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## Islamic Finance Consultative Group meeting

Date           **May 2023**

Topic           **IASB Update**

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This paper has been prepared for discussion at a public meeting of the Islamic Finance Consultative Group (IFCG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

**This update is prepared as of end of April 2023.**

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# Overview

- New requirements
- Update on current work plan
- Standard-setting projects
- Post-implementation reviews
- Maintenance projects
- Work of the IFRS Interpretations Committee
- Digital financial reporting
- IFRS Accounting Taxonomy
- Helpful materials

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# New requirements



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# 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)*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*
- *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*

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# Update on current work plan



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# 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)

International Tax Reform—  
Pillar Two Model Rules  
(Amendments to IAS 12)

# Consultations

## Recently published

Project Summary  
Targeted Standards-level Review of  
Disclosures

Feedback Statement  
*PIR of IFRS 9—Classification and  
Measurement*

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



Comments due by **19 July 2023**

## Forthcoming

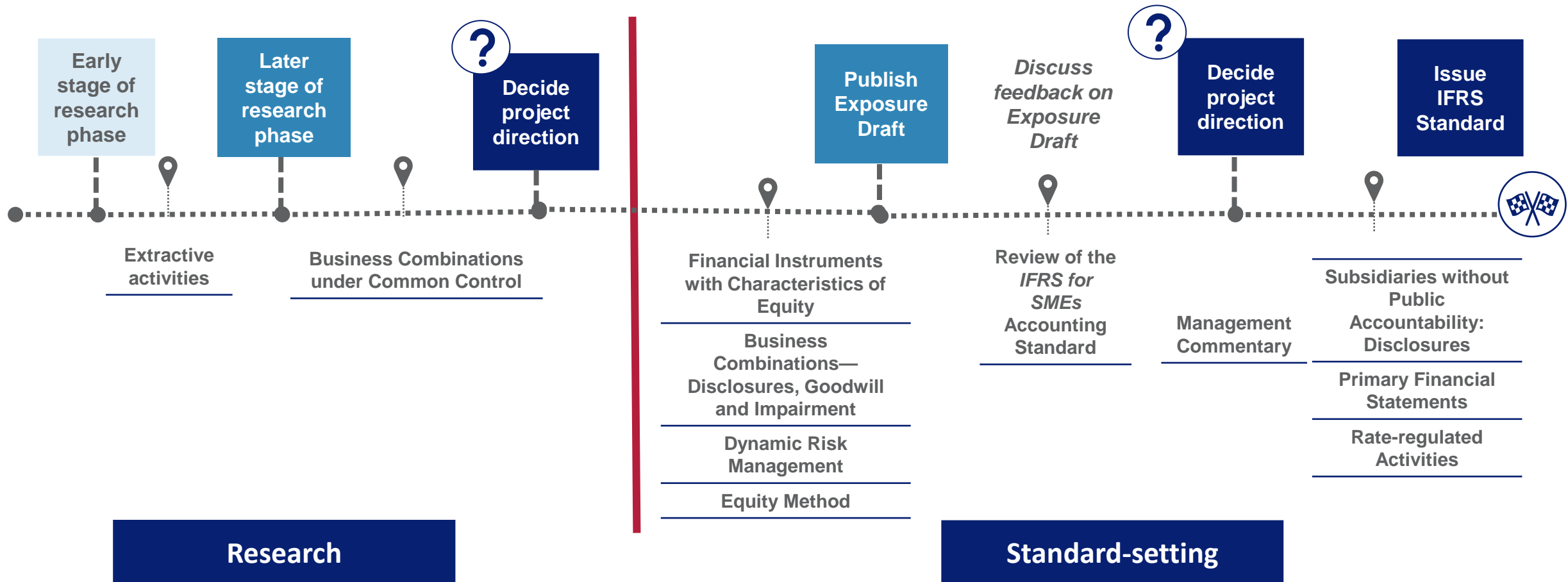
### Expected Q2 2023:

- Exposure draft proposing amendments to *IFRS for SMEs Accounting Standard*, *International Tax Reform—Pillar Two Model Rules*
- Request for information on PIR of IFRS 9—*Impairment*
- Request for information on PIR of IFRS 15—*Revenue from Contracts with Customers*

### Expected H2 2023:

- Exposure draft proposing amendments to *IAS 32 Financial Instruments with Characteristics of Equity*

