EY's Financial Reporting Developments Series

Public companies – IFRS reporting

May 26, 2022

Building a better working world

Today's presenters

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Today's agenda

1 Recent climate and sustainability reporting developments

Jeff Glassford

2 Financial reporting considerations for the war in Ukraine

Jeff Hodl

3 Recent IFRS financial reporting developments

- Demand deposits with restrictions on use
- Cash received via electronic transfer as settlement for a financial asset
- SPACs – Accounting for warrants at acquisition
- IFRS 17: Considerations for corporates
- OECD: GloBE rules

Lara Iob, Jeff Hodl, Juliana Mok

4 Recent challenges in practice

- Principal vs. agent considerations for revenue recognition

Juliana Mok

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Recent climate and sustainability reporting developments

Recent climate and sustainability reporting developments

OVERVIEW OF RECENT DEVELOPMENTS

2021 Developments

18 October 2021
CSA Proposed National Instrument 51-107, *Disclosure of Climate-related Matters*

Comment period closed February 16, 2022, under review by the CSA

2022 Developments

21 March 2022
Securities Exchange Commission (SEC) issues proposal

- Quantitative disclosures within the notes to the audited financial statements (Reg S-X amendments)
- Qualitative and quantitative disclosures outside the financial statements (Reg S-K amendments)

31 March 2022
International Sustainability Standards Board (ISSB) issues Exposure Drafts

- **IFRS S1**, *General Requirements for Disclosure of Sustainability-Related Financial Information*
- **IFRS S2**, *Climate-related Disclosures*

29 April 2022
European Financial Reporting Advisory Group (EFRAG) issues Exposure Drafts

- **ESRS 1**, *General principles*
- **ESRS 2**, *General, strategy, governance and materiality assessment disclosure requirements*
- **ESRS E1-E5**, *Environment*
- **ESRS S1-S4**, *Social*
- **ESRS G1-G2**, *Governance*

Recent climate and sustainability reporting developments

COMPARISON OF APPROACHES TO CLIMATE REPORTING AND DISCLOSURE

Key elements of the TCFD, ISSB, SEC, EFRAG and CSA proposed approaches to climate disclosure

	TCFD	ISSB	SEC	EFRAG	CSA[1]
Current status of standards	Final	Consultation	Consultation	Consultation	Consultation
Type	Voluntary	N/A[6]	Mandatory	Mandatory	Mandatory
Primary audience[2]	Investor	Investor	Investor	Multi-stakeholder	Investor
Materiality[3]	Enterprise	Enterprise	Enterprise	Societal	Enterprise
Disclosure location	Annual report	Annual report	Mixed[7]	Annual report	Mixed[7]
Effective date[4]	N/A	N/A[6]	Fiscal Year 2023	Fiscal Year 2023	Fiscal Year 2023
Assurance[5]	N/A	N/A[6]	Mandatory	Mandatory	Not required
Governance, strategy, risk narrative	Required	Required	Required	Required	Required
Scenario analysis	Required	Required	Conditional	Required	Not required
GHG Scope 1, 2	Required	Required	Required	Required	Conditional
GHG Scope 3	Conditional	Required	Conditional	Required	Conditional
2°C, or lower, alignment	Recommended	Required	Not required	Required	Not required
Industry-specific disclosure	Recommended	Required	Not required	Required	Not required

Source: EY analysis, as of 29 April 2022

[1]The proposed NI 51-107 disclosures are largely consistent with the Task-Force on Climate Related Financial Disclosure (TCFD) recommendations

[2]Audience refers to the primary intended users of the information. Investor refers to investor, lender or other creditors. Multi-stakeholder refers to investors, lenders, other creditors as well as employees, customers, communities, civil society, government and more.

[3]Materiality is defined as enterprise or societal. Enterprise materiality suggests that companies report on how sustainability issues impact their business. Societal materiality suggests that companies report on both how sustainability issues impact their business and their businesses' impact on people and the environment.

[4]Effective date refers to the first possible reporting period under the proposed rules. For the SEC proposal, the requirements would be phased-in based on company size. For the CSA proposal, requirements would be phased-in based on venture versus non-venture.

[5]The US SEC proposal starts with limited assurance before moving to reasonable assurance (derived from the AICPA's attestation standards, SSAE No. 18). The EU proposal starts with limited assurance and is expected to move to reasonable assurance, over time.

[6]Given the authority of the IFRS Foundation, the ISSB standard would leave a number of decisions to the local jurisdiction including whether the standard is mandatory, location of disclosure (although the exposure draft does require the information to be disclosed in the same set of documents as the financial statements), effective date and level of assurance, if any, required.

[7]All SEC proposed disclosures would be included within regulatory filings though some information would be included in a footnote to the financial statements. The CSA proposed disclosures would be included in the management information circular, AIF or annual MD&A.

