Energy

November 30, 2021

Building a better working world

# Today's presenters

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# One Link

## Extensive library of resources

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# Welcome

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### Questions?

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Canadian Assurance Leader

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International Financial Reporting Standards (IFRS)

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Reminder: 52-112 webcast (click here)



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# Today's agenda

1. Strategic challenges facing the energy industry
2. Perspectives on the current and future state of ESG reporting
3. Regulatory updates and perspectives from the Alberta Securities Commission
4. IFRS financial reporting developments



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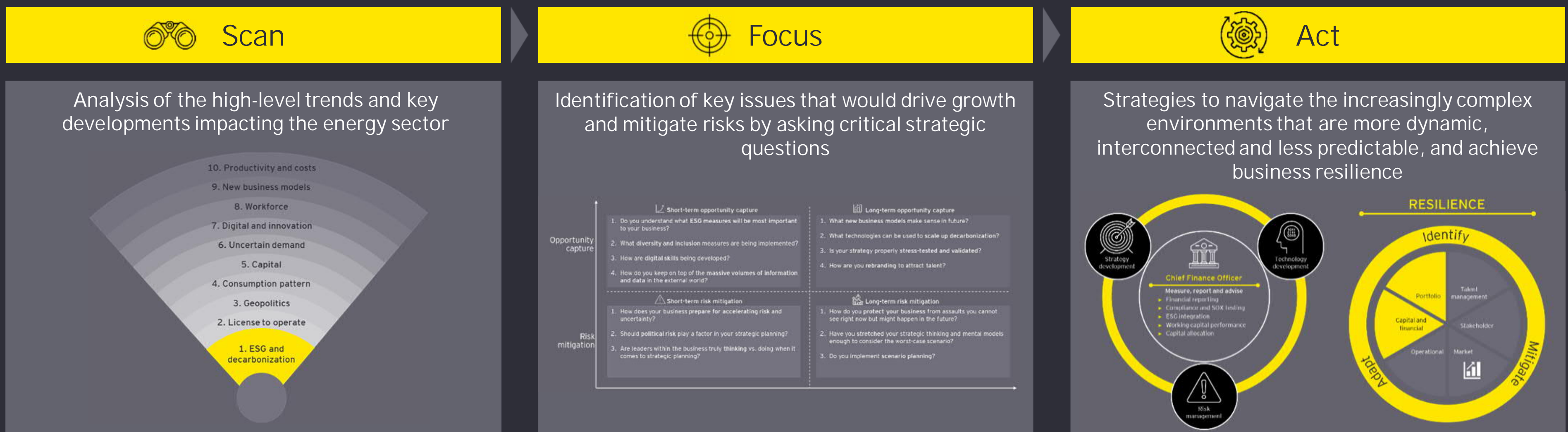
# Strategic challenges facing the energy industry

Presented by

Lance Mortlock
Canadian Energy Market Segment Leader

# Introduction

- Power and utilities, mining and metals, and oil and gas companies face a common challenge: How to marry short-term commercial pressures with the need to reshape their businesses for the future.
- The disruption sweeping the energy and resources industry brings more opportunities than challenges for companies that get ahead of change.
- The framework below can be used to analyze these opportunities and challenges, and ascertain how executives can drive success and instil business resilience.



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# Risk and opportunities

Energy companies are experiencing challenges, but also opportunities like never before – those who can navigate the headwinds will be successful

10. Productivity and costs
9. New business models
8. Workforce
7. Digital and innovation
6. Uncertain demand
5. Capital
4. Consumption pattern
3. Geopolitics
2. License to operate
1. ESG and decarbonization

1. ESG and decarbonization: Energy companies are focusing more on integrating ESG factors and decarbonization into corporate strategies, which has become a priority for all stakeholders.

2. Licence to operate (LTO): This is a complex issue for energy companies. Shareholder expectations around contribution to communities, role in climate change, etc. are evolving fast.

3. Geopolitics: Governments around the world have dramatically shifted policies and regulations in response to an increased impetus to tackle climate change and improve controls around data.

4. Consumption pattern: Consumption patterns are shifting, e.g. the rise of prosumers, as a result of technological advances and greater environmental consciousness.

5. Capital: Access to capital remains challenging for energy companies, with investors deterred by risks associated with ESG, LTO, community issues and volatility.

6. Uncertain demand: Global economic recovery after the COVID-19 pandemic and stimulus have caused a surge in demand in most commodity markets, resulting in price rises.

7. Digital and innovation: Energy companies are looking to deploy new technology for a broader purpose as companies respond to the focus on ESG and the challenge to transition to net zero.

8. Workforce: The pandemic highlighted the benefits of automation and remote operations centres. Energy companies that upskilled their workforce quickly fared better.

9. New business models: Amid the recent disruption and transforming ecosystems, energy companies have a unique opportunity to redefine their business models.

10. Productivity and costs: Pandemic-related costs increases, increased supply chain disruption and a growing need to decarbonize operations have resulted in the need to boost productivity.



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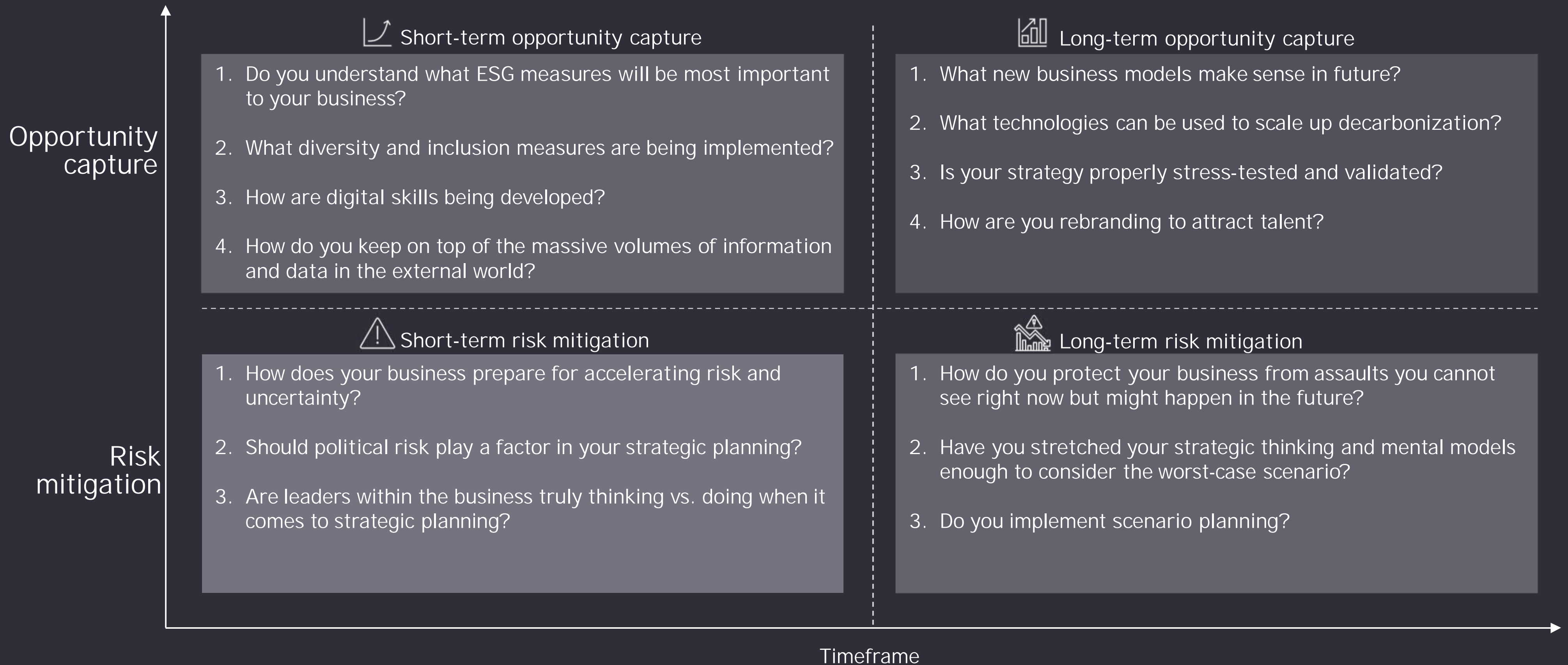
# Critical strategic questions

Question that executives should ask to drive growth and mitigate risks in the short- and long-term



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# Critical roles for success

