D** were below 15% in the current period. The aggregate income tax expense and accounting profit before tax in these jurisdictions is **CU100 million** and **CU1,000 million**, respectively. This results in an average effective tax rate of 10% in these jurisdictions. *Slide 48 **item (b)***

The Group has started assessing its exposure to paying top-up taxes following the legislation's requirements. Such assessment indicates that the Group may be exposed to paying top-up taxes in additional countries not identified above. *Slide 48 **item (c)***

Staff illustrative disclosures

Notes about the illustrative disclosures

- The illustrative disclosures are provided to illustrate the information an entity might disclose applying the proposed requirements. They are not included in the Exposure Draft and have not been approved by the IASB.
- The illustrative disclosures do not include additional information an entity might voluntarily disclose. For example, an entity might voluntarily disclose:
  - additional information about its exposure in particular jurisdictions, including factors that could reduce that exposure (eg the availability of substance-based income exclusion*).
  - reasons the entity might not be exposed to paying top-up taxes in some of the identified jurisdictions (eg the IAS 12 effective tax rate in some jurisdictions is low in the current period due to the effects of non-recurring items).

* The Pillar Two model rules allow an entity to exclude from the profit subject to top-up tax a fixed return for substantive activities in a jurisdiction. Payroll costs and the carrying amount of tangible assets are used as indicators of substantive activities.

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