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Financial reporting considerations for the war in Ukraine

Financial reporting considerations for the war in Ukraine

ECONOMIC IMPACTS

- The war will directly impact entities that have significant exposures or operations in, or with Russia, Belarus or Ukraine as well as those indirectly exposed to certain commodities as well as those with key customers and suppliers who may be more directly impacted

- Key economic impacts to consider both directly and indirectly are:
  - Commodity price fluctuations
  - Foreign exchange rate volatility
  - Availability of local materials and services
  - Access to local resources
  - Supply chain disruption and possible slowdown in global economies
  - Increased cybersecurity risks

ACCOUNTING IMPLICATIONS

- Accounting and disclosure implications may be significant, and impact a number of accounting requirements depending on the Company's exposure to the various economic impacts of the war, including:
  - Going concern
  - Impairment assessment of non-financial assets
  - Fair value measurement
  - Financial instruments, including hedging (IFRS 9)
  - Insurance recoveries
  - Leases
  - Onerous contracts
  - Assets held for sale, discontinued operations and restructuring
  - Inventories
  - Revenue recognition
  - Investments in subsidiaries, associates and joint ventures
  - Government grants
  - Other financial statement presentation and disclosure requirements

Financial reporting considerations for the war in Ukraine

ACCOUNTING IMPLICATIONS – DISCLOSURE AND INTERIM REPORTING CONSIDERATIONS

- Presentation and disclosure considerations:
  - Consider the magnitude of the impact caused to their businesses and adequately disclose information about those assets and liabilities that are subject to significant estimation uncertainty
  - May be additional disclosures necessary in order to help users of financial statements understand the judgement applied in the financial statements
  - Include sensitivity analysis where appropriate for financial statement items impacted by volatile currencies or commodities

- Interim reporting considerations
  - Disclosure of events and transactions that are significant to an understanding of the Company's financial position and performance
  - IAS 34 does not specifically require sensitivity analysis, but may be required if the range of reasonably possible changes in key assumptions has changed significantly since end of last annual reporting period

EY's Applying IFRS
Accounting considerations for the war in Ukraine
Updated March 2022

3

Recent IFRS financial reporting developments

- Demand deposits with restrictions on use
- Cash received via electronic transfer as settlement for a financial asset
- SPACs - Accounting for warrants at acquisition
- IFRS 17: Considerations for corporates
- OECD: GloBE rules

IFRIC updates

Agenda Decision: Demand deposits with restrictions on use

Demand deposits with restrictions on use

IFRIC AGENDA DECISION (APRIL 2022)

The Committee received a submission about whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party.

- In the fact pattern described, the terms and conditions of the demand deposit itself do not prevent the entity from accessing the amounts held in it.
- Restrictions on use arise from commitments or contractual obligations to third parties, not from the terms and conditions of the demand deposit.
- Similar fact patterns could exist, for example:
  - Minimum cash balance requirements arising from loan covenants with an unrelated financial institution

Demand deposits with restrictions on use

IFRIC AGENDA DECISION (APRIL 2022)

- The IFRIC concluded that the third-party contractual restrictions on use **do not** preclude the deposit from meeting the definition of cash in IAS 7:
  - The entity should include the demand deposit as a component of "cash and cash equivalents" in its statement of cash flows and statement of financial position
  - Where applicable, the entity could disaggregate the cash and cash equivalents and present the demand deposit subject to restrictions separately in an additional line item
  - The demand deposit is classified as **current**, unless the deposit is *"restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period"*
  - Disclosures required on the demand deposit subject to contractual restrictions on use as a component of cash and cash equivalents, and relevant information about that amount

IFRIC updates

Tentative Agenda Decision: Cash received via electronic transfer as settlement for a financial asset

