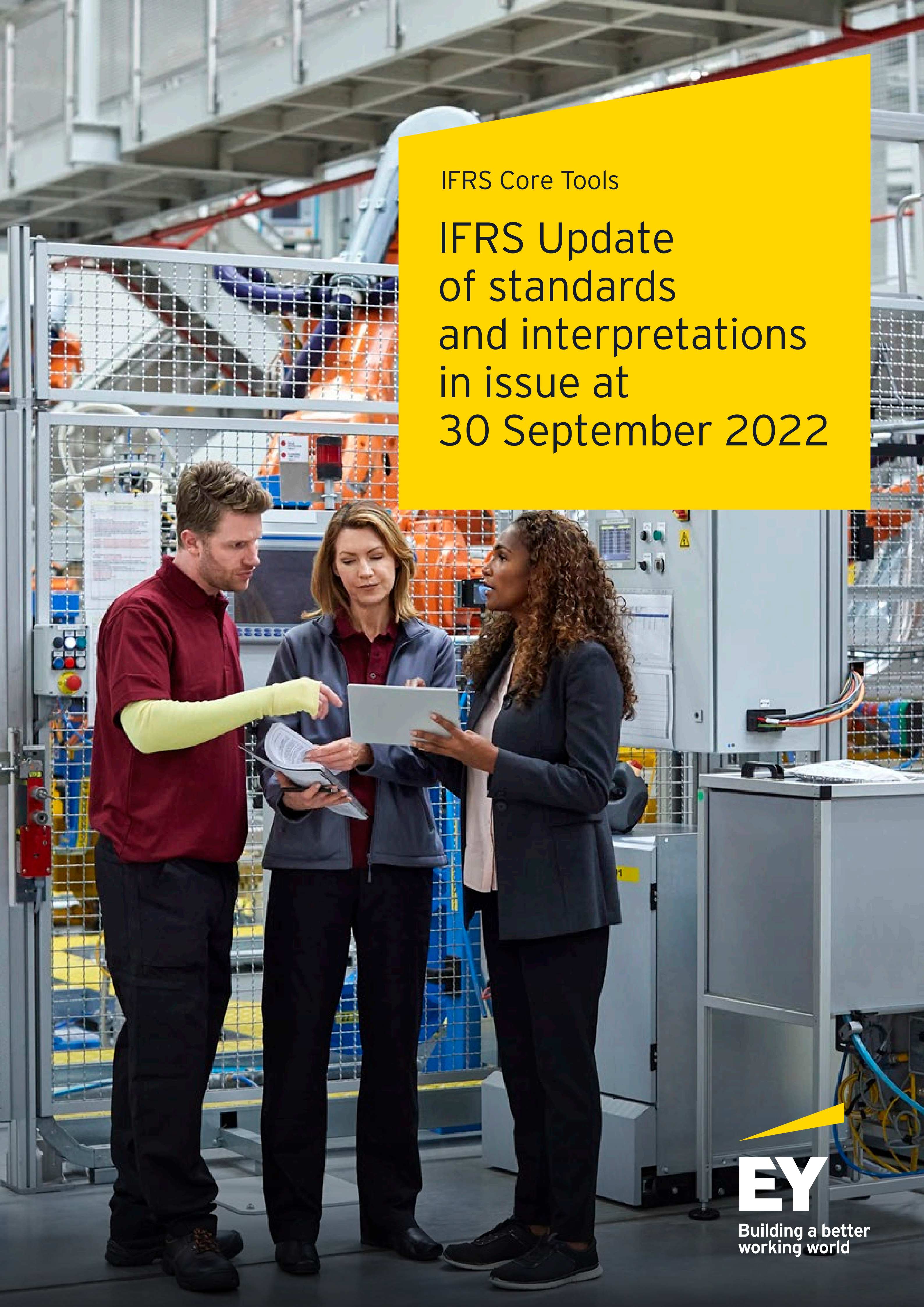
IFRS Core Tools

IFRS Update of standards and interpretations in issue at 30 September 2022



Building a better working world

Contents

Introduction

Entities reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The resulting changes range from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect different areas of accounting, such as recognition, measurement, presentation and disclosure.

Some of the changes have implications that go beyond matters of accounting, also potentially impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations (pronouncements). It also provides an update on selected active projects. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

This publication consists of three sections:

Section 1 provides a high-level overview of the key requirements of each pronouncement issued by the International Accounting Standards Board (IASB or the Board) and the IFRS Interpretations Committee (IFRS IC) as at 30 September 2022 that will be effective for the first-time for reporting periods ended at that date or thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

A table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, the pronouncements are presented in order of their effective dates. Note that many pronouncements contain provisions that would allow entities to adopt in earlier periods.

When a standard or interpretation has been issued but has yet to be applied by an entity, IAS 8 *Accounting Policies, Changes in Accounting Estimates and* Errors requires the entity to either disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

Section 2 provides a summary of the agenda decisions published in the *IFRIC Update*[1] since 1 July 2022. For agenda decisions published before 1 July 2022, please refer to previous editions of *IFRS Update*. In some agenda decisions, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These agenda decisions provide a view on the application of the pronouncements and fall within 'other accounting literature and accepted industry practices' in paragraph 12 of IAS 8. IFRS standards are required to be applied reflecting the explanatory material contained in agenda decisions.

Section 3 summarises the key features of selected active projects of the IASB. The 'Key projects' addressed are those initiated with the objective of issuing new standards and those involving overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but, in selected cases, significant projects that have not yet reached the exposure draft stage are also highlighted.