# Current projects are in different stages



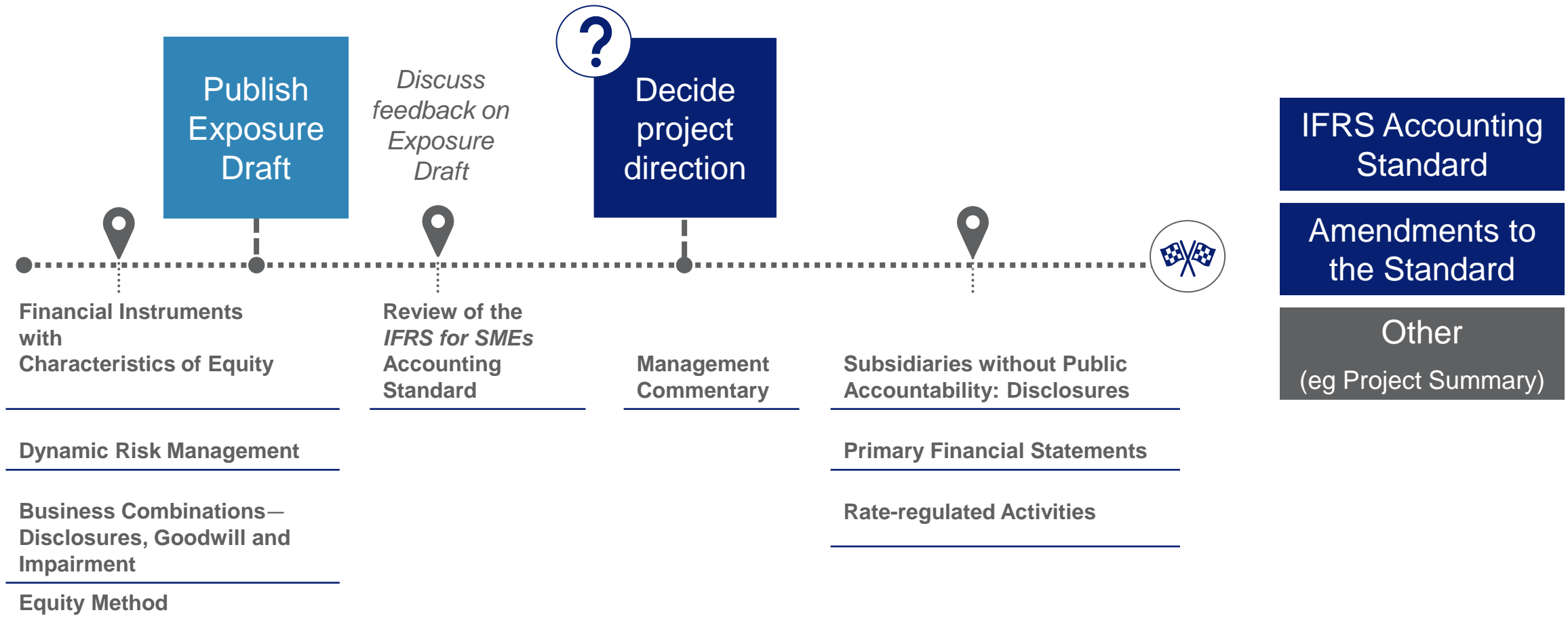


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## Standard-setting projects



# Overview: standard-setting projects



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# 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

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# 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

## Next milestone

- Further discussions on the DRM model

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# 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

# Equity Method

## Objective

- To develop answers to application questions about the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, using the principles derived from IAS 28, where possible

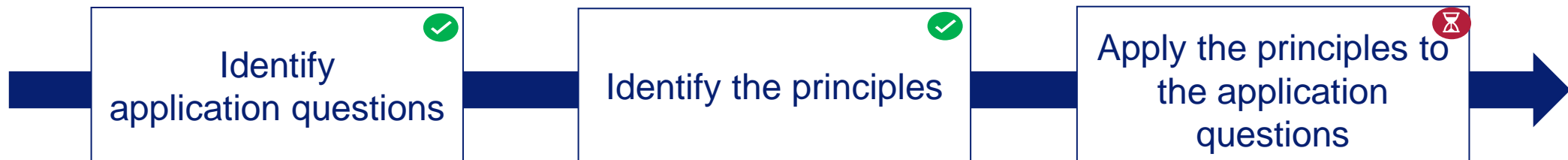
## Project update

Ownership changes ✓	Deferred taxes ✓
Recognition of losses ✓	Impairment
Transactions with (and between) equity accounted investments ✓	Contingent consideration

## Next steps

- Discuss remaining application questions
- Discuss any implications of applying IASB tentative decisions to investments other than those in associates

## Project approach



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# 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

- Discuss Exposure Draft feedback
- Seek advice from the SME Implementation Group

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# 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—the ISSB will consult on its priorities in its Agenda Consultation
- Commitment to explore similarities and differences with *Integrated Reporting Framework*

## Next milestone

- Consider project direction



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# 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 feedback on proposals in the Exposure Draft to develop a new IFRS Accounting Standard

## Next milestone

- Issue IFRS Accounting Standard

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# 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

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# 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