Cash received via electronic transfer as settlement for a financial asset

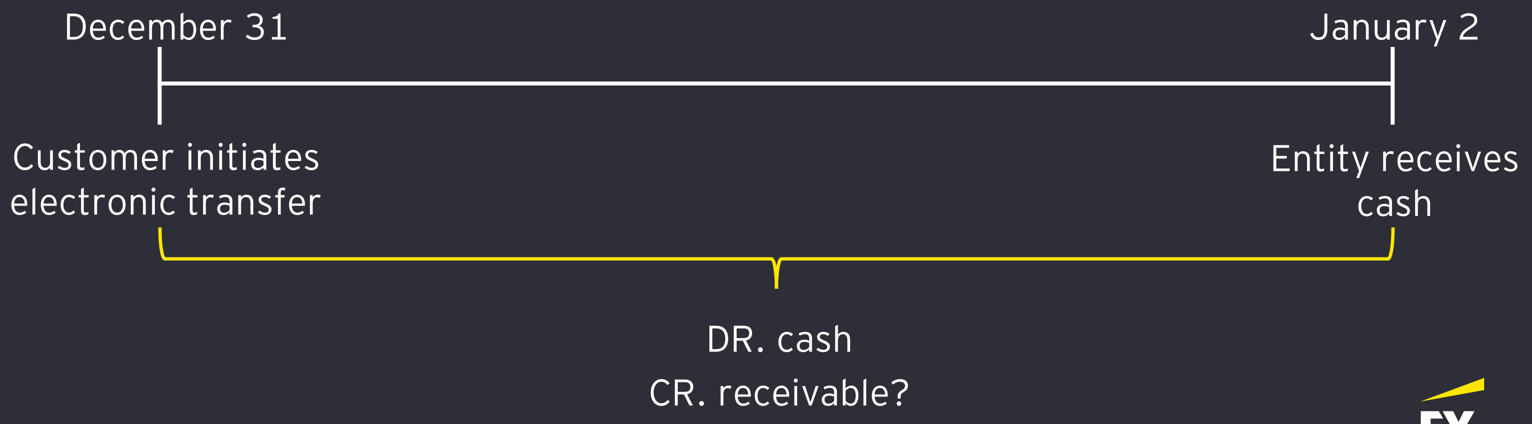
IFRIC TENTATIVE AGENDA DECISION (SEPTEMBER 2021)

QUESTION POSED TO THE IFRIC

Can an entity derecognise the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date)?

Fact pattern:

- The electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer.
- An entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after the reporting date.



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Cash received via electronic transfer as settlement for a financial asset

IFRIC TENTATIVE AGENDA DECISION (SEPTEMBER 2021)

Applicable guidance and considerations

- Derecognition of the trade receivable:
  - Other than when transferring a financial asset, IFRS 9.3.2.3 requires an entity to derecognise a financial asset "when, and only when the contractual rights to the cash flows from the financial asset expire"
  - The entity derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire
  - Determining the date on which the entity's contractual rights to those cash flows expire is a legal matter

- Recognition of cash (or another financial asset):
  - IFRS 9.3.1.1 requires an entity to recognise a financial asset when, and only when, "the entity becomes party to the contractual provisions of the instrument"
  - The entity is party to the contractual provisions of an instrument (its bank account) under which it has the contractual right to obtain cash from the bank for amounts it has deposited with that bank
  - Therefore, only when cash is deposited in its bank account, will the entity have a right to obtain cash from the bank

Cash received via electronic transfer as settlement for a financial asset

IFRIC TENTATIVE AGENDA DECISION (SEPTEMBER 2021)

The Committee tentatively concluded:

- Applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity:
  - Derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and
  - Recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date.
  - The principles and requirements in IFRS provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable.

Cash received via electronic transfer as settlement for a financial asset

IFRIC TENTATIVE AGENDA DECISION (SEPTEMBER 2021)

What are the potential implications of the Tentative Agenda Decision for financial reporting issuers?

Next steps

- Continue to monitor developments relating to the TAD
- Begin assessment of potential impacts

The IFRS Discussion Group ("IDG") discussed the TAD at its December 2021 meeting.

- The TAD addresses a specific fact pattern, but may be applicable in other instances. Entities should carefully review:
  - The characteristics of their payment processing systems
  - The terms and conditions of agreements with counterparties
  - The applicable laws and regulations where they operate
- Establishing when contractual rights expire is a legal matter – legal opinions for each settlement system used may be required
- The TAD may also be relevant to the derecognition of a financial liability (e.g. accounts payable)
  - For example, cheque payments are often deducted from cash and from AP when the cheque is dispatched – entities may need to revisit this practice if the TAD is finalized
- Changes to the accounting may result in required changes to processes and related controls (e.g. the way in which bank reconciliations are prepared)

IFRIC updates

Tentative Agenda Decision: Special Purpose Acquisition Companies (SPACs) – Accounting for warrants at acquisition

SPACs - Accounting for warrants at acquisition

IFRIC TENTATIVE AGENDA DECISION (MARCH 2022)

QUESTION POSED TO THE IFRIC

How does an entity account for warrants on acquisition of a SPAC?

Fact pattern:

- The entity acquires a SPAC to obtain cash raised in its IPO (its only asset) and to obtain the SPAC's listing on a stock exchange. The SPAC does not meet the definition of a business in IFRS 3.
- Before the acquisition, the SPAC's ordinary shares are determined to be equity instruments as defined in IAS 32. In addition to ordinary shares, the SPAC had also issued warrants.
- The entity acquires the SPAC by issuing new ordinary shares and warrants to the SPAC's founder shareholders and public investors in exchange for the SPAC's ordinary shares and the legal cancellation of the SPAC's warrants. The entity's owners control the group after the transaction. The SPAC becomes a wholly-owned subsidiary of the entity and the entity replaces the SPAC as the entity listed in the stock exchange.
- The fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC.