[1] The *IFRIC Update* is available on the IASB's website at http://www.ifrs.org/news-and-events/updates/ifric-updates

IFRS Core Tools

EY's *IFRS Core Tools*[2] provide the starting point for assessing the impact of changes to IFRS. Our *IFRS Core Tools* include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to *IFRS Update*, EY's *IFRS Core Tools* include the publications described below.

International GAAP® Disclosure Checklist

Our 2022 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 31 December 2022, and disclosures that are permitted to be adopted early. Our 2022 edition of International *GAAP® Disclosure Checklist for Interim Condensed Financial Statements* captures disclosure requirements applicable to interim reports of entities with a year-end of 30 June 2023, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 31 August 2022. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements. Previous editions of this tool for earlier period ends are available on EY's *IFRS Core Tools* webpage.

Good Group (International) Limited

Good Group (International) Limited is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 30 June 2022 and effective for the year ended 31 December 2022. *Good Group (International) Limited – Illustrative interim condensed financial statements* for the period ended 30 June 2022, based on IFRS in issue at 28 February 2022, supplements *Good Group (International) Limited – Illustrative financial statements*. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

Good Group (International) Limited is supplemented by illustrative financial statements that are aimed at specific sectors and circumstances. These include:

- Good Group (International) Limited – Alternative Format
- Good Group (International) Limited – Agriculture: Supplement to Illustrative Consolidated Financial Statements
- Good First-time Adopter (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liability)
- Good Real Estate Group (International) Limited
- Good Mining (International) Limited
- Good Petroleum (International) Limited
- Good Bank (International) Limited
- Good Insurance (International) Limited
- Good Life Insurance (International) Limited
- Good General Insurance (International) Limited

Also available from EY:

Other EY publications

References to other EY publications that contain further details and discussion on these topics are included throughout the *IFRS Update*, all of which can be downloaded from our website.[2]

International GAAP® 2022[3]

Our *International GAAP® 2022* is a comprehensive guide to interpreting and implementing IFRS.[4] It includes pronouncements mentioned in this publication that were issued prior to September 2021, and it provides examples that illustrate how the requirements of those pronouncements are applied.

[2] EY's Core Tools are available on http://www.ey.com/en_gl/ifrs-technical-resources.

[3] International GAAP® is a registered trademark of Ernst & Young LLP (UK).

[4] International GAAP® 2022 - The global perspective on IFRS | EY - Global.

Section 1: New pronouncements issued as at 30 September 2022

Table of mandatory application

			First time applied in annual periods ending on the last day of these months**											
New pronouncement	**Page**	**Effective date***	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Reference to the Conceptual Framework – Amendments to IFRS 3	7	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	7	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	8	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
AIP IFRS 1 *First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*	13	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
AIP IFRS 9 *Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*	13	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
AIP IAS 41 *Agriculture – Taxation in fair value measurements*	13	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
IFRS 17 *Insurance Contracts*	5	1 Jan 2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	9	1 Jan 2023 ***	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Definition of Accounting Estimates - Amendments to IAS 8	11	1 Jan 2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	10	1 Jan 2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	11	1 Jan 2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	12	1 Jan 2024	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2024
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	8	Note 1												

* Effective for annual periods beginning on or after this date.

** Assuming that an entity has not early adopted the pronouncement according to specific provisions in the standard, interpretation or amendment.

*** In July 2021, the Board tentatively decided to defer the effective date of the 2020 amendments to no earlier than 1 January 2024.

Note 1: In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

IFRS 17 *Insurance Contracts*

Effective for annual periods beginning on or after 1 January 2023.

Background

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts*.

In June 2020, the IASB issued amendments to IFRS 17. These amendments included changing the effective date to 2023.

In September 2017, the Board established a Transition Resource Group (TRG) for IFRS 17 to analyse implementation-related questions. The TRG met four times and while no further meetings have been scheduled, the TRG submission process remains open for stakeholders to send in questions they believe meet the TRG submission criteria.

Scope

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Key requirements

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss based on insurance contract services provided over the coverage period.
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- A loss-recovery component of the asset for the remaining coverage of a group of reinsurance contracts held is determined and recorded in profit or loss when an entity recognises a recovery of a loss on initial recognition of an onerous group of underlying issued contracts as well as for subsequent measurement of the recovery of those losses
- Entities should present separately in the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

Transition

IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 *Financial Instruments* on or before the date it first applies IFRS 17.

The Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

- *Modified retrospective approach* - based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application
- *Fair value approach* - the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date)

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Impact

IFRS 17, together with IFRS 9, will result in profound changes to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected.

Finalisation of the amendment to IFRS 17

In December 2021, the IASB amended IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17.

If an entity elects to apply the classification overlay, it can only do so for comparative periods to which it applies IFRS 17 (i.e., from transition date to the date of initial application of IFRS 17).

Other EY publications

Insurance Accounting Alert (September 2022)
EYG no. 008213-22Gbl

Insurance Accounting Alert (June 2022)
EYG no. 005612-22Gbl

Insurance Accounting Alert (March 2022)
EYG no. 002403-22Gbl

Insurance Accounting Alert (February 2022)
EYG no. 001597-22Gbl

Insurance Accounting Alert (December 2021)
EYG no. 010712-21Gbl

Good Life Insurance (International) Limited (November 2021)
EYG No. 010140-21Gbl

Insurance Accounting Alert (July 2021) EYG no. 006570-21Gbl

Applying IFRS 17: A closer look at the new Insurance Contracts Standard (June 2021) EYG No. 005427-21Gbl

IASB issues amendments to IFRS 17 (June 2020)
EYG No. 004475-20Gbl

Good General Insurance (International) Limited (November 2020) EYG No. 007724-20Gbl

Fourth meeting of the IASB's IFRS 17 Transition Resource Group
(April 2019) EYG No. 001926-19Gbl

Third technical discussion of the IASB's IFRS 17 Transition Resource Group (October 2018) EYG No. 011564-18Gbl

Second technical discussion of the IASB's IFRS 17 Transition Resource Group (May 2018) EYG No. 02735-183Gbl

First technical discussion of the IASB's IFRS 17 Transition Resource Group (February 2018) EYG No. 00865-183Gbl

Reference to the Conceptual Framework – Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2022.