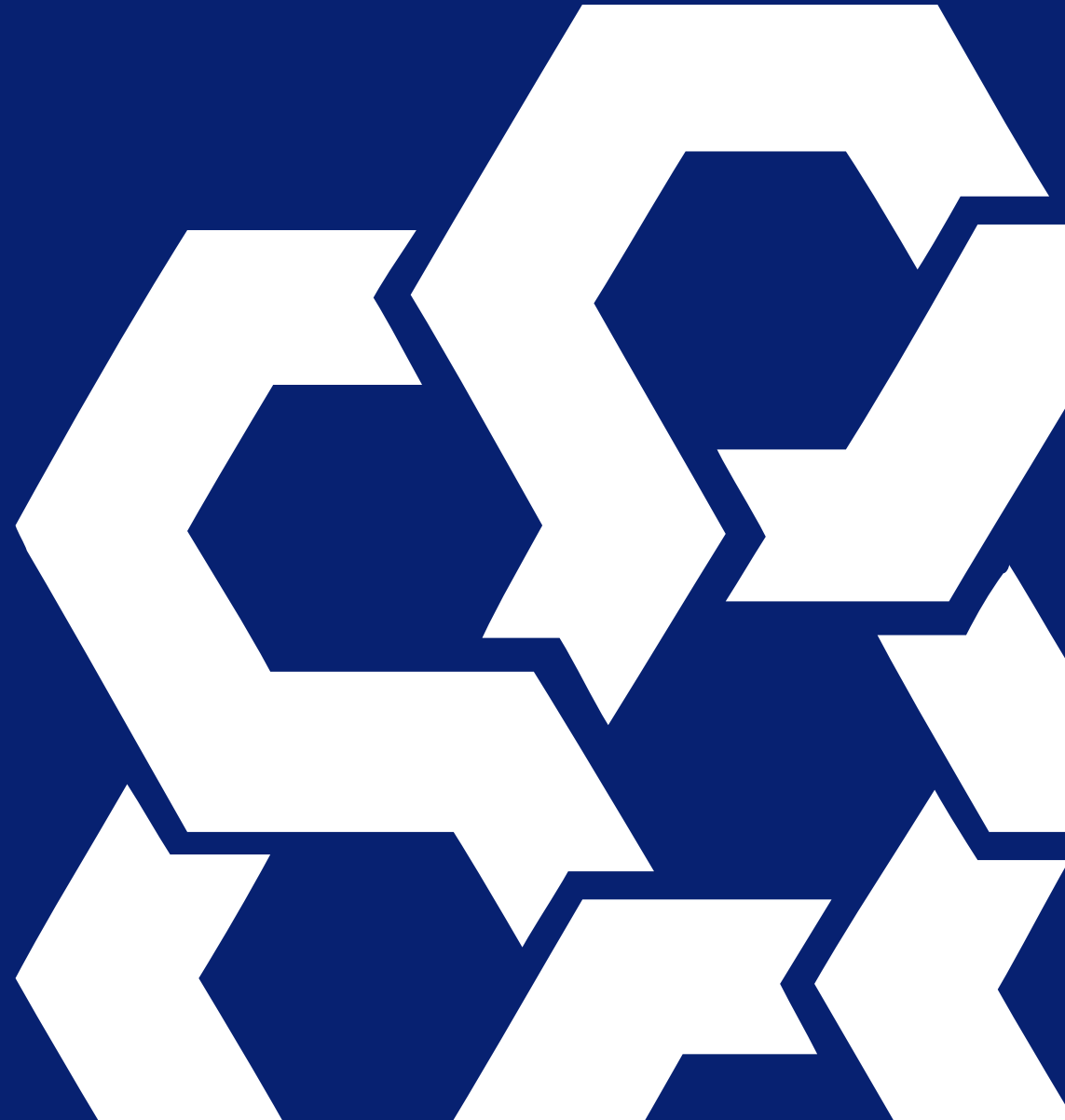
- Require recognition of regulatory assets, regulatory liabilities, regulatory income and regulatory expense
- Reflect compensation for goods or services in financial performance in the period in which goods or services are supplied
- Measure regulatory assets and regulatory liabilities using a cash-flow-based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

## Next milestone

- Issue IFRS Accounting Standard

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# Post-implementation reviews



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# 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

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## PIR of IFRS 9—*Financial Instruments*: Impairment

### Objective

- Assess the effects on stakeholders of applying the expected credit losses (ECL) requirements to financial instruments

### Request for Information

Will examine:

- general approach to recognition of ECL
- significant increases in credit risk
- measurement of ECL
- credit-impaired financial assets
- simplified approach
- loan commitments and financial guarantee contracts
- credit risk disclosures
- interaction with other requirements

### Next milestone

- Publish Request for Information May 2023

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## 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

### Request for information

Will examine:

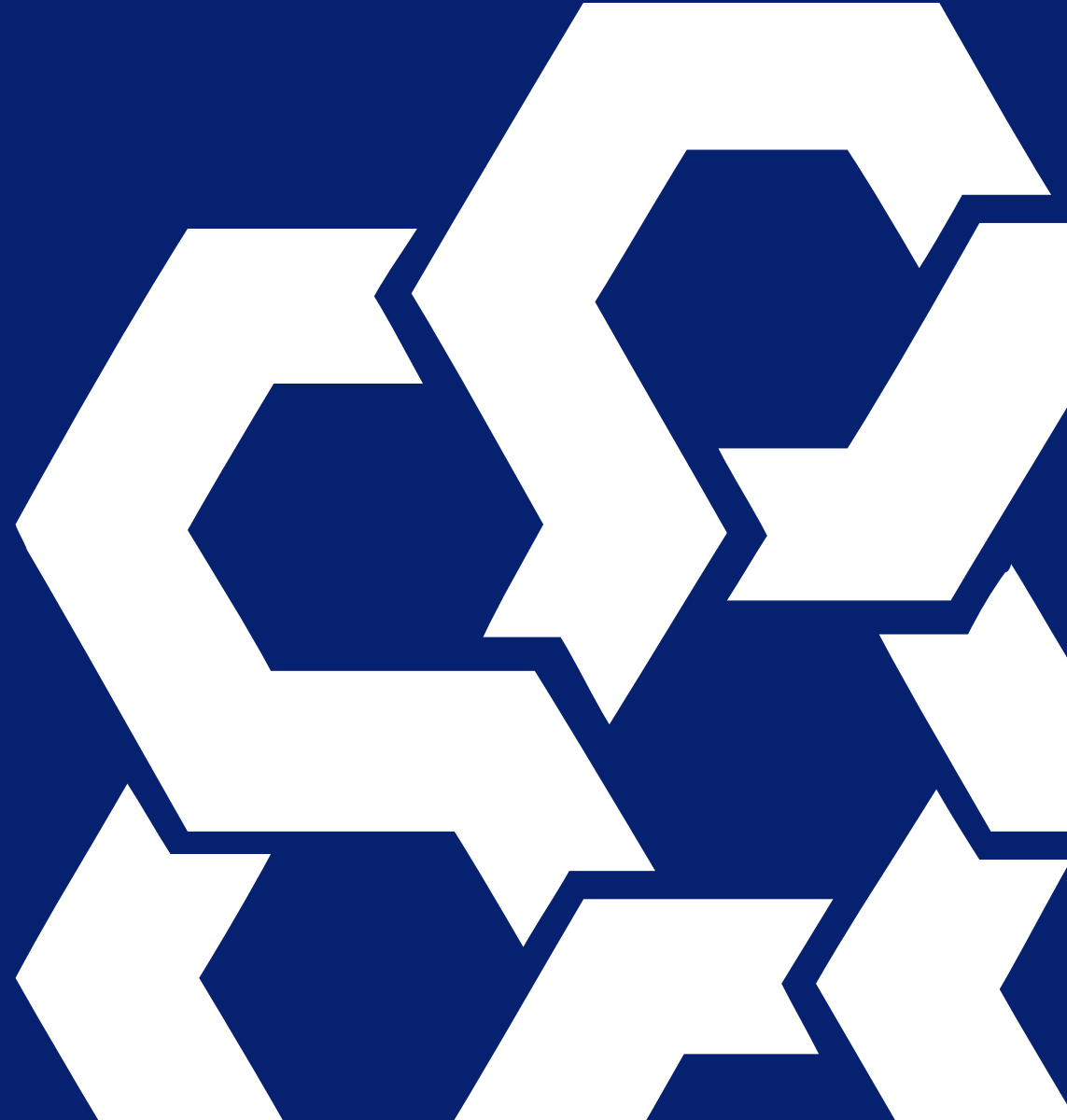
- identifying the performance obligations
- determining the transaction price
- determining the timing of revenue recognition
- principal versus agent considerations
- licensing
- disclosure requirements
- transition requirements
- interaction with other IFRS Accounting Standards
- convergence with US GAAP Topic 606

### Next milestone

- Publish Request for Information expected Q2 2023

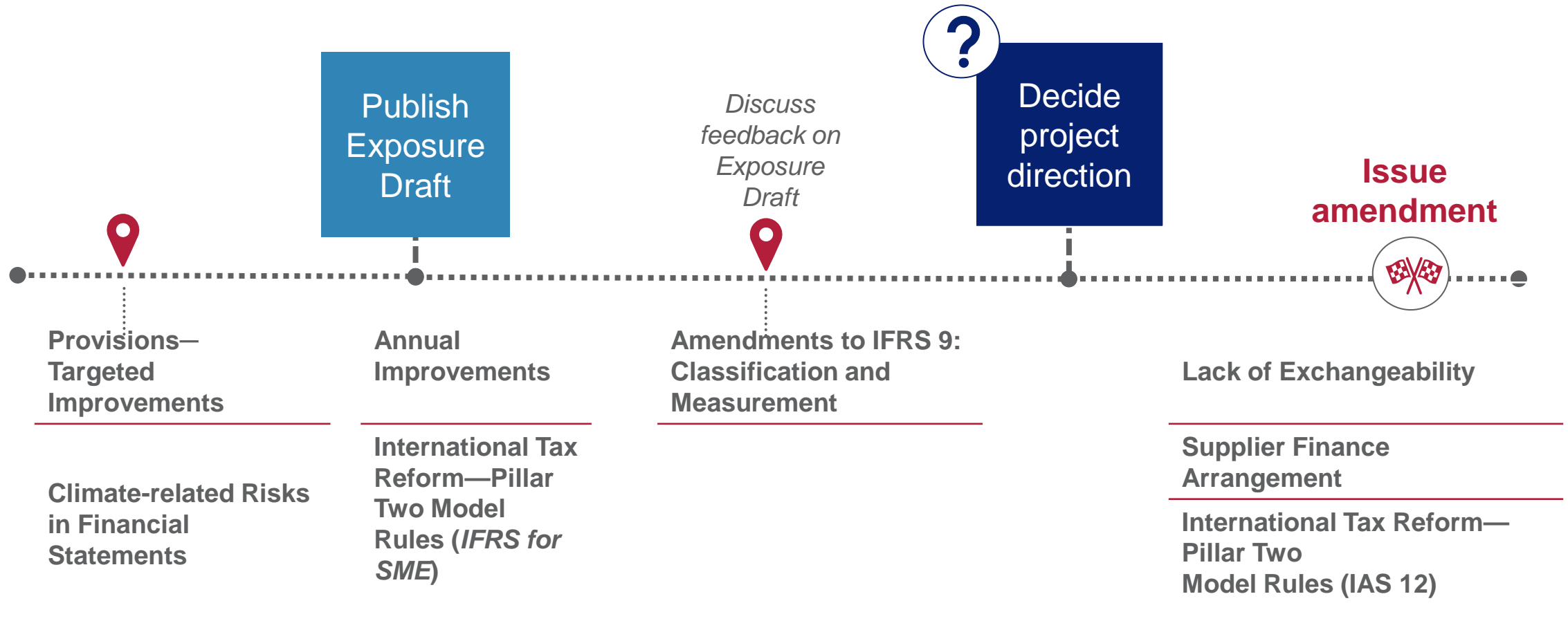
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# Maintenance projects