## The CFO is at the confluence of strategy, risk and technology

### Chief Strategy Officer

Anticipate, navigate and translate

- Corporate strategy
- Strategic planning
- Competitive analysis
- Investment prioritization
- Option analysis

### Chief Risk Officer

Detect, monitor and control

- Risk strategy and integration
- Internal and external threat detection
- Enterprise risk management
- Governance risk and compliance
- Controls management

### Chief Finance Officer

Measure, report and advise

- Financial reporting
- Compliance and SOX testing
- ESG integration
- Working capital performance
- Capital allocation

### Chief Digital Officer

Connect, integrate and transform

- Digital strategy and insights
- Enterprise architecture
- Advanced analytics
- Data management
- Artificial intelligence



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# Business resilience

During times of great risk and uncertainty, feedback from energy market organizations has indicated the increased importance of portfolio, capital and financial resilience

1. Portfolio resilience
   i. Reallocation of capital to optimize returns
   ii. Divesting of underperforming or non-core assets
   iii. Opportunistic transactions
   iv. Partnerships to share capital and costs (such as joint ventures)

2. Capital and financial resilience
   i. Flexible long-term financing
   ii. Achievable debt covenants supported by robust cash flow
   iii. Strong working capital performance
   iv. Robust management of legacy liabilities

3. Operational resilience
   i. Greater management of operating costs
   ii. Optimization of supply chain management
   iii. Management of operational risks
   iv. Innovation of operating models
   v. Proactive investment in technology

6. Talent management resilience
   i. Increased investment in employee skills and capabilities
   ii. Active cultivation of an organizational culture
   iii. Stable and accountable leadership
   iv. Active headcount management
   v. Salary and bonus adjustments

5. Stakeholder resilience
   i. A clear vision for the business supported by market trends and organizational capabilities
   ii. Active engagement and alignment with equity, financial, regulatory, supplier and other stakeholder groups

4. Market resilience
   i. Management of revenue, product, pricing and sales risk
   ii. Management of customer, market and competition
   iii. Management of product and pricing
   iv. Regular use of market and tracing data to align customer-facing activity
   v. Investment in disruptive technology

# Perspectives on the current and future state of ESG reporting

Presented by

Meghan Harris-Ngae
Partner
ESG, Climate Change, and
Environment, Health and Safety

Kerry Clark
Associate Partner

Market factors driving ESG communication demands
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# Why is this topic important?

## What is ESG and why does it matter?

ESG is a strategic business issue that is increasingly tied to business performance and integrated into core business strategy and governance processes. ESG can unlock innovation and transformation to realize long-term value for all stakeholders.

**Investors**

- 98% of investors surveyed by EY evaluate ESG performance based on corporate disclosures
- Investors filed at least 140 climate-related shareholder proposals at US companies during the 2020 proxy season

**Customers**

- 57% of consumers are willing to change their purchasing habits to help reduce negative environmental impact
- More than 150 organizations with $4 trillion of purchasing power are requesting ESG information from 15,000 suppliers via CDP[1]

**Employees**

- Millennials are three times more likely to seek employment with a company because of its stance on social and environmental issues
- Racial diversity, equity and inclusion is a renewed priority for companies looking to drive sustainability and overall performance

**Regulators**

- The Securities Exchange Commission (SEC) and Canadian Securities Administrators (CSA) actively considering new regulatory initiatives relating to climate and ESG reporting
- There is increasing pressure from regulators globally to strengthen and standardize non-financial reporting and disclosures

**Defining ESG:**

The term ESG is often used interchangeably with the terms "sustainability" and "corporate responsibility". Priorities vary by company and often include these topics.

| Environmental | Social | Governance |
|---|---|---|
| Climate risks | Human capital | Diversity of leadership |
| Greenhouse gas emissions | Diversity, equity and inclusion | Anti-bribery and anti-corruption |
| Energy efficiency | Employee health and safety | Business ethics |
| Pollution and waste management | Labor relations and working conditions | Corporate resiliency |
| Use of natural resources | Privacy and data security | Compensation policies |
| Clean energy and technologies | Product quality and safety | Lobbying and political contributions |
| Biodiversity | Human rights and child labor | Escalation protocols |

[1]Carbon Disclosure Project – global disclosure system for companies, cities, states and regions to provide data on their environmental performance through questionnaires including topics like climate change, water, supply chain, forests and cities



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# Why is this topic important?

## What is ESG and why does it matter?

EY's 2021 Global Institutional Investor Survey[1] reinforces the fact that ESG performance plays a central role in investor's decision-making and long-term investment management.

### A tipping point

1. The COVID-19 pandemic acts as a powerful ESG catalyst

**90%**

90% of investors attach greater importance to corporates' ESG performance in their investment strategy and decision-making, since the COVID-19 pandemic.

### Future of ESG investing

2. Performance transparency and analysis capability

**89%**

89% of investors surveyed said they would like to see reporting of ESG performance measures against a set of globally consistent standards become a mandatory requirement.

### The race to net-zero

3. Climate change at the heart of investment decision-making

**86%**

86% investors said that an important part of their strategy is investing in companies that have aggressive carbon-reduction initiatives.

[1] EY, 2021 Global Institutional Investor Survey: Is your ESG data unlocking long-term value?
The sixth edition of this survey included more than 320 institutional investors.

# COP26 goals

Call for action from governments, financial institutions and the private sector to keep the 1.5°C target alive

### End deforestation by 2030

Over 100 leaders, including US, UK, China, Russia, Canada and Brazil, signed the Glasgow Leaders' Declaration on Forests and Land Use. The declaration endorses over 86% of the world's forests.

### Slash methane emissions by 30% by 2030

More than 90 governments joined President Joe Biden in pledging to reduce methane emissions by 2030.

New observatory launched to drive action on reducing methane emissions, the International Methane Emissions Observatory.

### Pledge to phase out coal

More than 40 countries committed to ending investment in new coal power generation and phase out coal by 2030 in richer economies and 2040 in poorer economies. However, China and the US did not sign up.

### Green the financial system

Network for Greening the Financial System, now formed of 100 central banks, released a declaration establishing its readiness to meet Paris objectives, through adopting Task Force on Climate-related Financial Disclosures (TCFD) recommendations and assessing climate-related risks in the financial systems.



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# COP26 goals

## Call for action from governments, financial institutions and the private sector to keep the 1.5°C target alive

### New sustainability reporting standards board

The IFRS Foundation will launch a new International Sustainability Standards Board (ISSB), which will function as a sister board to the globally recognized setter International Accounting Standards Board (IASB), which sets financial accounting standards used in a majority of jurisdictions around the world.

The ISSB will first develop a specific standard regarding climate change disclosures, but the mandate is to develop a broad set of standards covering environmental, social and governance (ESG) issues.

### Private and public climate funding

Climate Finance Delivery Plan developed in order to meet the goal of mobilizing $100b per year of climate aid for the developing world.

Japan committed extra $10b climate finance over five years.

The Glasgow Financial Alliance for Net Zero – a group of private-sector investors, launched in April with US$5 trillion committed to "achieving net zero emissions by 2050 at the latest" – has now secured over US$130 trillion of private capital committed for this purpose.

### Canada and other country-specific commitment highlights

Canada commits to end new direct public support for the international unabated fossil fuel sector by the end of 2022; increase price on carbon from $40 per tonne to $170 per tonne by 2030; achieving net zero emissions in its electricity grid by 2035; and put a cap on oil and gas sector today to move towards net zero by 2050.

The US unveiled a plan to reduce methane emissions by about 75% with tighter regulations on the oil and gas sector, including targeting methane flaring and leaks from oil wells and pipelines.

India targets net-zero by 2070.