Key requirements

In May 2020, the IASB issued *Amendments to IFRS 3 Business Combinations - Reference to t*he *Conceptual Framework*. The amendments are intended to replace a reference to a previous version of the IASB's *Conceptual Framework* (the 1989 *Framework*) with a reference to the current version issued in March 2018 (the *Conceptual Framework*) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Transition

The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the *Amendments to References to the Conceptual Framework in IFRS Standards* (March 2018).

Impact

The amendments are intended to update a reference to the *Conceptual Framework* without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the *Conceptual Framework* in use.

Other EY publications

IFRS Developments Issue 169: Amendments to IFRS 3 – Reference to the Conceptual Framework (May 2020)
EYG No. 003151-20Gbl

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

Effective for annual periods beginning on or after 1 January 2022

Key requirements

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of 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. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Transition

The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for first-time adopters.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

Effective for annual periods beginning on or after 1 January 2022.

Key requirements

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a ‘directly related cost approach’. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Transition

The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

Impact

The amendments are intended to provide clarity and help ensure consistent application of the standard. Entities that previously applied the incremental cost approach will see provisions increase to reflect the inclusion of costs related directly to contract activities, whilst entities that previously recognised contract loss provisions using the guidance from the former standard, IAS 11 *Construction Contracts*, will be required to exclude the allocation of indirect overheads from their provisions. Judgement will be required in determining which costs are ‘directly related to contract activities’, but we believe that guidance in IFRS 15 *Revenue from Contracts with Customers* will be relevant.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

Key requirements

The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions.

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

Effective for annual periods beginning on or after 1 January 2023.

Key requirements

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- 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

Right to defer settlement

The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception.

In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

Transition and impact

Many entities will find themselves already in compliance with the amendments. However, entities need to consider whether some of the amendments may impact their current practice. Entities need to carefully consider whether there are any aspects of the amendments that suggest that terms of their existing loan agreements should be renegotiated. In this context, it is important to highlight that the amendments must be applied retrospectively.

Proposed amendments

In November 2021, the Board published an exposure draft in which it proposed that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current. Additional presentation and disclosure requirements would be applicable in such circumstances.

Furthermore, the Board proposed to defer the effective date of the 2020 amendments to no earlier than 1 January 2024 (from 1 January 2023).

In subsequent redeliberations, the Board tentatively decided to progress with the proposed amendments. In July 2022, the Board tentatively decided to require entities to apply the proposed amendments for annual reporting periods beginning on or after 1 January 2024.

The next milestone is for the Board to issue the amendments, which are expected in November 2022.

Other EY publications

IFRS Developments Issue 198: Classification of non-current liabilities with covenants – proposed amendments (November 2021) EYG No. 010247-21Gbl

IFRS Developments Issue 159: Amendments to classification of liabilities as current or non-current (Updated July 2020) EYG No. 000391-20Gbl

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

Effective for annual periods beginning on or after 1 January 2023.

Key requirements

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies

And

- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

Replacement of the term 'significant' with 'material'

In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board.

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them.

Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

Disclosure of standardised information

Although standardised information is less useful to users than entity-specific accounting policy information, the Board agreed that, in some circumstances, standardised accounting policy information may be needed for users to understand other material information in the financial statements. In those situations, standardised accounting policy information is material, and should be disclosed.

The amendments to the PS also provide examples of situations when generic or standardised information summarising or duplicating the requirements of IFRS may be considered material accounting policy information.

Transition

Earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed.

Since the amendments to the PS provide non-mandatory guidance on the application of the definition of material to accounting policy information, the Board concluded that transition requirements and an effective date for these amendments were not necessary.

Impact

The amendments may impact the accounting policy disclosures of entities. Determining whether accounting policies are material or not requires use of judgement. Therefore, entities are encouraged to revisit their accounting policy information disclosures to ensure consistency with the amended standard.

Entities should carefully consider whether 'standardised information, or information that only duplicates or summarises the requirements of the IFRSs' is material information and, if not, whether it should be removed from the accounting policy disclosures to enhance the usefulness of the financial statements.

Other EY publications

IFRS Developments Issue 187: The Disclosure Initiative - IASB amends the accounting policy requirements (February 2021) EYG No. 001327-21Gbl

Applying IFRS: Disclosure of accounting policy information (September 2022) EYG No. 007960-22Gbl

Definition of Accounting Estimates - Amendments to IAS 8

Effective for annual periods beginning on or after 1 January 2023.

Key requirements

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of ‘accounting estimates’.

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

Changes in accounting estimates

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board.

Illustrative examples

The amendments include two illustrative examples to help stakeholders understand how to apply the new definition of accounting estimates.

Transition

The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

Impact

The amendments are intended to provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. Although the amendments are not expected to have a material impact on entities’ financial statements, they should provide helpful guidance for entities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Other EY publications

IFRS Developments Issue 186: The IASB defines accounting estimates (February 2021) EYG No. 001259-21Gbl

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

Effective for annual periods beginning on or after 1 January 2023.

Key requirements

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

Determining the tax base of assets and liabilities

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Changes to the initial recognition exception

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the Board expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

Transition

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

Other EY publications

IFRS Developments Issue 191: IASB clarifies deferred tax accounting for leases and decommissioning obligations (May 2021) EYG No. 004619-21Gbl

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

Effective for annual periods beginning on or after 1 January 2024.