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SPACs - Accounting for warrants at acquisition

IFRIC TENTATIVE AGENDA DECISION (MARCH 2022)

The Committee observed:

- The acquirer is the entity
- The SPAC does not constitute a business, therefore, the entity identifies and recognises the individual identifiable assets acquired and liabilities assumed as part of the acquisition
- The entity acquires cash; considers if it assumes any liability related to the warrants
- In the fact pattern discussed, the SPAC's stock exchange listing does not meet the definition of an intangible asset because it is not "identifiable" as described in paragraph 12 of IAS 38. However, the Committee concluded that in applying paragraphs 2 and 13A of IFRS 2:
  - The entity receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction; and
  - Measures it at the difference between the fair value of the instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired

SPACs - Accounting for warrants at acquisition

IFRIC TENTATIVE AGENDA DECISION (MARCH 2022)

Does the entity assume the SPAC warrants as part of the acquisition?

- The entity considers specific facts and circumstances of the transaction, including the terms and conditions of the SPAC warrants and the warrants it issues in the transaction
- If the facts and circumstances are such that the entity **assumes the SPAC warrants** as part of the acquisition:
  - In this case, the entity issues ordinary shares to acquire the SPAC and assumes the SPAC warrants as part of net assets acquired. The entity then issues new warrants to replace the SPAC warrants assumed.
  - Apply IAS 32 to determine whether the warrants are financial liabilities or equity instruments.
- If the facts and circumstances are such that the entity **does not assume the SPAC warrants** as part of the acquisition:
  - In this case, the entity issues **both** ordinary shares and new warrants to acquire the SPAC and does not assume the SPAC warrants (the SPAC warrants get cancelled).

SPACs - Accounting for warrants at acquisition

IFRIC TENTATIVE AGENDA DECISION (MARCH 2022)

- The Committee [tentatively] concluded that the entity applies:
  a) IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service; and
  b) IAS 32 in accounting for instruments issued to acquire cash and assume any liabilities

- If the entity concludes it does not assume the SPAC warrants as part of the acquisition, it develops and applies an accounting policy choice to determine which instruments were issued to acquire cash and which were issued to acquire the stock exchange listing service
  - An accounting policy must result in information that is relevant and reliable (IAS 8.10);
  - an entity could allocate the shares and warrants to the acquisition of cash and the stock exchange listing service on the basis of the relative fair values of the instruments issued
  - other allocation methods could be acceptable if they meet the requirements of IAS 8.

- The Committee [tentatively] concluded that the principles and requirements in IFRS provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern the Committee discussed.

SPACs - Accounting for warrants at acquisition

IFRIC TENTATIVE AGENDA DECISION (MARCH 2022)

What are the potential implications of the Tentative Agenda Decision for financial reporting issuers?

- Implications for Canadian financial reporting issuers
  - Implications for reverse takeover transactions
  - Considerations for splitting transaction costs
  - Subsequent accounting challenges related to splitting consideration
- Implications in the context of any transaction which involves shares
  - Asset acquisitions where financial assets or liabilities are acquired through issuance of equity may be impacted

IFRS Discussion Group ("IDG") agenda item for May 19, 2022

The application of the IFRS Interpretations Committee's Tentative Agenda Decision on an entity's accounting for warrants on acquiring the SPAC.

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IFRS 17: Insurance contracts

Considerations for corporates

IFRS 17 is the new insurance contract accounting standard, effective **January 1, 2023**

- IFRS 17 may impact companies **not typically viewed as issuers** of insurance contracts
  - Scoping is critical to the application of this standard

IFRS 17: Insurance contracts

CONSIDERATIONS FOR CORPORATES

Examples of items within the scope of IFRS 17:

Product warranties issued by a third party

- Warranties issued by a related party entity (ie. subsidiary, sister entity) for products sold by a manufacturer, dealer or retailer would apply IFRS 17 in its separate financial statements
- However, product warranties issued directly by the manufacturer, dealer or retailer of the product would fall under IFRS 15

Fixed-fee maintenance contracts

- A company may sell a customer a piece of customised machinery, and separately enter into a contract to provide maintenance services for a fixed fee, priced in consideration of the customer's expected usage
- Under the contract, the company will make any repairs necessary for malfunctions – the cost to repair could exceed the service fee, creating significant insurance risk
- The exception in IFRS 17 for fixed-fee service contracts would **not** be met

Loans issued with job loss, death forgiveness

- A retail company may provide extended financing terms for a product sale
- If the terms of the financing provide for a waiver of payment upon job loss or death, it would meet the definition of an insurance contract
- IFRS 17.8A provides an election to account for such a contract under IFRS 9 or IFRS 17 – election is for entire portfolio and irrevocable