# Overview: maintenance projects



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# 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

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# Climate-related Risks in the Financial Statements

## Objective

To explore whether and how financial statements can better communicate information about climate-related risks

## Areas of focus

- Research the nature and causes of stakeholder concerns about the reporting of climate-related risks in the financial statements
- Consider possible courses of action, if any
- Consider the work of the ISSB to the extent that it applies to the financial statements

## Next milestone

- Review research

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# 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

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

## Next milestone

- Feedback on Exposure Draft published  
21 March 2023
- Comment period ends  
19 July 2023

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# Annual Improvements to IFRS Accounting Standards

## Objective

Propose amendments to IFRS Accounting Standards that either:

- clarify wording; or
- correct relatively minor unintended consequences, oversights or conflicts between existing requirements

## In scope

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*
- IAS 7 *Statement of Cash Flows*

## Next milestone

- Discuss other potential amendments

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# International Tax Reform—Pillar Two Model Rules (IAS 12)

## 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

- Issue Amendment to IAS 12

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# International Tax Reform—Pillar Two Model Rules (*IFRS for SMEs* Accounting Standard)

## Objective

- Address potential implications of the imminent implementation of the OECD's Pillar Two model rules for income tax accounting.

## Areas of focus

- Using the IASB's alignment approach decide, whether and how to amend the *IFRS for SMEs* Accounting Standard for amendments to IAS 12.
- A narrow-scope standard-setting project outside the second comprehensive review of the *IFRS for SMEs* Accounting Standard

## Next milestone

- Publish an Exposure Draft proposing amendments to the *IFRS for SMEs* Accounting Standard.

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# 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



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# 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

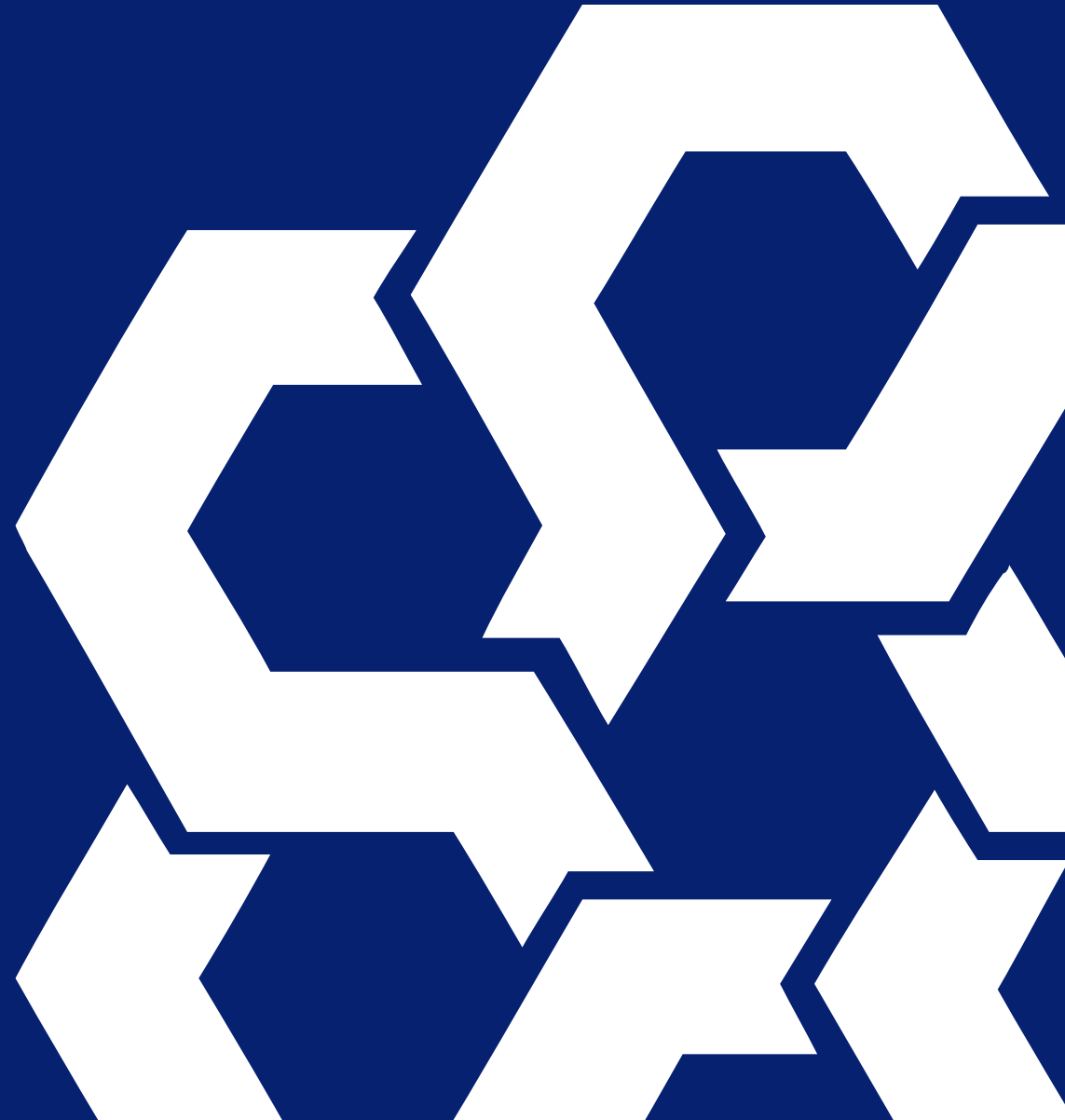
- Describe the arrangements for which the proposed disclosure would be required
- Add qualitative and quantitative disclosure requirements
- Highlight the required disclosure of liquidity risk and risk management