Key requirements

In September 2022, the Board issued *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16).

The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

Transition

A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed.

A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied IFRS 16.

Other EY publications

IFRS Developments Issue 206: IASB amends IFRS 16 for lease liability measurement in a sale and leaseback transactions (September 2022) EYG No. 008269-22Gbl

Improvements to International Financial Reporting Standards

Key requirements

The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

2018-2020 cycle (issued in May 2020)

The following is a summary of the amendments from the 2018-2020 annual improvements cycle:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*	**Subsidiary as a first-time adopter** ▸ The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. ▸ An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
IFRS 9 *Financial Instruments*	**Fees in the '10 per cent' test for derecognition of financial liabilities** ▸ The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. ▸ An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. ▸ An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
Illustrative Examples accompanying IFRS 16 *Leases*	**Lease incentives** ▸ The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.
IAS 41 *Agriculture*	**Taxation in fair value measurements** ▸ The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. ▸ An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q3 2022

Certain items deliberated by the IFRS IC are published within the 'Interpretations Committee agenda decisions' section of the IASB's *IFRIC Update*. Agenda decisions are issues that the IFRS IC decides not to add to its agenda and include the reasons for not doing so. For some of these items, the IFRS IC includes further information and explanatory material about how the standards should be applied. This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the IFRS IC's views on how the standards and current interpretations are to be applied. Before an agenda decision is published, the Board is asked whether it objects to the agenda decision. If four or more Board members object, the agenda decision will not be published and the Board decides how to proceed.

Whilst agenda decisions (including any explanatory material contained within them) do not add to or change requirements in IFRS standards, the explanatory material derives its authority from IFRS standards. Accordingly, an entity is required to apply IFRS standards, reflecting the explanatory material in an applicable agenda decision.

The table below summarises the topics that the IFRS IC decided not to take onto its agenda for the period from 1 July 2022 (since the previous edition of *IFRS Update*) to 30 September 2022. For agenda decisions published before 1 July 2022, please refer to previous editions of *IFRS Update*. All items considered by the IFRS IC during its meetings, as well as the full text of its conclusions, can be found in the *IFRIC Update* on the IASB's website.[5]

According to the IFRS IC, 'the process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The Board expects that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).'

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
July 2022	Negative Low Emission Vehicle Credits (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)	The IFRS IC received a request asking whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37. **The request** The request described government measures that apply to entities that produce or import passenger vehicles for sale in a specified market. Under the measures, entities receive positive credits if, in a calendar year, they have produced or imported vehicles whose average fuel emissions are lower than a government target. Entities receive negative credits if, in that year, they have produced or imported vehicles whose average fuel emissions are higher than the target. The measures require an entity that receives negative credits for one year to eliminate these negative credits by obtaining and surrendering positive credits. The entity can obtain positive credits either by purchasing them from another entity or by generating them itself in the next year (by producing or importing more low-emission vehicles). If the entity fails to eliminate its negative credits, the government can impose sanctions on the entity. These sanctions would not require payment of fines or penalties, or any other outflow of resources embodying economic benefits, but could deny the entity opportunities in the future, for example by restricting the entity's access to the market. The request considered the position of an entity that has produced or imported vehicles with average fuel emissions higher than the government target, and asked whether such an entity has a present obligation that meets the definition of a liability in IAS 37. **Applicable requirements** Paragraph 10 of IAS 37:

5 The *IFRIC Update* is available at http://www.ifrs.org/news-and-events/updates/ifric-updates/.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		a. Defines a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits b. Distinguishes legal obligations (which derive from a contract, legislation or other operation of law) from constructive obligations (which derive from an entity's actions) c. Defines an obligating event as 'an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation' An entity has no realistic alternative to settling an obligation only where settlement can be enforced by law or, in the case of a constructive obligation, where the entity's actions have created valid expectations in other parties that the entity will discharge the obligation (paragraph 17 of IAS 37). The IFRS IC observed that, in determining whether it has a liability, the entity described in the request would consider: a. Whether settling an obligation to eliminate negative credits would result in an outflow of resources embodying economic benefits b. Which event creates a present obligation to eliminate negative credits And c. Whether the entity has no realistic alternative to settling the obligation **The IFRS IC's conclusions** *Outflow of resources embodying economic benefits* An entity can settle an obligation to eliminate negative credits either by purchasing credits from another entity or by generating positive credits itself in the next year. The IFRS IC concluded that either method of settling the obligation would result in an outflow of resources embodying economic benefits. These resources are the positive credits the entity would surrender to eliminate the negative balance. The entity could otherwise have used self-generated positive credits for other purposes, for example, to sell to other entities with negative credits. *The event that creates a present obligation* The definition of a liability in IAS 37 requires an entity to have a 'present obligation … arising from past events'. Paragraph 19 of IAS 37 adds that it is only those obligations arising from past events existing independently of an entity's future actions that meet the definition of a liability. Two IFRS IC Interpretations of IAS 37 provide further relevant requirements — they address specific types of government-imposed charges and specify which events give rise to a present obligation for these types of charges: a. IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* addresses a charge for the cost of waste management. Legislation links the charge to an entity's participation in a specified market in a specified period. The consensus in IFRIC 6 is that an obligation arises when an entity conducts the activity to which the charge is linked. b. IFRIC 21 *Levies* addresses levies imposed by governments. The consensus in IFRIC 21 is that the event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified in the applicable legislation.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		In the fact pattern described in the request, the activity that triggers a requirement to eliminate negative credits (or in other words, the activity to which the measures link that requirement) is the production or import of vehicles with average fuel emissions higher than the government target. If in a calendar year, an entity has produced or imported vehicles with average fuel emissions higher than the government target, an obligation: a. Has arisen from past events b. Exists independently of the entity's future actions (the future conduct of its business). The entity's future actions will determine only the means by which the entity settles its present obligation — whether it purchases positive credits from another entity or generates positive credits itself by producing or importing more low-emission vehicles Therefore, the IFRS IC concluded that, in the fact pattern described in the request, the activity that gives rise to a present obligation is the production or import of vehicles whose fuel emissions, averaged for all the vehicles produced or imported in that calendar year, are higher than the government target. The IFRS IC observed that a present obligation could arise at any date within a calendar year (on the basis of the entity's production or import activities to that date), not only at the end of the calendar year. *No realistic alternative to settling an obligation* The IFRS IC concluded that the measures described in the request could give rise to a legal obligation: a. Obligations that arise under the measures derive from an operation of law and b. The sanctions the government can impose under the measures would be the mechanism by which settlement may be enforceable by law An entity would have a legal obligation that is enforceable by law if accepting the possible sanctions for non-settlement is not a realistic alternative for that entity. The IFRS IC observed that determining whether accepting sanctions is a realistic alternative for an entity requires judgement. The conclusion will depend on the nature of the sanctions and the entity's specific circumstances. *The possibility of a constructive obligation* The IFRS IC concluded that, if an entity determines that it has no legal obligation to eliminate its negative credits, it would then need to consider whether it has a constructive obligation to do so. It would have a constructive obligation if it has both: a. In a calendar year, produced or imported vehicles with average fuel emissions higher than the government target; and b. Taken an action that creates valid expectations in other parties that it will eliminate the resulting negative credits—for example, made a sufficiently specific current statement that it will do so. *Other IAS 37 requirements* The request asked only whether the government measures give rise to obligations that meet the definition of a liability in IAS 37. The IFRS IC observed that, having identified such an obligation, an entity would apply other requirements in IAS 37 to determine how to measure the liability. The IFRS IC