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IFRS 17: Insurance contracts

CONSIDERATIONS FOR CORPORATES

Examples of items not within the scope of IFRS 17:

Holders of insurance contracts
(unless identified as reinsurance)

- IFRS 17 only covers the issuer of the contracts, not the holder
- Entities often look to IAS 37 for guidance

Financial guarantee contracts
(unless the issuer asserted it is an insurance contract and accounts for it as insurance)

- Examples include loan guarantees or items like mortgage insurance

Product warranties
(issued directly by the manufacturer, dealer or retailer in connection with the sale of the underlying product or service)

- Careful analysis is required to establish precise links between product or service

Certain credit card contracts that provide insurance coverage
(without assessing the insurance risk of the individual involved)

- Careful analysis is required if contracts contain embedded insurance coverage

OECD: Global Anti-Base Erosion model rules

OECD: Global Anti-Base Erosion (GloBE) model rules

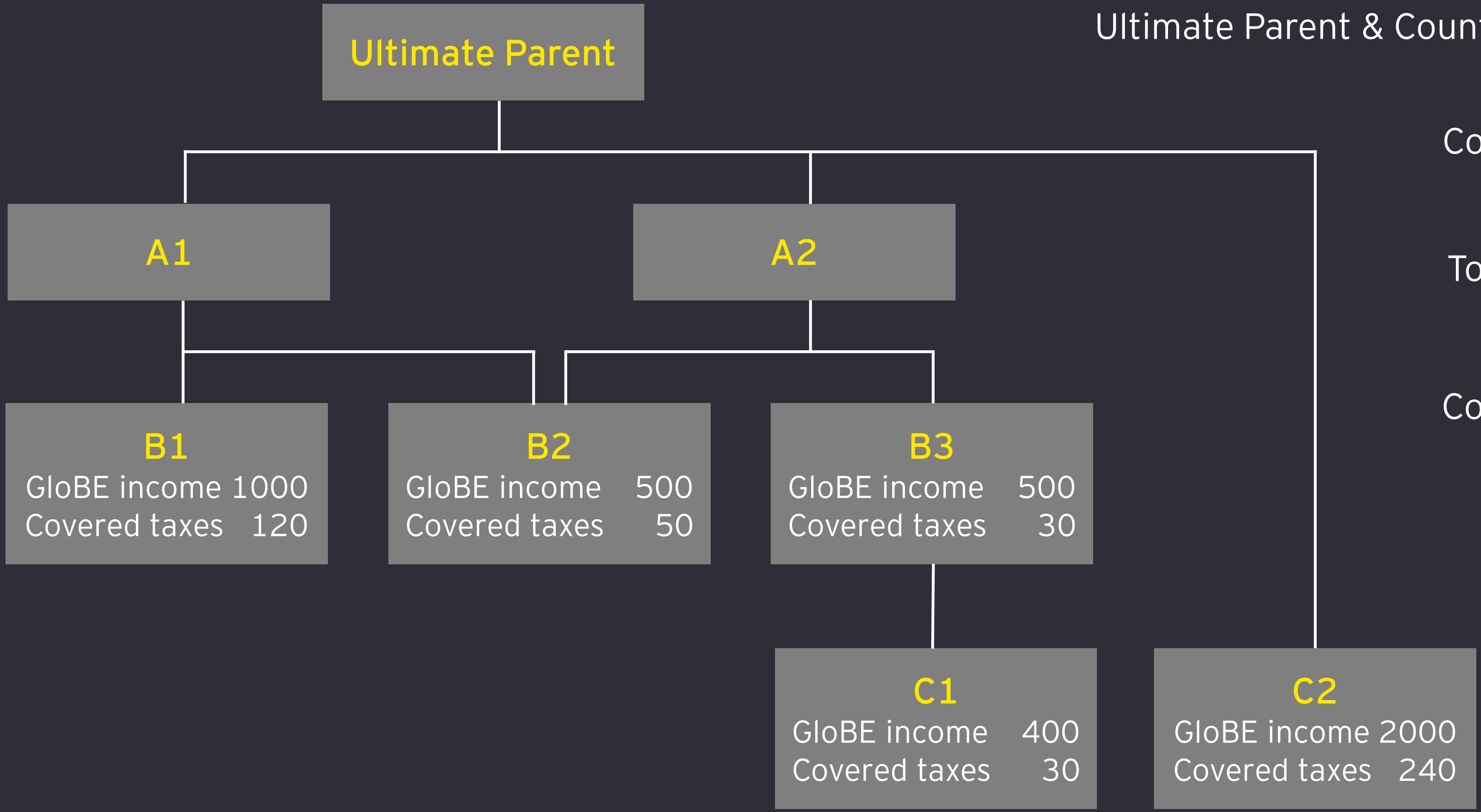
INTRODUCTION

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released the Global Anti-Base Erosion (GloBE) model rules (Pillar Two).