## Next milestone

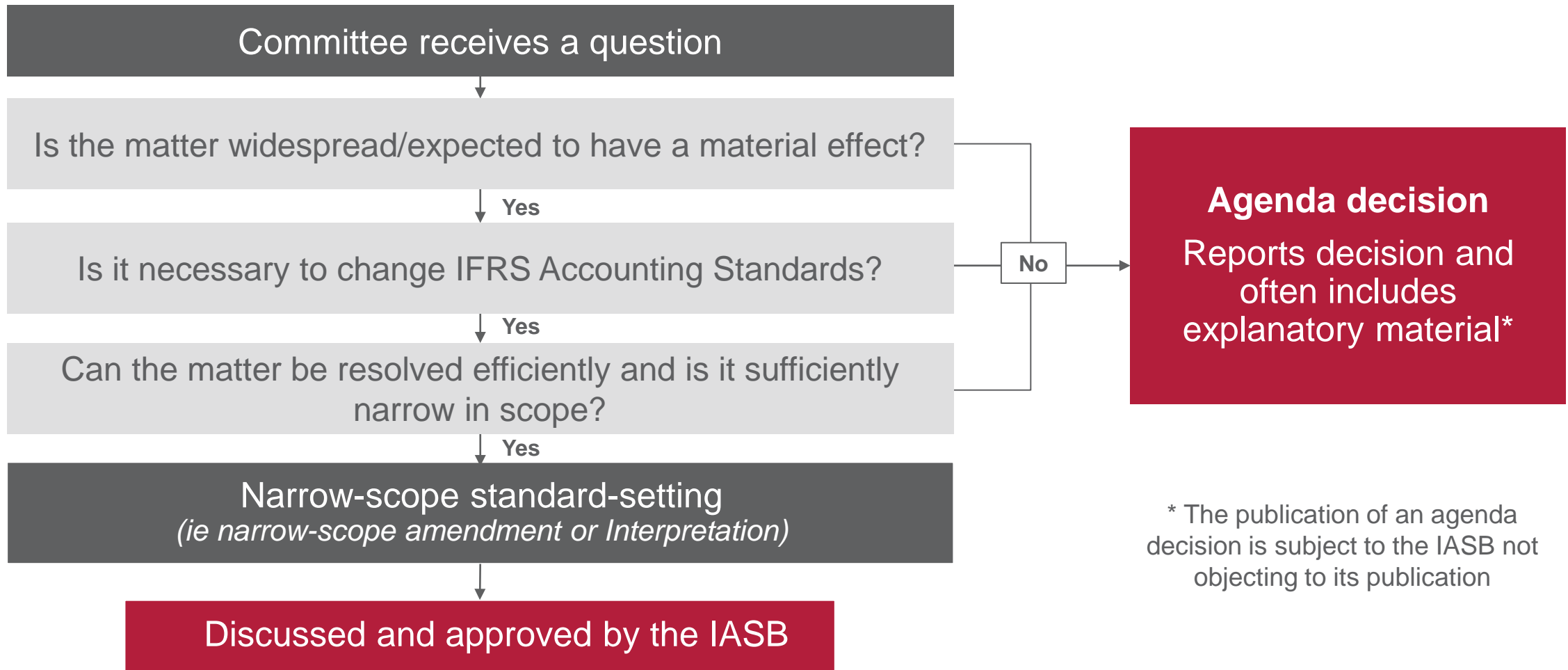
- Issue IFRS Accounting Standard amendments

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# Work of the IFRS Interpretations Committee



# The Interpretations Committee's process



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## Overview of 2023\* activities



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**4** addressed by Committee through agenda decisions (most including explanatory material)

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**2** work in progress (including matters recommended for the IASB's annual improvements)

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\*One Committee meeting held in March 2023, see agenda paper 4A of this meeting

## Sample of agenda decisions

Definition of a Lease—  
Substitution Rights (IFRS 16  
Leases)

Cash Received via  
Electronic Transfer as  
Settlement for a Financial  
Asset (IFRS 9)

Multi-currency Groups of  
Insurance Contracts  
(IFRS 17 and IAS 21)

Lessor Forgiveness of  
Lease Payments (IFRS 9  
and IFRS 16)