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		did not discuss these other requirements. The IFRS IC concluded that the principles and requirements in IFRS accounting standards provide an adequate basis for an entity to determine whether, in the fact pattern described in the request, it has an obligation that meets the definition of a liability in IAS 37.
July 2022	Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)	The IFRS IC received a request about whether a special purpose acquisition company (SPAC), in applying IAS 32, classifies public shares it issues as financial liabilities or equity instruments. A SPAC is a listed entity that is established to acquire a yet-to-be-identified target entity. The request described a SPAC that issues two classes of shares: founder shares (Class A) and public shares (Class B). The Class B shareholders: a. Individually have the contractual right to demand a reimbursement of their shares if the SPAC's shareholders approve the acquisition of a target entity b. Are reimbursed if the SPAC is liquidated. The SPAC is liquidated if no target entity is acquired within a specified period c. Along with the Class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired The request asked about the effect of the shareholders' contractual right to extend the SPAC's life indefinitely on the classification of the Class B shares, in particular, whether the shareholders' decision to extend the SPAC's life is considered to be within the control of the SPAC. This assessment is needed to determine whether the SPAC has the unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation. The IFRS IC observed that IAS 32 has no requirements for how to assess whether a decision of shareholders is treated as a decision of the entity. The IFRS IC acknowledged that similar questions about shareholder decisions arise in other circumstances. Assessing whether a decision of shareholders is treated as a decision of the entity has been identified as one of the practice issues the Board will consider in its Financial Instruments with Characteristics of Equity (FICE) project. The IFRS IC concluded that the matter described in the request is, in isolation, too narrow for the IASB or the IFRS IC to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. The IFRS IC, nonetheless, noted the importance of the SPAC disclosing information in the notes to its financial statements about the classification of its public shares.
July 2022	Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)	The IFRS IC received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. **Fact pattern** The request described a group of annuity contracts under which the policyholder of each contract: a. Pays the premium up front and has no right to cancel the contract or seek a refund b. Receives a periodic payment from the start of the annuity period for as long as the policyholder survives (for example, a fixed amount of CU100 for each year that the policyholder survives)

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda

And

c. Receives no other services under the contract (for example, no other types of insurance coverage or investment-return service)

The fact pattern referred to groups of contracts for which the annuity period starts immediately after contract inception ('immediate annuity') and also those for which the annuity period starts on a specified date after contract inception ('deferred annuity'), for example, a contract entered into in 2022 for which the annuity period starts in 2042.

Applicable requirements in IFRS 17

Paragraph 44(e) of IFRS 17 requires an entity to adjust the carrying amount of the contractual service margin for the amount recognised as insurance revenue because of the transfer of insurance contract services in the period. The entity determines this amount by allocating the contractual service margin over the current and remaining coverage period applying paragraph B119 of IFRS 17.

Paragraph B119 of IFRS 17 states that an entity recognises in profit or loss in each period, an amount of the contractual service margin to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

a. Identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period

b. Allocating the contractual service margin at the end of the period equally to each coverage unit provided in the current period and expected to be provided in the future

c. Recognising in profit or loss the amount allocated to coverage units provided in the period

The definition of insurance contract services in Appendix A to IFRS 17 describes insurance coverage as 'coverage for an insured event'. An insured event is defined as 'an uncertain future event covered by an insurance contract that creates insurance risk'.

Methods for applying the requirements to the fact pattern

The request sets out two methods of determining, for each contract in the group, the quantity of the benefits of insurance coverage provided in the current period and expected to be provided in the future.