- GloBE rules define the scope and mechanics for the Pillar Two system of **global minimum tax** rules, consisting of:
  - Income Inclusion Rule (IIR)
  - Under Taxed Payments Rule (UTPR)
- The GloBE rules would generally be applied to multinational enterprises with annual revenue > €750M
- The overall intent of the GloBE rules is to bring the total amount of taxes paid to a **minimum rate of 15%**
- The GloBE rules are intended to be brought into domestic law in 2022, to be effective in **2023** – timing will depend on local jurisdictions' specific legislations
  - Canada is one of 140 countries who have committed to the OECD's two-pillar approach and is expected to develop domestic legislation

OECD: Global Anti-Base Erosion (GloBE) model rules

EXAMPLE



Ultimate Parent & Country A effective tax rate (ETR) > 15%

$$\text{Country B ETR} = \frac{120 + 50 + 30}{1000 + 500 + 500} = 10\%$$

10% < 15%

$$\text{Top-up tax} = 5\% \times (1000 + 500 + 500) = 100$$

$$\text{Country C ETR} = \frac{30 + 240}{400 + 2000} = 11.25\%$$

11.25% < 15%

$$\text{Top-up tax} = 3.75\% \times (400 + 2000) = 90$$

Total top-up tax paid by Ultimate Parent = 190

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OECD: Global Anti-Base Erosion (GloBE) model rules

POTENTIAL FINANCIAL REPORTING IMPLICATIONS

What might this mean for financial reporting issuers?

- Is the global minimum tax coming out of the GloBE rules in the scope of IAS 12?
- How will the GloBE rules impact separate versus consolidated financial statements?
- What are the deferred tax considerations?
- Do the GloBE rules introduce new uncertain tax positions?

Next Steps

The proposed GloBE rules will likely impact multinational enterprises headquartered in Canada, along with Canadian subsidiaries of multinationals.

Stay tuned for further developments to come, including how the GloBE rules may be incorporated into Canadian tax legislation.

3 Recent challenges in practice

- Principal vs. agent considerations for revenue recognition

Principal vs. agent considerations for revenue recognition

BACKGROUND

- When another party is involved in providing goods or services to a customer, the entity shall determine the nature of its promise to the customer:

Principal	Agent
Controls good or service before transferring to customer	Arranges for the good or service to be provided by another party

- Appropriately identifying the specified good or service is fundamental to the principal vs. agent assessment
- In a single contract, an entity may be a principal for one specified good or service and an agent for another

Principal vs. agent considerations for revenue recognition

BACKGROUND

A principal must obtain control of the **specified good or service**, which may be:

- A good or another asset from the other party that it then transfers to the customer
- A right to a service performed by another party, where the entity has the ability to direct that party to provide the service to the customer on the entity's behalf
- A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer

Control (Step 5 definition)

Ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset

Benefits from an asset are potential cash flows (inflows or savings on outflows), and could include:

- Using the asset to produce goods or provide services
- Using the asset to enhance the value of other assets
- Selling or exchanging the asset
- Pledging the asset to secure a loan
- Holding the asset

Principal vs. agent considerations for revenue recognition

BACKGROUND

- Indicators of being a principal (may be more or less relevant depending on nature of specified goods or services):
  - Entity is primarily responsible for fulfilling the promise, including responsibility for acceptability of the specified good or service
  - Entity has inventory risk before or after transfer to customer
  - Entity has discretion in establishing the price
- Indicators support, but do not override, the control assessment

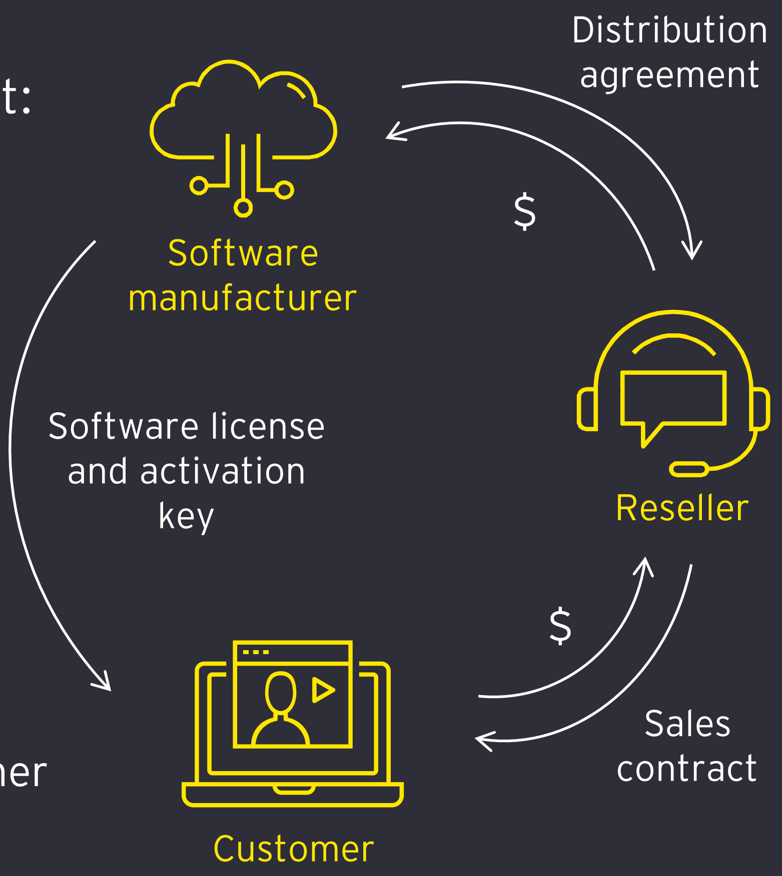
Principal vs. agent considerations for revenue recognition