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Current state of ESG ecosystem
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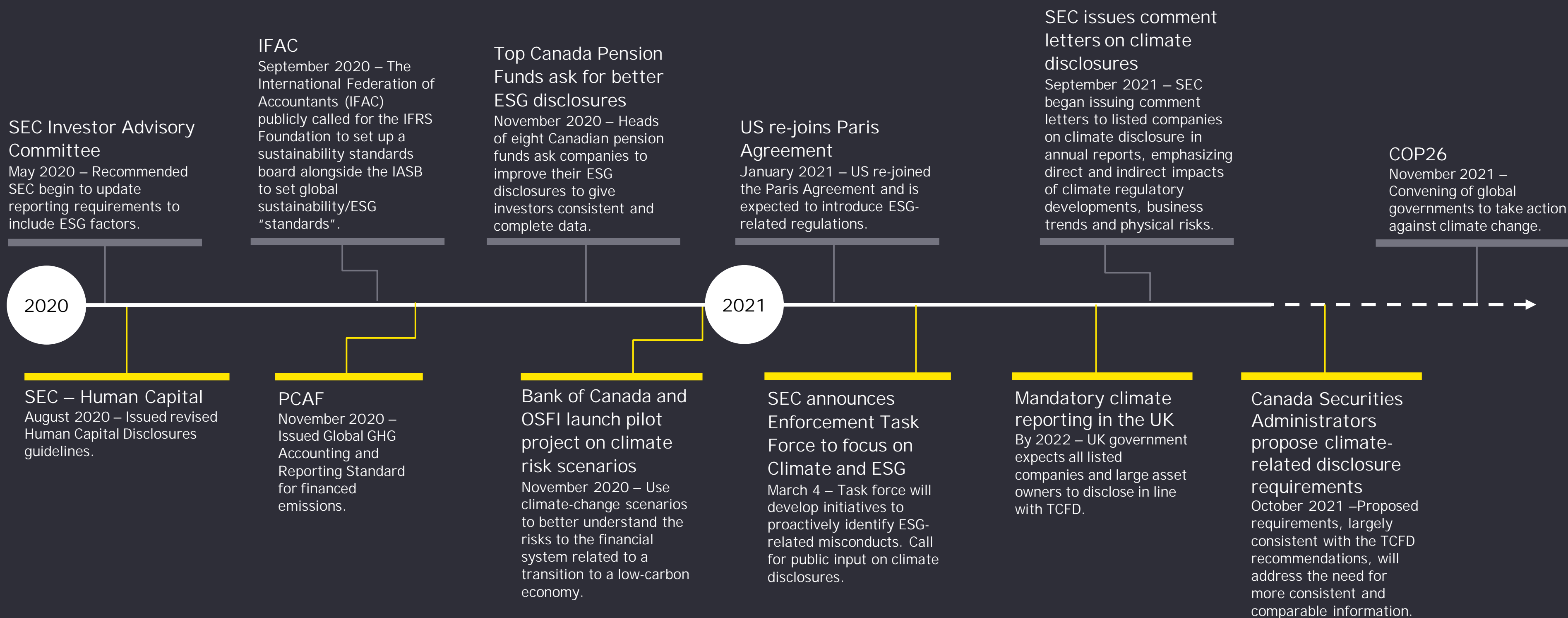
# Global ESG regulatory and industry environments are changing rapidly



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# What we expect from the SEC?

| Climate | Human capital |
| --- | --- |
| ▶ Proposal expected early 2022<br>▶ Range of disclosure options possible from Scope 1 and 2 as minimum, to Scope 3 inclusion as maximum<br>▶ Proposal likely to require disclosures in annual reports<br>▶ Outright reliance on any existing disclosure framework or standards appears less likely<br>▶ Assurance requirement is being considered and would be consistent with recent EU proposal for a Corporate Sustainability Reporting Directive (CSRD)<br>▶ SEC staff has started to issue comments asking for more consistency between sustainability and annual reports climate disclosures | ▶ Already required (since November 2020) in annual reports but the rules allow almost total discretion and do not require quantification of metrics<br>▶ Proposal may be issued before climate – expected to be less complex<br>▶ Topics expected to be considered by the SEC:<br>  ▶ Workforce demographics, stability (turnover), skills and capabilities, culture, health and safety, productivity and compensation<br>  ▶ Human rights commitments |



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# EU proposes CSRD in April 2021 with far-reaching implications

The EU estimates it would increase the number of companies required to disclose sustainability information from 11,000 to approximately 50,000

Far-reaching scope, with EU companies and non-EU companies that are listed in the EU, or that are unlisted but large subsidiaries operating in the EU

Assurance would be required

If agreed to by Parliament, effective for years ending December 2023

## Businesses will need to consider how they:

- Identify and gather sustainability-related information
- Set targets and KPIs (revising existing targets and KPIs if necessary)
- Draw up policies
- Manage social, environmental and governance risks

## Other ways to prepare:

- Adapt internal quality control and risk management systems – and review their effectiveness
- Perform additional due diligence on supply chains
- Establish efficient procedures
- Ensure appropriate governance and monitoring is in place
- Review arrangements for external assurance of sustainability information



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# In September 2020, the IFRS Foundation issued its consultation paper on sustainability reporting for comment

- Identified growing and urgent demand for comparable and transparent sustainability standards driven by numerous stakeholders, including investors, central banks, regulators, public policy makers and auditing firms
- Feedback on the paper confirmed an urgent need for global sustainability reporting standards and support for the IFRS Foundation to play a role in their development
- Establishment of an international sustainability reporting standards board within the existing structure of the IFRS Foundation by November 2021:
  - Will focus on investor stakeholder
  - Will address climate change disclosures first
  - Build upon established work of TCFD and alliance of standard-setters
  - Globally consistent and comparable sustainability reporting baseline
- The IFRS Foundation will oversee two independent standard-setting boards:
  - The International Accounting Standards Board
  - The international Sustainability Standards Board



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# The CSA proposes mandatory climate-related disclosure requirements

On October 18, 2021, the CSA launched a consultation on proposed mandatory climate-related disclosure requirements for Canadian reporting issuers. These recommendations follow those set out by the Ontario Capital Markets Modernization Taskforce, as well as in the Ontario 2021 budget earlier this year. The CSA has provided a list of questions for stakeholders and is seeking written comments on the Proposed Instrument by January 17, 2022.

## Overview of proposed requirements[1]

- Purpose:
  - Facilitate an "equal playing field" for all issuers through comparable and consistent disclosure.
  - Remove costs associating with reporting to multiple disclosure frameworks and reducing market fragmentation.
- Application: All Canadian reporting issuers, except for investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers.
- Disclosure requirements: Climate-related information in compliance with the four core elements of the TCFD recommendations:
  - Governance: The board's oversight of and management's role in assessing and managing climate-related risks and opportunities.
  - Strategy: The short- to long-term climate-related risks and opportunities the issuer has identified and the impact on its business, strategy and financial planning, where such information is material.
  - Risk management: How an issuer identifies, assesses and manages climate-related risks and how these processes are integrated into its overall risk management.
  - Metrics and targets: The metrics and targets used to assess and manage climate-related risks and opportunities, where information is material.
- Modifications to TCFD recommendations:
  - Issuers will not be required to disclose scenario analysis, including a 2˚C or lower scenario.
  - Whether issuers will need to disclose Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and their related risks is yet to be determined. The CSA is asking for opinions on two options:
    - Mandatory disclosure of all three scopes and their related risks on a comply or explain basis, meaning if organizations choose not to disclose they will need to provide a reason as to why not.
    - Mandatory disclosure of Scope 1 emissions with disclosure of Scope 2 and Scope 3 emissions on a comply or explain basis.
- Location of disclosure: Disclosures will need to be included in the issuer's annual management's discussion and analysis, or in its annual information form, or its management information circular.
- Timing: Disclosure requirements are anticipated to come into effect by December 31, 2022 and will be phased-in over a one-year period for non-venture issuers (December 31, 2023) and over a three-year period for venture issuers (December 31, 2025).

[These measures] are a milestone for Canada, making us among the first G7 nations to propose mandating climate-related disclosures.

Grant Vingoe,
CEO and Chairman, Ontario Securities Commission

### GHG Emission Scopes Explained

Scope 1: Direct emissions from the activities of an organization or those under its control

Scope 2: Indirect emissions from electricity and heat purchased and used by an organization

Scope 3: All other indirect emissions from activities of an organization, including production of goods and provision of services from suppliers, use of sold products by customers, business travel, and investments

Click here for more information.