Method 1

Current period	Expected to be provided in the future
Determined based on the annuity payment the policyholder is able to validly claim in the current period.	Determined based on the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda

Method 2

Current period	Expected to be provided in the future
Determined based on the total of: (i) the annuity payment the policyholder is able to validly claim in the current period; and (ii) the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).	Determined based on the present value of the balances of the expected future annuity payments as at the beginning of each future period, until the end of the coverage period.

Applying paragraph B119 of IFRS 17

Applying paragraph B119(a) of IFRS 17, an entity:

a. Identifies the insurance contract services to be provided under the group of contracts. In the fact pattern described in the request, insurance coverage for survival is the only insurance contract service provided under the group of contracts.

b. Considers the expected coverage period for each contract in the group. In the fact pattern described in the request, the expected coverage period would reflect the entity's expectations of how long the policyholder will survive.

c. Considers the quantity of the benefits provided under each contract in the group.

IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. In selecting a method that meets that principle, an entity considers (a) the benefits provided to the policyholder under a contract with respect to the insurance contract services provided; and (b) when those benefits are provided. Different methods may achieve the principle depending on the facts and circumstances.

In the fact pattern described in the request, the terms of the annuity contract provide the policyholder with the right to claim a periodic amount (CU100 in the example) from the start of the annuity period for as long as the policyholder survives. Consequently, the IFRS IC observed that:

a. The benefits provided to the policyholder under the contract with respect to the insurance coverage for survival are the policyholder's right to claim a periodic amount for as long as they survive. The policyholder also benefits from transferring to the entity the risk related to the uncertainty about how long they will survive. However, IFRS 17 requires an entity to account for that insurance risk in the risk adjustment for non-financial risk, separately from the contractual service margin.

b. The benefits of being able to claim a periodic amount are provided to the policyholder in each year of the policyholder's survival from the start of the annuity period:

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		i. The policyholder has no right to claim an amount for surviving in periods before the start of the annuity period. The entity accepts insurance risk from inception of the contract, but provides no benefits to the policyholder in the form of amounts that can be claimed until the annuity period starts. Paragraphs BC140-BC141 of the Basis for Conclusions on IFRS 17 explain that an entity can accept insurance risk before it is obliged to perform an insurance coverage service. ii. Survival in one year does not provide the policyholder with the right to claim amounts that compensate the policyholder for surviving in future years; that is, the policyholder's right to claim amounts in future years is contingent on the policyholder surviving in those future years. **The IFRS IC's conclusion** The IFRS IC concluded that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on: a. The amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by: i. Assigning a quantity of the benefits only to periods in which an insured event (survival of the policyholder) can occur, resulting in a policyholder having a right to make a valid claim And ii. Aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim if an insured event occurs in that period b. The present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would: i. Assign a quantity of the benefits to periods in which no insured event occurs (for example, the deferral period of a deferred annuity contract) And ii. Misrepresent the quantity of the benefits provided in a period by considering amounts the policyholder is able to claim and benefit from only in future periods. The request asked only about the recognition of the contractual service margin in profit or loss. For the annuity contracts described in the request, the entity accepts insurance risk related to the uncertainty about how long the policyholder will survive. The IFRS IC noted that the entity would apply other requirements in IFRS 17 to recognise in profit or loss — separately from the contractual service margin — the risk adjustment for non-financial risk. The risk adjustment for non-financial risk represents the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The IFRS IC did not discuss these other requirements. Under a group of annuity contracts, an entity could provide other insurance contract services to policyholders in addition to insurance coverage for survival, for example, insurance coverage for death in a deferral period or an investment-return service. The conclusion in this agenda decision applies to insurance coverage for survival, regardless of other services provided. If the

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		contracts provide other insurance contract services, the entity would also need to consider the pattern of transfer of these services to the policyholder. The IFRS IC concluded that the principles and requirements in IFRS accounting standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

Section 3: Active IASB projects

The ability to stay current on the IASB's standard-setting activities is critical in a sea of change. The following pages summarise key features of selected active projects of the IASB, along with potential implications of the proposed standards. The 'Key projects' are those initiated with the objective of issuing new standards or that involve overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but in selected cases, projects that have not yet reached the exposure draft stage are also commented on.

Key projects

Better communication in financial reporting

Key developments to date

Background

The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Board has identified implementation and research projects that will support better communication.

Disclosure initiative

In December 2014 and January 2016, amendments to IAS 1 and IAS 7 *Statement of Cash Flows*, respectively, were issued. Furthermore, the IASB released IFRS Practice Statement 2 *Making Materiality Judgement* (the PS) in September 2017 and the *Definition of Material* (Amendments to IAS 1 and IAS 8) in October 2018. In February 2021, the IASB issued amendments to IAS 1 and the PS relating to disclosure of accounting policies.

In addition, the Disclosure Initiative comprises the following projects:

Principles of disclosure

The objective of this project is to identify and better understand disclosure issues and either develop a set of new disclosure principles, or clarify the existing principles.

The IASB published a Discussion Paper (DP) in March 2017 which focused on the general disclosure requirements in IAS 1 and the concepts that were being developed in the Conceptual Framework for Financial Reporting.

After considering the feedback received on the DP, the IASB decided that improving the way disclosure requirements are developed and drafted in the standards is the most effective way to address the disclosure problem. Therefore, the Board decided to prioritise a standard-level review of certain standards (see below).

The Board has also decided to address research findings relating to accounting policy disclosures (see page 10 above), the effect of technology on financial reporting (as part of a broader project) and the use of performance measures in financial statements as part of the primary financial statements project (see below). The remaining topics in the DP will not be pursued for the time being.

Targeted standards-level review of disclosures

The IASB has added a separate project to develop guidance to help improve the way the Board drafts disclosure requirements in IFRS standards and perform a targeted standards-level review of disclosure requirements. The draft guidance developed by the Board relates to IAS 19 *Employee Benefits* and IFRS 13. The Board published an exposure draft (ED) in March 2021. The ED was open for comment until 12 January 2022.