IFRIC TENTATIVE AGENDA DECISION – IT RESELLERS

Fact pattern

IT reseller has a distribution agreement with a software manufacturer that:

- Gives the reseller the right to grant (sell) software licenses to customers
- Requires the reseller to provide pre-sales advice to each customer, in order to identify the type and number of licenses necessary to meet customer needs
- Provides the reseller with discretion in pricing the licenses
- Licenses are provided to the customer by the software manufacturer via a software portal and activation key – the reseller does not acquire licenses in advance
- If the reseller advises the customer to order an incorrect type or number of licenses, the customer may not accept the licenses – the reseller is unable to return unaccepted licenses to the manufacturer, or sell them to another customer



STATUS UPDATE

IFRIC voted to finalise this TAD at the April 2022 meeting – the AD is to be ratified by the IASB at the May 2022 meeting.

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Principal vs. agent considerations for revenue recognition

IFRIC TENTATIVE AGENDA DECISION – IT RESELLERS

STEP 1

Identifying the specified goods or services to be provided:

- The reseller's contract with a customer includes an explicit promise to transfer software licenses
- The pre-sales advice is completed before a contract is entered into – it is thus not an implicit promise in the contract

Principal vs. agent considerations for revenue recognition

IFRIC TENTATIVE AGENDA DECISION – IT RESELLERS

STEP 2

Assessing whether the reseller controls the specified goods or services before they are transferred to the customer:

- Reseller should apply the principles and requirements of control in IFRS 15
- If transfer of control is unclear, the indicators in paragraph B37 should be considered:

	Supportive of principal conclusion	Supportive of agent conclusion
a) Primary responsibility for fulfilling the promise	▸ Reseller engages with the customer before and after the software licenses are transferred ▸ Reseller takes responsibility for unaccepted licenses	▸ Licenses only exist after the reseller places an order and the software manufacturer issues the licenses in the customer's name ▸ Software manufacturer is responsible for the software's functionality, as well as issuing and activating the licenses
b) Inventory risk	▸ Reseller has inventory risk after the software is transferred, until the customer accepts the licences	▸ Reseller does not obtain a pool of licenses before inception of a contract ▸ Reseller cannot direct licenses to another customer
c) Price discretion	▸ Reseller has discretion in establishing price (may be less relevant if there is no practical ability to establish price)	

Principal vs. agent considerations for revenue recognition

DROP SHIPMENT ARRANGEMENTS

- Goods are shipped directly from a vendor to the end customer – entity acts as an intermediary in the purchasing process

Example: Amazon

Revenue recognition policy – third-party seller services

We offer programs that enable sellers to sell their products in our stores, and fulfill orders through us. We are not the seller of record in these transactions. The commissions and any related fulfillment and shipping fees we earn from these arrangements are recognized when the services are rendered, which generally occurs upon delivery of the related products to a third-party carrier, or, in the case of an Amazon delivery, to the customer.

Example

Remarks from the Office of the Chief Accountant – SEC

- *…the registrant distributed a wide variety of healthcare-related goods to retailers. The registrant maintained inventory for the majority of the goods sold; however, **for certain specialized goods, the manufacturer shipped the goods directly to the retailer.** The registrant managed the return process with the retailer; however, due to regulatory reasons, certain returned goods were returned directly to the manufacturer.*
- *The registrant concluded that it was acting as a principal in the arrangement because it controlled the specified good before it was transferred to the customer. … As part of its assessment of control, the registrant considered the indicators of control and concluded that it was **primarily responsible for fulfillment** and had **discretion in establishing the price** at which the goods were sold to the retailer. The registrant believed that it was primarily responsible for fulfillment based on the terms of the agreement and marketing materials communicated to the customer. In this fact pattern, the registrant was the **primary point of contract with the retailer**, and was **contractually responsible for ensuring that products were acceptable** to the retailer, including **responsibility for issues related to delivery, quantity, and spoilage.***

Principal vs. agent considerations for revenue recognition

SALES TAX CONSIDERATIONS

- IFRS 15.47 states: "*the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer,* ***excluding amounts collected on behalf of third parties*** *(for example, some sales taxes)*"
- To determine whether a tax is collected on behalf of third parties (ie. entity is an agent), an entity would need to determine whether a tax is levied on the entity or the customer

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Questions?