[1] Climate-related Disclosure Update and CSA Notice and Request for Comment – Proposed National Instrument 51-107 Disclosure of Climate-related Matters

# Regulatory updates and perspectives from the Alberta Securities Commission


Presented by

Cheryl McGillivray
Alberta Securities Commission

Anne Marie Landry
Alberta Securities Commission

# Regulatory update: Disclosure of climate-related matters and non-GAAP FAQs

Cheryl McGillivray
Chief Accountant and CFO

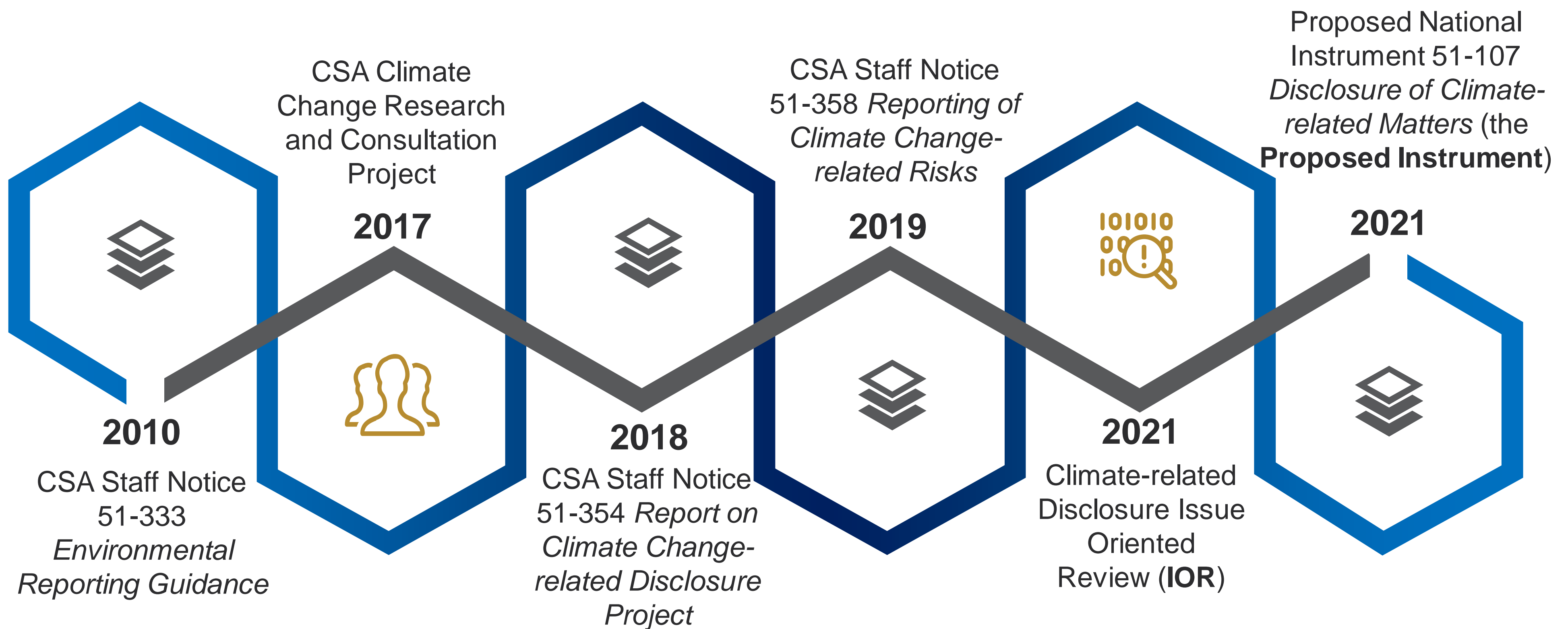
Anne Marie Landry
Associate Chief Accountant

A|S|C
Alberta Securities Commission

The views we are about to express are our own and are not necessarily representative of the Alberta Securities Commission (**ASC**), the Canadian Securities Administrators (**CSA**) or its staff.

# Climate-related Disclosure and Other ESG Matters

# History and Timeline



- Published on October 18, 2021 for a 90-day comment period, ending on January 17, 2022.

- The Proposed Instrument would:

    - apply to all reporting issuers (other than investment funds)

    - introduce disclosure requirements regarding climate-related matters substantially aligned with the Task Force on Climate-related Financial Disclosures (**TCFD**) recommendations (subject to certain modifications)

# When Would the Proposed Instrument Apply?

- Non-venture issuers:
  - Financial years beginning on or after January 1, of the **first** year after the effective date of the Proposed Instrument
    - Annual filings in respect of the financial year ending December 31, 2023 (filing deadline March 2024)

- Venture issuers:
  - Financial years beginning on or after January 1, of the **third** year after the effective date of the Proposed Instrument
    - Annual filings in respect of the financial year ending December 31, 2025 (filing deadline April 2026)

# Overview of the Proposed Instrument – Four Disclosure Pillars

**STRATEGY**

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material

**RISK MANAGEMENT**

Disclose how the organization identifies, assesses, and manages climate-related risks

**GOVERNANCE**

Disclose the organization's governance around climate-related risks and opportunities

**METRICS AND TARGETS**

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

# Overview of the Proposed Instrument – Four Disclosure Pillars (cont'd)

**Related disclosure requirements in the Proposed Instrument**

| Pillar | Requirements |
|---|---|
| **Governance** | • the board's oversight of climate-related risks and opportunities<br>• management's role in assessing and managing climate-related risks and opportunities |
| **Strategy** | • the climate-related risks and opportunities the issuer has identified over the short, medium, and long term<br>• the impact on the issuer's businesses, strategy, and financial planning |
| **Risk management** | • processes for identifying, assessing an managing climate-related risks<br>• how processes for identifying, assessing, and managing climate-related risks are integrated into the issuer's overall risk management |
| **Metrics and targets** | • the metrics used to assess climate-related risks and opportunities in line with the issuer's strategy and risk management process where such information is material<br>• Scope 1, Scope 2, and/or Scope 3 GHG emissions, and the related risks or explain why the issuer has not provided such disclosure<br>• the targets used by the issuer to manage climate-related risks and opportunities and performance against targets where such information is material |

# Overview of the Proposed Instrument – Four Disclosure Pillars (cont'd)

**Location of Disclosure**

- Form 51-107A
- Included in a reporting issuer's management information circular
- For issuers that do not send a management information circular to its securityholders, the disclosure would be provided in the issuer's annual information form (**AIF**) or its annual MD&A, if the issuer does not file an AIF

- Form 51-107B
- Included in the reporting issuer's AIF, or its annual MD&A, if the issuer does not file an AIF

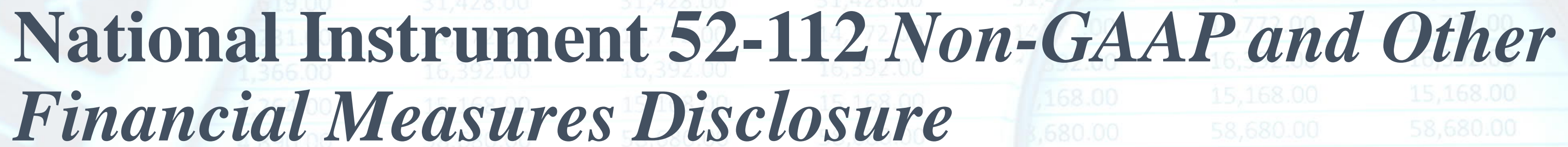
- Under the Proposed Instrument, reporting issuers **would not** be required to provide a “scenario analysis”.

- Reporting issuers would have the option to disclose Scope 1, Scope 2, and Scope 3 GHG emissions and the related risks or explain why they have not included such disclosures.
  - Disclosure required of the standard used to calculate and disclose the GHG emissions
  - If the reporting standard is not the GHG Protocol, disclose how the standard compares

- As an alternative to the comply or explain approach to Scope 1, Scope 2, and Scope 3 GHG emissions, we are consulting on whether instead:
  - Scope 2, and Scope 3 GHG emissions and the related risks would be optional to disclose or explain why they have not included such disclosures and
  - Scope 1 GHG emissions and related risks be required disclosure either:
    - When material or
    - In all cases

# Proposed Instrument – Disclosure of Climate-Related Matters

- We are seeking input from all market participants that are affected by this Proposed Instrument.
- Please carefully read the proposed rules and provide your comments.
- Your views matter!