The IASB discussed feedback provided in comment letters as well as preliminary views with respect to next steps in May 2022.

In July 2022, the IASB explored possible ways of taking the project forward. The IASB is expected to decide on project direction in October 2022.

Subsidiaries without Public Accountability

In January 2020, the Board decided to move the Subsidiaries that are SMEs project from the research programme to the standard-setting programme. The Board is developing a reduced disclosure IFRS standard that would apply on a voluntary basis to subsidiaries that do not have public accountability. The Board published an Exposure Draft (ED) in July 2021, which proposes to allow eligible entities to elect to apply reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in IFRS Standards. The comment period ended on 31 January 2022.

In June 2022, the IASB decided to proceed with its proposal for a new standard as set out in the ED and agreed on a project plan for developing it. The IASB will continue discussing the feedback on the ED at future meetings.

Primary financial statements

The project aims to improve the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. The project also includes requirements for management performance measures. The Board published an exposure draft in December 2019 and the comment letter period ended on 30 September 2020. Currently, the Board is redeliberating the proposals in light of the comment letters received.

Management commentary

The Board is working on a project to update IFRS Practice Statement 1 *Management Commentary*. As part of this project, the Board is considering how broader financial reporting could complement and support IFRS financial statements. The Board published an exposure draft (ED) in May 2021. The comment period closed on 23 November 2021. The IASB began considering the feedback received during in March 2022.

In addition to continuing discussing the feedback on the ED, the Board is also planning to collaborate with the International Sustainability Standards Board (ISSB).

The next step planned is to decide on project direction at a future meeting.

IFRS taxonomy

The Better Communication in Financial Reporting initiative will also consider the IFRS taxonomy. The Taxonomy enables tagging of electronic financial information and allows computers to identify, read and extract the information. This facilitates analysis and comparison. Users may create tailored reports to meet their information needs.

Impact

Several of the measures being considered by the Board are behavioural in nature, and, thus, the impact may not be easily predicted. However, the different projects have the potential to provide clarifications and guidance that will help entities prepare more tailored and effective primary financial statements and disclosures.

Other EY publications

Applying IFRS: Alternative Performance Measures
(October 2018) EYG No. 011765-18Gbl

Applying IFRS: Enhancing communication effectiveness
(February 2017) EYG No. 000662-173Gbl

IFRS Developments Issue 194: Subsidiaries without public accountability: disclosures (August 2021)
EYG No. 006668-21Gbl

IFRS Developments Issue 192: IASB proposes a new framework for management commentary (June 2021)
EYG No. 004815-21Gbl

IFRS Developments Issue 188: Disclosure Requirements in IFRS Standards – A pilot approach (April 2021)
EYG No. 002697-21Gbl

IFRS Developments Issue 187: The Disclosure Initiative - IASB amends the accounting policy requirements (February 2021)
EYG No. 001327-21Gbl

IFRS Developments Issue 161: Financing and investing entities: proposed changes to primary financial statements
(February 2020) EYG No. 000962-20Gbl

IFRS Developments Issue 158: The IASB proposes major changes to primary financial statements (December 2019)
EYG No. 005876-19Gbl

Other projects

The IASB has a number of projects on its work plan to amend existing standards and interpretations for specific matters. The following is a brief summary of selected projects.
Refer to the IASB's website for its work plan, which includes the current status of all projects.

<table>
<tr><th>Other projects</th><th>Status/next steps</th></tr>
<tr><td>Financial Instruments – Accounting for Dynamic Risk Management
▸ The objective of this project is to address the specific accounting for risk management strategies relating to open portfolios rather than individual contracts. The hedge accounting requirements in IAS 39 and IFRS 9 do not provide specific solutions to the issues associated with macro hedging.
▸ The IASB's plan is to develop the accounting model for dynamic risk management (DRM) in the following two phases:
  ▸ The first phase will focus on developing the 'core areas' that are central to the model that are comprised of: (i) target profile (liability side); (ii) asset profile; (iii) DRM derivative instruments; and (iv) performance assessment and recycling, to shape the fundamentals of the DRM accounting model.
  ▸ The second phase will address non-core areas that are extensions of concepts developed during the first phase.
▸ The IASB has tentatively decided that key aspects of the core DRM model are:
  ▸ The model applies to the asset profile and target profile that meet the qualifying criteria on a portfolio (or percentage of portfolio) basis, consistently with the entity's risk management policies and procedures
  ▸ Core demand deposits could be included in the target profile, with certain conditions. Highly probable forecast transactions could also be eligible for inclusion in the asset profile and target profile (e.g., refinancing)
  ▸ Determination of the designated derivatives, risk mitigation intention and benchmark derivatives
  ▸ Designation and formal documentation will be required
  ▸ Changes to designated portfolios resulting in updates to the asset profile or target profile should not represent a designation or a de-designation event, but, instead, a continuation of the existing relationship
  ▸ Entities should measure imperfect alignment on an on-going basis. Imperfect alignment may result in volatility in profit or loss
  ▸ Application of the DRM accounting model should be optional</td>
<td>▸ In May 2022, the Board decided to add the Dynamic Risk Management project to its standard-setting programme. Furthermore, it will continue using the expertise of advisory bodies instead of establishing a dedicated consultative group for the project.
▸ In July 2022, the Board outlined the topics to be discussed in upcoming meetings, with preliminary discussions starting in Q4 2022. The areas and topics that were identified for discussion are:
  ▸ Eligible items and the determination of the current net open risk position
  ▸ Performance assessment and subsequent unwinding of the DRM adjustment
  ▸ Target profile and its alignment with an entity's risk management strategy
  ▸ Risk mitigation intention and the construction of benchmark derivatives
  ▸ Designated derivatives
  ▸ Other considerations
  ▸ Presentation and disclosure requirement
No date has yet been set for when an ED will be published.</td></tr>
</table>