Negative Low Emission  
Vehicle Credits (IAS 37)

Principal versus Agent:  
Software Reseller  
(IFRS 15)

Special Purpose Acquisition  
Companies (SPAC):  
Accounting for Warrants at  
Acquisition

Special Purpose Acquisition  
Companies (SPAC):  
Classification of Public  
Shares as Financial  
Liabilities or Equity (IAS 32)

Demand Deposits with  
Restrictions on Use arising  
from a Contract with a  
Third Party (IAS 7)

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# Digital Financial Reporting



# IASB's focus on digital financial reporting



As part of its Third Agenda Consultation the IASB agreed a **slight increase** its focus on digital financial reporting

To help improve the usefulness, quality, accessibility and comparability of digital financial information the IASB plans to:



continue to improve the IFRS Accounting Taxonomy



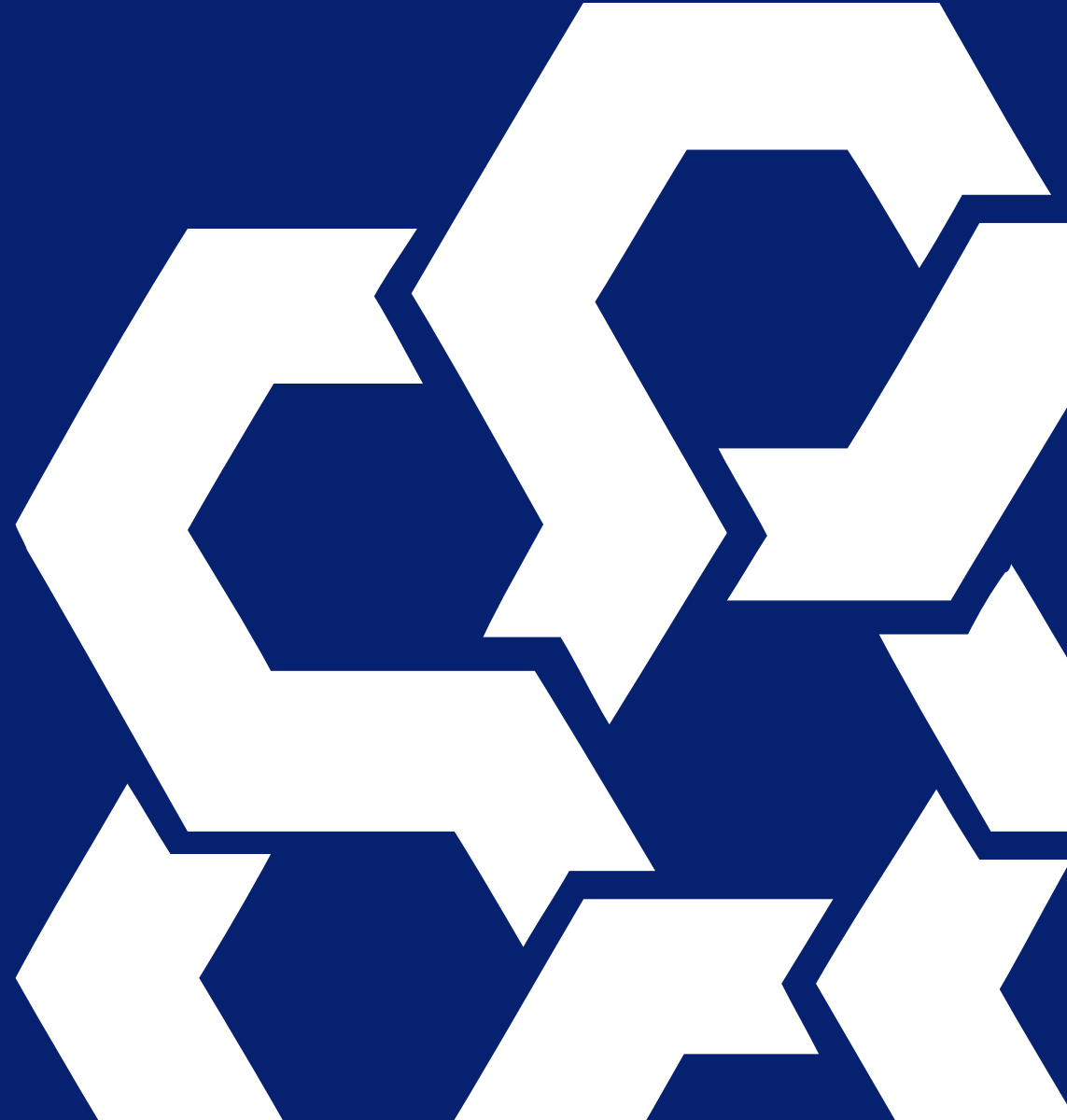
consider implications for IFRS Accounting Standards from the digital consumption of financial reports



work with partners in the digital ecosystem to facilitate the digital consumption of financial reports

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# IFRS Accounting Taxonomy





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# IFRS Accounting Taxonomy: focus areas in 2023

## New and amended IFRS Accounting Standards

keeping the taxonomy in line with the issued standards

looking ahead to significant changes (e.g. Primary Financial Statements)

## Content improvements

enabling high-quality tagging for financial instruments and the financial sector

analysing reporting practice of IFRS electronic filers

## Implementation support

supporting regulators adopting the IFRS Accounting Taxonomy, including translations