# National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure*

# Background: National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* (NI 52-112)

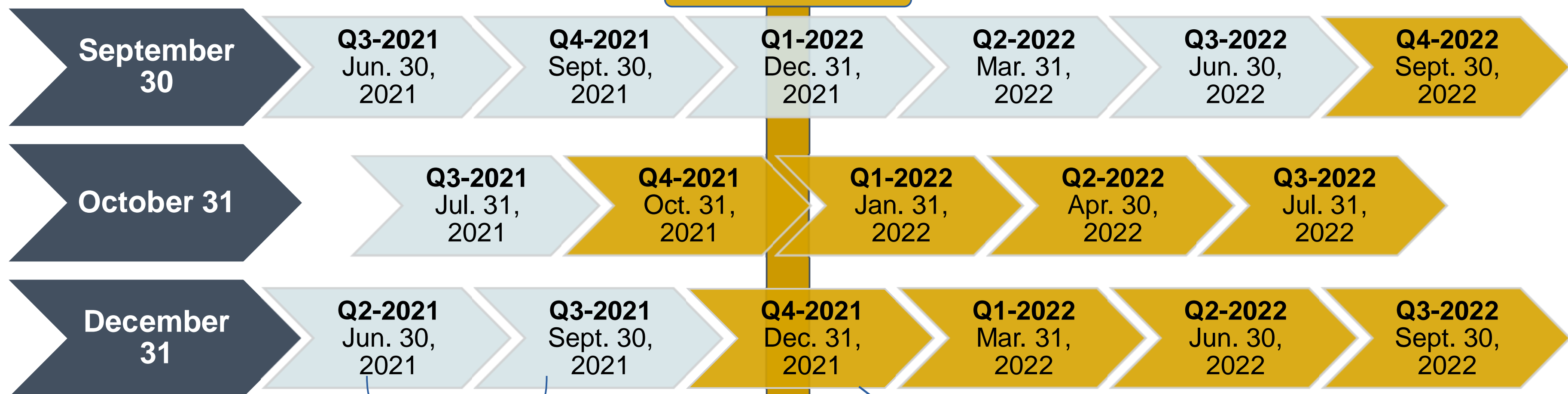
- Final rule for non-GAAP and other financial measures, NI 52-112:
  - published on May 27, 2021
  - August 25, 2021 effective date
  - includes transition provisions in subsections 13(3) and (4)

- NI 52-112 includes disclosure requirements for issuers that disclose non-GAAP and other financial measures

- Prior to adopting the final rule, issuers should continue to refer to Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures*, which will be withdrawn when transition to the final rule is complete

# NI 52-112: Transition – Reporting Issuers (subsection 13(3))

**Reporting Issuers:** Initially applies to **documents filed for** a financial year ending on or after October 15, 2021




Guidance in CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* applies

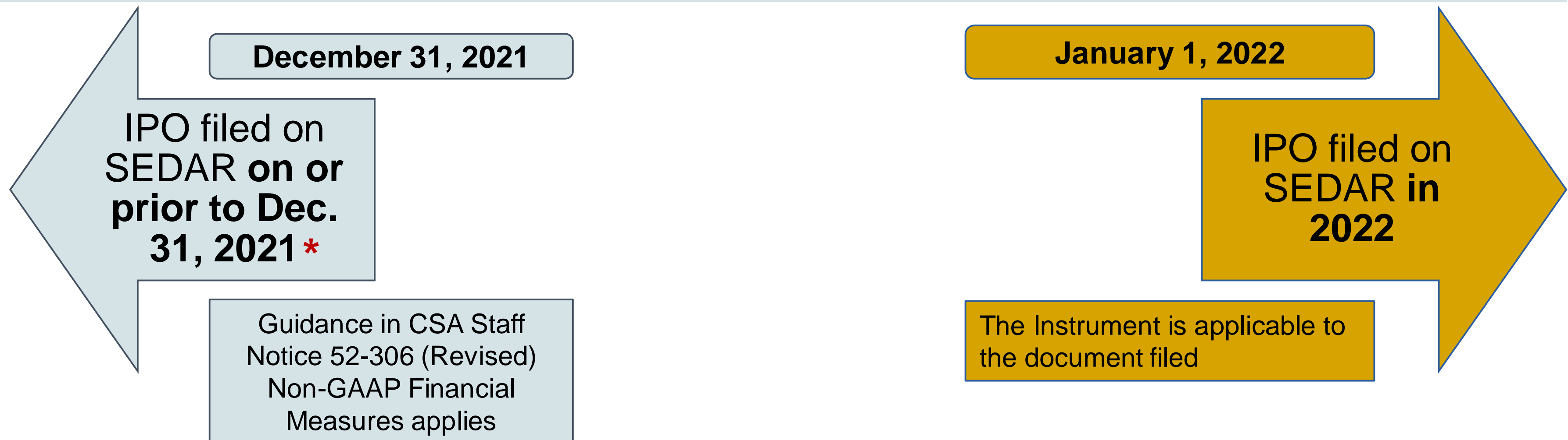
- **Annual 2021 filing** (i.e., annual FS and related annual MD&A for the year ending Dec. 31, 2021).
- **Document filed BEFORE the annual 2021 filing** (e.g., earnings release for Q4 / 2021 annual filing).
- **Short-form prospectus** that incorporates by reference or includes a document for Dec. 31, 2021 financial year.

The Instrument is not applicable to the document filed, but the guidance in CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* applies.

The Instrument is applicable to the document filed.

# NI 52-112: Transition – Non-Reporting Issuers (subsection 13(4))

**Non-reporting issuer:** Instrument does not apply until after December 31, 2021




- The Instrument is not applicable to the document filed, but the guidance in CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* applies.
- The Instrument is applicable to the document filed.

* If an issuer files its preliminary IPO in 2021, but only anticipates that the final IPO (or an amendment) will be filed in 2022, for consistency of presentation, the issuer should consider applying the Instrument in the preliminary IPO as any IPO filed in 2022 would need to comply with the Instrument.

Questions?

Thank You

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Alberta Securities Commission

# Recent IFRS financial reporting developments

Presented by

Patrick Cavanagh
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IASB workplan
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# IASB work plan
## Completed projects

| Topic | Related standard | Effective date |
|---|---|---|
| Interest Rate Benchmark Reform and its Effects on Financial Reporting – Phase 2 | IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 | January 1, 2021 |
| IFRS 16 and COVID-19* | IFRS 16 | April 1, 2021 |
| Updating References to the Conceptual Framework | IFRS 3, IAS 37 Conceptual Framework for Financial Reporting | January 1, 2022 |
| Property, Plant and Equipment: Proceeds before Intended Use | IAS 16 | January 1, 2022 |
| Onerous Contracts – Cost of Fulfilling a Contract | IAS 37 | January 1, 2022 |
| Subsidiary as a First-time Adopter | IFRS 1 | January 1, 2022 |
| Fees in the "10 per cent" Test for Derecognition of Financial Liabilities | IFRS 9 | January 1, 2022 |
| Taxation in Fair Value Measurements | IAS 41 | January 1, 2022 |
| IFRS 17 Insurance Contracts | IFRS 17 | January 1, 2023 |
| Classification of Liabilities as Current or Non-current | IAS 1 | January 1, 2024** |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)* | IAS 12 | January 1, 2023 |
| Definition of Accounting Estimates (Amendments to IAS 8)* | IAS 8 | January 1, 2023 |
| Disclosure Initiative – Accounting Policies* | IAS 1 | January 1, 2023 |

- *Completed in 2021
- **See slide 51 for update



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# IFRS updates – Amendments to IAS 16

## Property, Plant & Equipment (PP&E): proceeds before intended use

Key requirements:

- Amends the standard to prohibit deducting from the cost of PP&E any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- Proceeds from selling such items, and the cost of producing those items, are to be recognized in profit or loss. An entity will be required to identify and measure production costs associated with selling volumes before an asset is ready for its intended use in accordance with IAS 2.
- If the sale of such items are not in the ordinary course of business, an entity must separately disclose the sales proceeds and cost of producing those items, and specify the line item within profit or loss where these have been recognized (IAS 16.74A).
- Clarifies the meaning of "testing" in paragraph 17(e) – i.e., when testing whether an item of PP&E is functioning properly, an entity assesses the technical and physical performance of the asset, and not its financial performance.

Transition:

- Effective for annual periods beginning on or after January 1, 2022. The amendments will be applied retrospectively only to items of PP&E that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the period the amendments are first applied.
- Earlier application is permitted and must be disclosed.