Have questions?
We are here to help

TODAY'S PRESENTERS

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Appendix A: IASB Workplan

IASB work plan

COMPLETED PROJECTS

Topic	Related standard	Effective date
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
Amendments to IFRS 17 *Insurance Contracts*	IFRS 17	January 1, 2023
Initial Application of IFRS 17 and IFRS 9—Comparative Information	IFRS 17	January 1, 2023
Classification of Liabilities as Current or Non-current *	IAS 1	January 1, 2023
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

* The effective date of this amendment was tentatively agreed to be further deferred by the IASB

** Completed in 2021

IASB work plan

STANDARD-SETTING PROJECTS

Topic	Next milestone	Expected date
Disclosure Initiative – Subsidiaries without Public Accountability Disclosures	Exposure draft feedback	April 2022
Disclosure Initiative – Targeted Standards-level Review of Disclosures	Exposure draft feedback	May 2022
Financial Instruments with Characteristics of Equity	Exposure draft feedback	April 2022
Management Commentary	Exposure draft feedback	TBD
Primary Financial Statements	IFRS Standard	TBD
Rate-regulated Activities	IFRS Standard	TBD
Second Comprehensive Review of the IFRS for SMEs (Small and Medium-sized Enterprises) Standard	Exposure draft	Q3 2022

IASB work plan

MAINTENANCE PROJECTS AND RESEARCH PROJECTS

Maintenance project	Next milestone	Expected date
Lease liability in a sale and leaseback	IFRS amendment	Q3 2022
Lack of exchangeability (amendments to IAS 21)	Decide project direction	Q3 2022
Supplier finance arrangements	Exposure draft feedback	June 2022
Provisions – targeted improvements	Decide project direction	–
Non-current liabilities with covenants (amendments to IAS 1)	Exposure draft feedback	June 2022

Research project	Next milestone	Expected date
Business combinations under common control	Decide project direction	TBD
Dynamic risk management	Decide project direction	May 2022
Equity method	Decide project direction	April 2022
Extractive activities	Decide project direction	Q3 2022
Goodwill and impairment	Decide project direction	H2 2022
Pension benefits that depend on asset returns	Project summary	April 2022
Post-implementation review of IFRS 10, IFRS 11 and IFRS 12	Feedback statement	June 2022
Post-implementation review of IFRS 9 *Classification and Measurement*	Feedback statement	Q3 2022

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Appendix B: Recent IFRS Discussion Group topics

Recent IFRS Discussion Group topics

SEPTEMBER 2021 TO MAY 2022

Topic	Meeting date
Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition *Discuss the application of the IFRS Interpretations Committee's Tentative Agenda Decision on an entity's accounting for warrants on acquiring the SPAC.*	May 2022
Financial Reporting Considerations of Hybrid Work Arrangements *Discuss various financial reporting issues for entities moving to hybrid work arrangements that may impact interim or annual financial reporting in 2022.*	May 2022
IFRS 17: Matters for Non-insurance Entities *Discuss matters that non-insurance entities should consider when adopting IFRS 17 Insurance Contracts on or after January 1, 2023.*	May 2022
IFRS 2: Share-based Payment Awards with Variable Vesting Periods *Consider a scenario where an entity is required to revise the estimated vesting period of an award (e.g., awards that are accelerated when a market condition is met earlier than expected). Discuss the recognition of the compensation expense.*	May 2022

Recent IFRS Discussion Group topics

SEPTEMBER 2021 TO MAY 2022

Topic	Meeting date
IFRS 9: Cash Received via Electronic Transfer as Settlement for a Financial Asset *Discuss the application of the IFRS Interpretations Committee's Tentative Agenda Decision on the accounting for cash received via electronic transfer as settlement for a financial asset.*	December 2021
Accounting for a Renewable Energy Power Purchase Agreement and the Associated Renewable Energy Credits *Consider a renewable energy power purchase arrangement (PPA) in both physical and virtual forms. As part of the agreement, the buyer also receives renewable energy certificates (RECs). Discuss the accounting for the PPA and the associated RECs.*	December 2021
IAS 16: Property, Plant and Equipment- Proceeds before Intended Use *Discuss the application of the amendments to IAS 16 on the accounting for the proceeds received from selling items produced by an asset while the asset is being prepared for its intended use.*	December 2021