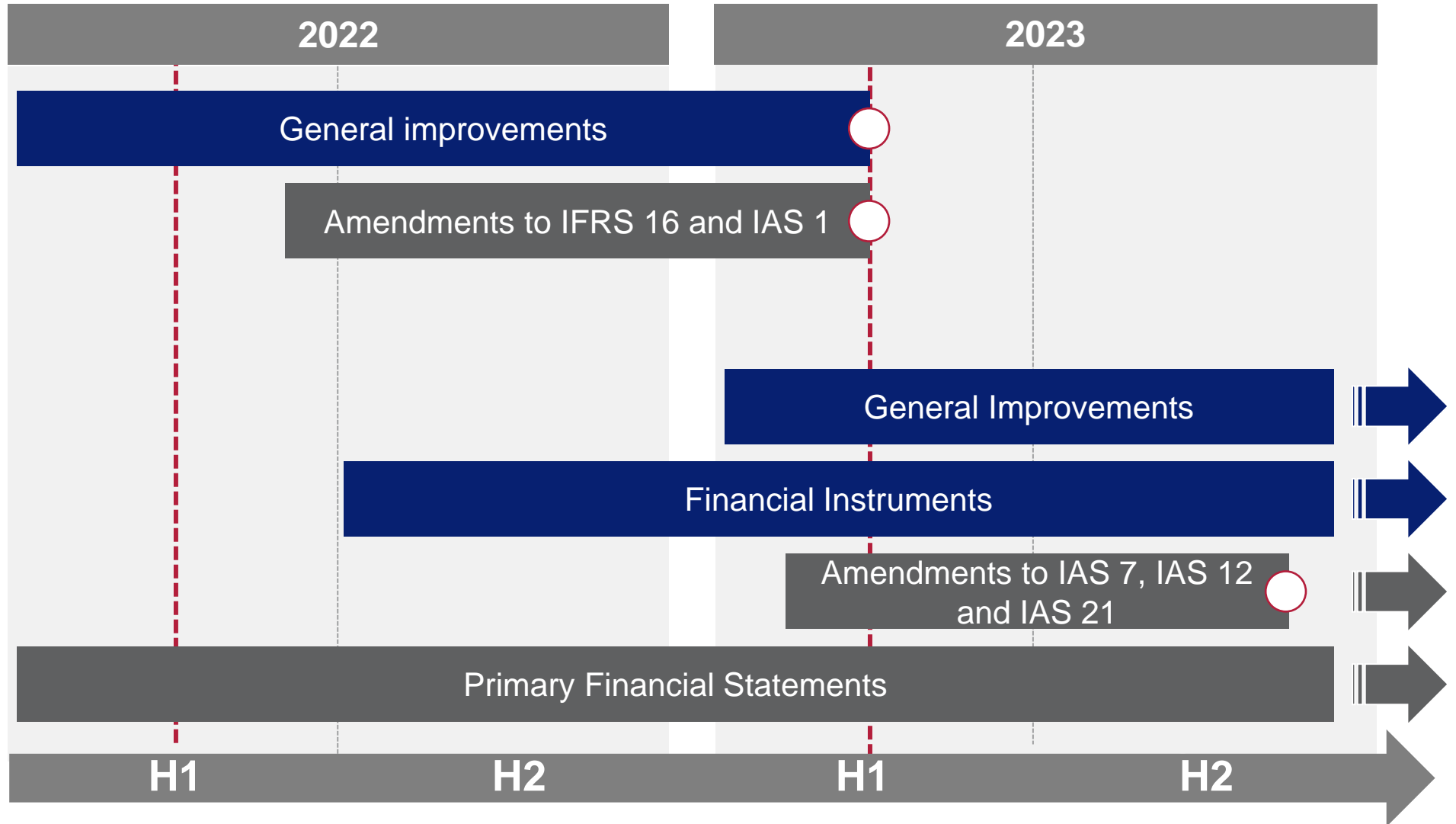
updating supporting materials

**New / amended IFRS Accounting Standards**

**Common Practice / General Improvements**

○ Final IFRS Taxonomy Update

┆ Annual IFRS Accounting Taxonomy



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# Helpful materials

# Resources available on our website

Supporting materials sorted by Standard

Website  
[www.ifrs.org](http://www.ifrs.org)



IFRS  
Accounting  
Standards

IFRIC  
Interpretations

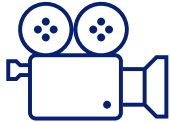
Cross-cutting  
materials

News and  
events



For example, for IFRS 9 *Financial Instruments*:

Videos



Webinars



Articles

Leaflet



Transition  
Resource  
Group



Agenda decisions

Supporting IFRS  
Accounting  
Standards

# IFRS Accounting Standards and their annotated equivalents



## IFRS Accounting Standards

The IFRS<sup>®</sup> Accounting Standards Required 2023

The IFRS<sup>®</sup> Accounting Standards Issued 2023  
*(Available March 2023 onwards)*

IFRS Accounting Standards + extensive cross-references + annotations

The Annotated IFRS<sup>®</sup> Standards Required 2023

The Annotated IFRS<sup>®</sup> Standards Issued 2023  
*(Available March 2023 onwards)*

Annotated IFRS Accounting Standards also available in Spanish

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