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# IASB work plan

## Maintenance projects and standard-setting projects

| Maintenance project | Next milestone | Expected date |
|---|---|---|
| Lease liability in a sale and leaseback | Exposure draft feedback | Q1 2022 |
| Lack of exchangeability (amendments to IAS 21) | Exposure draft | – |
| Availability of a refund (amendments to IFRIC 14) | Decide project direction | – |
| Provisions – targeted improvements | Decide project direction | – |

| Standard-setting Projects | Next milestone | Expected date |
|---|---|---|
| Disclosure Initiative – Subsidiaries Without Public Accountability Disclosures | Exposure draft feedback | H1 2022 |
| Disclosure Initiative – Targeted Standards-Level Review of Disclosures | Exposure draft feedback | Q1 2022 |
| Financial Instruments With Characteristics of Equity | Exposure draft | TBD |
| Management Commentary | Exposure draft feedback | TBD |
| Primary Financial Statements | IFRS standard | TBD |
| Rate-Regulated Activities | Exposure draft feedback | October 2021 |
| Second Comprehensive Review of the IFRS for SMEs (Small- and Medium-sized Enterprises) Standard | Exposure draft | TBD |



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# Rate-regulated activities
## Overview of the proposed accounting model

## 1 Problem and purpose

- Timing differences may result in incomplete picture of financial position and performance
- Recognize either regulatory asset or liability when revenue and expense recognition timing does not coincide

## 2 Scope

- Defines rate-regulation as having three elements:
  a. A formal regulatory framework
  b. Binding on both entity and regulator
  c. Basis for setting the rate that gives rise to amounts added to or deducted from future rates

## 3 Total allowed compensation

- The amount an entity is entitled to charge customer for the goods or services supplied
- Timing differences may give rise to the recognition of regulatory liabilities and assets

## 4 Regulated assets and regulated liabilities

- The model defines "regulatory asset" and "regulatory liability"

## 5 Cash flow-based measurement technique

- Estimate using "most likely amount" or "expected value"
- Update estimates if changes occur
- Estimated cash flows are discounted



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# IASB work plan
## Research projects

| Research project | Next milestone | Expected date |
|---|---|---|
| Business combinations under common control | Discussion paper feedback | Q4 2021 |
| Dynamic risk management | Core model feedback | TBD |
| Equity method | Decide project direction | TBD |
| Extractive activities | Decide project direction | TBD |
| Goodwill and impairment | Discussion paper feedback | TBD |
| Pension benefits that depend on asset returns | Review research | TBD |
| Post-implementation review of IFRS 10, IFRS 11 and IFRS 12 | Request for information feedback | TBD |
| Post-implementation review of IFRS 9 Classification and Measurement | Request for information | H2 2021 |



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# IFRIC updates

## Amendments to IAS 1: Classification of Liabilities as Current or Non-current

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# Amendments to IAS 1
## Overview

Background:

- In January 2020, IASB issued amendments to IAS 1 Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current, clarifying:
  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

December 2020 update:

- Subsequent to the issuance of the amendments, the IFRS Interpretations Committee discussed how an entity would apply the amended guidance in IAS 1 for a series of fact patterns, summarized in a Tentative Agenda Decision (TAD)
- Comment letter responses raised concerns that the conclusions from the TAD produced outcomes that were not useful to financial statement users



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# Amendments to IAS 1

IFRIC Tentative Agenda Decision (June/July 2021)

June/July 2021 update:

- The Board tentatively decided to propose several new amendments to the IAS 1 amendments originally made in January 2020
- In particular, the Board decided to further amend IAS 1:
  - To specify that if the right to defer settlement for at least 12 months is subject to a company complying with conditions after the reporting period, then such conditions would not affect whether the right to defer settlement exists at the end of the reporting period for the purposes of classifying a liability as current or non-current;
  - To include additional disclosure requirements for non-current liabilities subject to conditions; and
  - To require that the statement of financial position separately present non-current liabilities subject to conditions in the next 12 months.

November 2021 update:

- Exposure Draft issued on November 19, 2021
- The effective date is annual reporting periods beginning on or after January 1, 2024



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# IFRIC updates

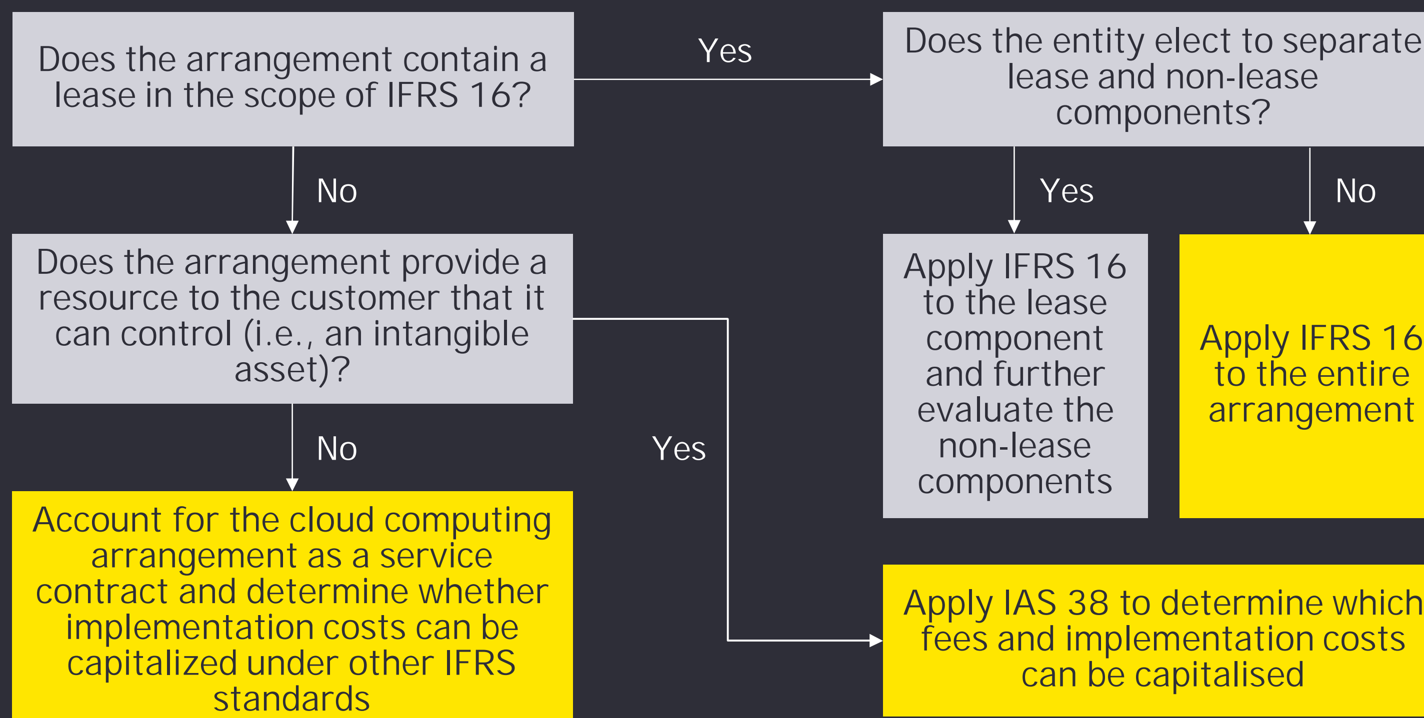
## Agenda decision: Configuration or Customization Costs in a Cloud Computing Arrangement

EY

# Accounting for cloud computing costs

## Overview

- There is no explicit guidance in IFRS on customer accounting for cloud arrangements or related implementation costs; therefore, an entity will need to apply judgment
- The following diagram summarizes the accounting considerations:



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# Accounting for cloud computing costs

## Implementation costs

- A customer may incur implementation and other up-front costs to get the cloud computing arrangement ready for use
- Accounting for those costs will depend on whether the arrangement includes an intangible asset or is a service contract, and on the type of cost

<table>
<tr><th colspan="3">Accounting for implementation costs in a cloud arrangement</th></tr>
<tr><th>Types of costs</th><th>Includes an intangible</th><th>Service contract</th></tr>
<tr><td>Research</td><td>Expense as incurred</td><td>Expense as incurred</td></tr>
<tr><td>Hardware costs</td><td>Capitalize – IAS 16</td><td>Capitalize – IAS 16</td></tr>
<tr><td rowspan="2">Costs to configure or customize underlying software</td><td rowspan="2">Generally capitalize – IAS 38</td><td>Supplier – determine if services are distinct</td></tr>
<tr><td>Third party – expense as incurred</td></tr>
<tr><td>Changes to other entity systems</td><td>It depends</td><td>It depends</td></tr>
<tr><td>Training costs</td><td>Expense as incurred</td><td>Expense as incurred</td></tr>
<tr><td>Data conversion</td><td>Expense as incurred</td><td>Expense as incurred</td></tr>
<tr><td>Testing</td><td colspan="2">Accounting linked to what is being tested</td></tr>
</table>



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# Accounting for cloud computing costs

## Costs to configure or customize underlying software

- In its March 2021 meeting, the IFRIC finalized an agenda decision related to treatment of costs to configure or customize a cloud computing solution that is a service contract, which proposed a two-step framework to consider.

### Key considerations

- Who provides the configuration or customization services?
  - Cloud arrangement service provider (or subcontractor):
    - If the configuration or customization services are distinct from the cloud arrangement, expense when the supplier configures or customizes the application software
    - If the configuration or customization services are not distinct from the cloud arrangement, expense as the supplier provides access to the application software over the contract term
  - Third-party supplier:
    - Expense as services when the third-party supplier configures or customizes the application software



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# IFRIC updates

## Agenda decision: Costs necessary to sell inventories

EY

# Costs necessary to sell inventories

## IFRIC Final Agenda Decision (June 2021)

Question posed to the IFRIC: Which costs does an entity include as part of the estimated costs necessary to make a sale when determining the net realizable value of inventories?

- Background:
  - IAS 2.9 requires an entity to measure inventories "at the lower of cost and net realisable value"
  - IAS 2.6 defines net realizable value 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"
- View 1: An entity includes all costs needed to make the sale (e.g., ordinary sales staff and advertising costs that are attributable to the inventory)
- View 2: An entity includes only additional costs required by the particular conditions of the inventories to make the sale (e.g., special promotion campaigns)



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# Costs necessary to sell inventories

IDG Meeting (September 2021)

Question posed to the IDG: What additional costs, other than incremental costs, should be considered when determining the "costs necessary to make the sale"?

- Direct costs incurred only at point of sale
- Direct costs leading up to point of sale
- Directly attributable costs necessary for inventory to be sold
- Allocation of indirect costs only at point of sale
- Allocation of indirect costs leading up to and including point of sale

- IDG members concluded:
  - The inclusion of costs will be facts and circumstances-specific
  - Disclosure of policy and significant judgment applied will be necessary



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Reporting and other considerations for SPAC transactions
EY

# What is a SPAC?

- A special purpose acquisition company (SPAC) is a shell corporation that is formed strictly to raise capital through an IPO for the purpose of acquiring an existing operating company, generally through a reverse merger with the existing operating company (Target)
- Since 2020, there has been a significant increase in SPAC IPOs as well as SPAC mergers
- Attractive strategic option for private companies
- Some challenges do exist, such as complex accounting considerations and financial reporting requirements



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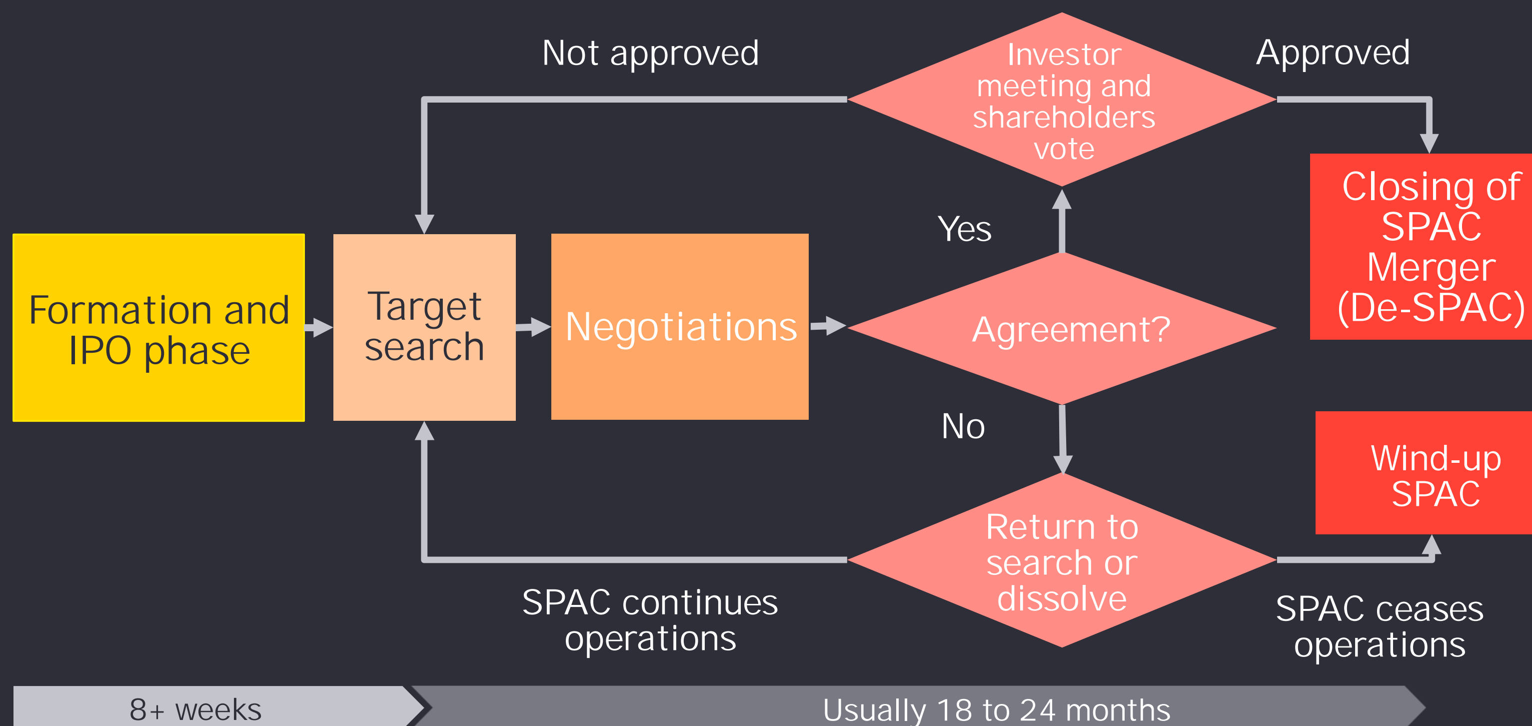
# Overview of SPAC lifecycle



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# Hot topic matters

Accounting for SPACs pre-merger

Identification of an accounting acquirer

Earn-out provisions

Financial instruments

Share-based payments

# Accounting for the SPAC transaction

Identification of an accounting acquirer:

- Relative voting rights in the combined entity after the business combination
- The existence of a large minority voting interest in the combined entity in absence of owners with a significant voting interest
- The composition of the governing body of the combined entity
- The composition of the senior management of the combined entity
- The terms of the exchange of equity interests – who is paying a premium?

- If SPAC is the accounting acquirer:
  - The transaction is accounted for as a business combination in accordance with IFRS 3

- If Target is the accounting acquirer (most common):
  - The transaction is not accounted for as a business combination as the SPAC is not considered to be a business, as defined in IFRS 3
  - Accounted for in the consolidated financial statements of the SPAC (legal acquirer) as a continuation of the financial statements of the Target (legal subsidiary), together with a deemed issue of shares by the target and a re-capitalization of the equity of the Target



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# Accounting for the SPAC transaction

## Accounting for financial instruments:

- If SPAC is the accounting acquirer:
  - Re-assessment of any conditional features under IAS 32 is required

- If Target is the accounting acquirer:
  - A key question that arises – how to account for outstanding warrants issued by the SPAC? Does IAS 32 or IFRS 2 apply?
  - Lack of guidance under IFRS, and diversity in practice exist; therefore, significant judgment required
  - If considered to be part of deemed consideration for the acquisition of the SPAC, there would be instruments issued to acquire goods and services (i.e., listing service), similar to the deemed shares issued, under IFRS 2
  - If considered to part of the net assets acquired, then other standards used by the SPAC (for example, IAS 32) may continue to apply

EY's publication on accounting for SPACs:

Applying IFRS – Accounting for SPACs



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IDG meetings
Impairment considerations for right-of-use assets
EY

# Change in the use of ROU asset and impact of change on the CGU determination

- An impairment test is performed at the individual asset level if any of the below conditions are met. Otherwise, it is performed at the cash-generating unit (CGU) level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets:
  a) The asset generates cash inflows that are largely independent of those generated from other assets or groups of assets in the entity;
  b) The asset's individual fair value less costs of disposal (FVLCD) exceeds its carrying amount; or
  c) The asset's value in use can be estimated to be close to its FVLCD and the FVLCD can be measured.

- An entity's decision to change the use of an ROU asset (or an entity's conclusion that it has no realistic alternative but to do so) would indicate that an asset, a group of assets or CGUs may be impaired



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# Change in the use of ROU asset and impact of change on the CGU determination

- The condition in IAS 36.22(b) that value in use (VIU) can be estimated to be close to FVLCD for an ROU asset for real estate may be judged to be fulfilled where an ROU asset is to be used within its current CGU for only a short period of time before the abandonment or sublease occurs. In such circumstances, the ROU asset will have to be tested for impairment on a stand-alone basis.
- When the ROU asset is to be used within the original CGU for only a short period of time before the abandonment or sublease occurs, one might, depending on facts and circumstances, also judge that the ROU asset and the CGU generate largely independent cash inflows. This would also mean that the ROU should be tested for impairment on a stand-alone basis.
- The longer the time between the decision to abandon or sublease the ROU asset and the actual change in use occurring, the less likely it is that the decision will immediately impact the level at which any impairment assessment should be performed.



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# Impairment test for right-of-use assets

## Other considerations

When an entity plans to change the use of an ROU asset, what other impacts may that have?

- Reassessment of useful life and residual value
- Restrictions of the use of the ROU asset
- Lease reassessment or modification
- Timing of adjustments
- Sublease considerations



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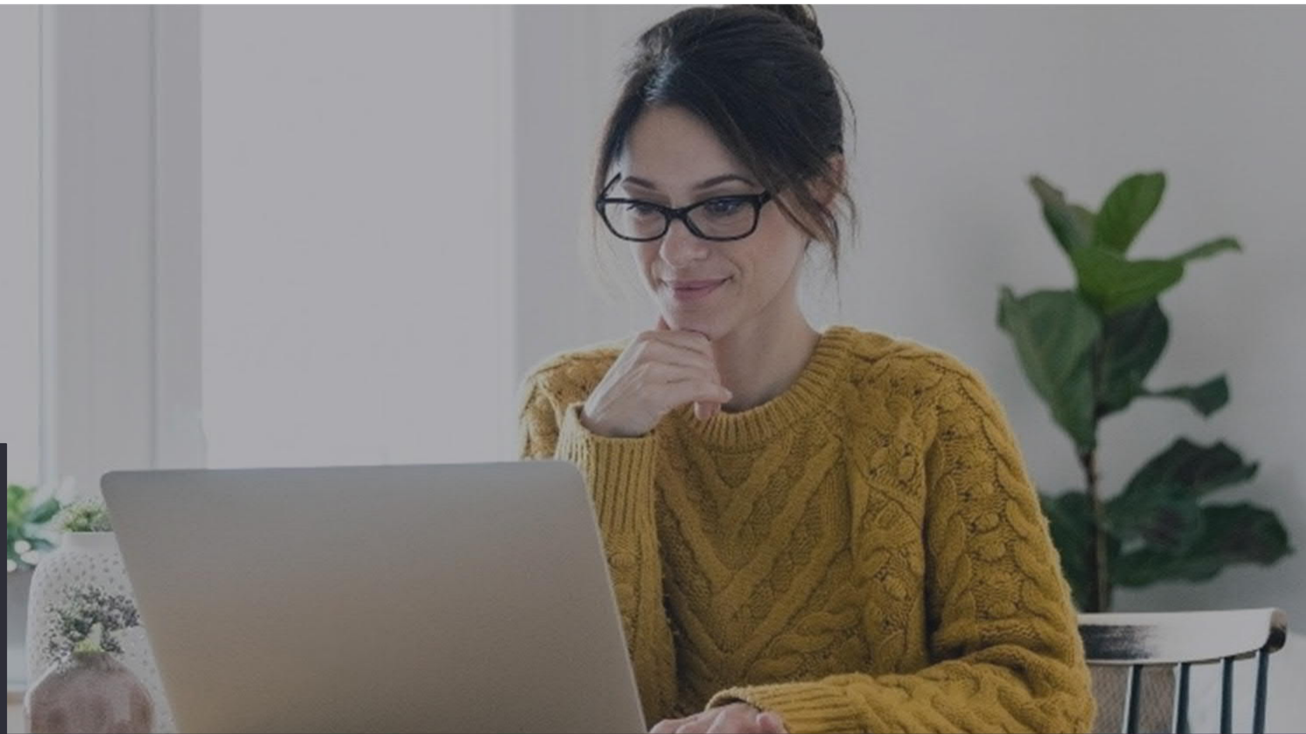

# Thank you!

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Thank You

# IFRIC agenda decisions

| Topic | Decision | Issued date |
|---|---|---|
| IAS 2: Costs Necessary to Sell Inventories | Final | June 2021 |
| IAS 10: Preparation of Financial Statements when a Entity is No Longer a Going Concern | Final | June 2021 |
| IFRS 9: Hedging Variability in Cash Flow Due to Real Interest Rates | Final | May 2021 |
| IAS 19: Attributing Benefit to Periods of Service | Final | May 2021 |
| IAS 38: Configuration or Customization Costs in a Cloud Computing Arrangement | Final | April 2021 |
| Supply Chain Financing Arrangements – Reverse Factoring | Final | December 2020 |
| IFRS 9 And IAS 20: Targeted Longer-term Refinancing Operations III Transactions | Tentative | June 2021 |
| IFRS 16: Economic Benefits from Use of a Windfarm | Tentative | June 2021 |
| IFRS 16: Non-refundable Value Added Tax on Lease Payments | Tentative | March 2021 |
| IAS 32: Accounting For Warrants that are Classified as Financial Liabilities on Initial Recognition | Tentative | March 2021 |
| IAS 1: Classification of Debt with Covenants as Current or Non-current | Tentative | December 2020 |
| IFRS 10 And IFRS 16: Sale and Leaseback of an Asset in a Single-asset Entity | Tentative | September 2020 |



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# Recent IDG topics

## September 2020 to September 2021

| Topic | Meeting date |
| --- | --- |
| IAS 2: Costs Necessary to Sell Inventories<br>Discuss the application of the IFRS Interpretations Committee's Agenda Decision on the accounting for costs necessary to sell inventories. | September 2021 |
| Accounting for Cryptoassets Held on Behalf of Others<br>Consider a scenario where an entity holds cryptoassets on behalf of others. Discuss factors the entity should consider in assessing whether it has control over the cryptoassets and the presentation of these assets on the entity's balance sheet. | September 2021 |
| IFRS 9: Issuer's Accounting for Green Bonds<br>Discuss the issuer's accounting for green or sustainability-linked bonds under IFRS 9 Financial Instruments. | September 2021 |
| Equity Method Accounting on an Investment in Common and Preferred Shares<br>Discuss to which instrument the equity method applies when an investor entity holds both voting common and preferred shares in the associate. | May 2021 |
| IAS 38: Configuration and Customization Costs in a Cloud Computing Arrangement<br>Discuss the application of the IFRS Interpretations Committee's Agenda Decision on the accounting for configuration or customization costs in a cloud computing arrangement. | May 2021 |



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# Recent IDG topics

September 2020 to September 2021

| Topic | Meeting date |
| --- | --- |
| Issuer's Accounting for Subscription Receipts<br>Consider a scenario where an entity offers subscription receipts where it receives cash for the promise for a future delivery of common shares subject to the occurrence of certain events. Discuss the issuer's accounting for these subscription receipts. | May 2021 |
| Accounting for Standby Costs and Penalties Incurred under a Force Majeure Clause<br>Consider a scenario where a company that owns an asset under construction incurs certain standby costs and other penalties charged back to it by the builder under a force majeure clause. Discuss the company's accounting for these additional costs | May 2021 |
| Classification of Debt with Covenant as Current or Non-current<br>Continue discussions on the application of paragraph 72A of IAS 1 Presentation of Financial Statements when assessing an entity's compliance with covenants that affect the classification of debt as current or non-current considering the December 2020 IFRIC discussion. | December 2020 |
| Disclosures of COVID-19 Impacts<br>Discuss various disclosure requirements related to COVID-19 that may impact an entity's year-end financial reporting in 2020. | December 2020 |
| Classification of Limited Recourse Capital Notes by the Holder<br>Discuss the classification of Limited Recourse Capital Notes by the holder. | December 2020 |



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# Recent IDG topics

## September 2020 to September 2021

| Topic | Meeting date |
|---|---|
| Impairment Test on Right-of-Use Assets<br>Discuss impairment considerations for right-of-use assets when an entity has decided to vacate the property shortly after the decision date. | December 2020 |
| IAS 1: Application of paragraph 72A to classify a term loan as current or non-current<br>Discuss the application of the new paragraph 72A of IAS 1 Presentation of Financial Statements to assess an entity's compliance with covenants that affect the classification of a term loan as current or non-current. | September 2020 |
| Change to discount rate method<br>Consider changes made to the discount rate method prescribed by Canadian Institute of Actuaries to calculate the defined benefit obligation in IAS 19 Employee Benefits and discuss accounting implications for such changes. | September 2020 |
| Income statement presentation of COVID-19 impacts<br>Discuss the income statement presentation for various COVID-19 impacts. | September 2020 |



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