Other projects	Status/next steps
▸ In May 2022, the Board tentatively decided that the mechanics of the DRM model would require designated derivatives to be measured at fair value in the statement of financial position and outlined which amounts to recognise and where to recognise them in financial statements.	
Financial Instruments with Characteristics of Equity (FICE) ▸ The objective of the project is to improve the information that entities provide in their financial statements about financial instruments they have issued by: ▸ Investigating challenges with the classification of financial instruments applying IAS 32 *Financial Instruments: Presentation* And ▸ Considering how to address those challenges through clearer principles for classification and enhanced requirements for presentation and disclosure ▸ The IASB published the Discussion Paper Financial Instruments with Characteristics of Equity in June 2018. ▸ In September 2019, taking into account the feedback received on the Discussion Paper, the Board tentatively decided to explore making clarifying amendments to IAS 32 to address common accounting challenges that arise in practice when applying IAS 32. ▸ In October 2019, the Board discussed the project plan for the FICE project. In particular, the Board discussed the practice issues that it could address in the scope of the project and an indicative project timeline outlining the expected commencement of Board deliberations on each issue. ▸ The Board is seeking to limit changes to classification outcomes to those in which sufficient evidence exists that such a change would provide more useful information to users of financial statements. In addition, the Board intends to further develop some of the presentation and disclosure proposals explored in the Discussion Paper.	▸ In April 2020, the Board continued their discussions on how to clarify the principles for classifying financial instruments settled in an entity's own equity instruments. The Board tentatively decided that for a derivative on own equity to meet the fixed-for-fixed condition, the number of functional currency units to be exchanged with each underlying equity instrument must be fixed or only vary with: ▸ Allowable preservation adjustments Or ▸ Allowable passage of time adjustments ▸ The Board met in April and May 2021 to discuss the addition of disclosure requirements to IFRS 7. The Board tentatively decided to require disclosure of: ▸ The nature and priority of claims against an entity that arise from financial instruments; and ▸ The terms and conditions for priority on liquidation for particular financial instruments ▸ The finalised requirements will be incorporated into IFRS 7 ▸ In December 2021, the Board tentatively decided to propose amendments to IAS 32: ▸ To clarify that financial instruments with contingent settlement provisions may be compound instruments. The liability component of such instruments, which would require immediate settlement if a contingent event occurs, is measured at the full amount of the conditional obligation. Payments at the discretion of the issuer are recognised in equity, even when the proceeds are initially allocated to the liability component of a compound instrument

Other projects	Status/next steps
	- To specify that 'liquidation' is the process of permanently ceasing operations, and assessing whether a contract term is 'not genuine' includes more than the probability of occurrence - To require classification as debt or equity by considering: i) contractual terms that are in addition to, or more specific than, those established by law; and ii) applicable laws that prevent the enforceability of a right or obligation ▸ In February 2022, the Board discussed the classification of a financial instrument with a contractual obligation to deliver cash (or to settle it in such a way that it would be a financial liability) at the discretion of the issuer's shareholders: - The Board tentatively decided to explore a factors-based approach to help an entity apply judgement when classifying these types of financial instruments as financial liabilities or as equity. ▸ In March 2022, the Board discussed when a modification could require the reclassification of a financial liability to equity, or vice versa. No decisions were taken. ▸ In June 2022, the Board discussed the reclassification of financial instruments as financial liabilities or equity when the substance of the contract changes without a modification to the contract. The Board tentatively decided to prohibit reclassifications other than for changes in the substance of the contractual terms arising from changes in circumstance outside the contract. ▸ In July 2022, the Board discussed the accounting for financial instruments containing obligations for an entity to redeem its own equity instruments, including written put options on non-controlling interests. In September 2022, the Board tentatively decided to propose amendments to IAS 32. These amendments will provide clarification on considerations relating to the accounting on initial recognition of the obligation to redeem an entity's own equity instruments, settlement in a variable number

Other projects	Status/next steps
	of an entity's own equity, and how to treat the expiry of written put options. ▸ Many of the components of the project have now been discussed and have been tentatively agreed. The remaining topics are planned to be discussed in the remainder of 2022, but the possible date for the issue of an Exposure Draft has yet been set.
Lack of Exchangeability (Amendments to IAS 21) ▸ The IASB intends to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates* to address the spot exchange rate an entity uses when a currency lacks exchangeability. ▸ The proposed amendments would (a) define exchangeability and thus a lack of exchangeability; and (b) specify how an entity determines the spot exchange rate when a currency lacks exchangeability.	▸ In January 2022, the Board discussed a summary of feedback on the exposure draft. In September 2022, the IFRS Interpretations Committee provided advice on the project's direction after considering the feedback on the exposure draft. The Board will consider the Committee's advice when it discusses the matter at a future meeting.
Business Combinations: Disclosures, Goodwill and Impairment ▸ Based on the feedback received during the Post-implementation Review of IFRS 3, the Board decided to begin a research project to explore possible improvements to IFRS 3 and IAS 36 *Impairment of Assets*. ▸ In March 2020, the IASB published the Discussion Paper (DP) *Business Combinations: Disclosures, Goodwill and Impairment*. The Board's overall objective was to explore whether companies can provide investors, at a reasonable cost, with more useful information about their acquisitions. ▸	▸ The DP was issued in March 2020 and was open for comment until 31 December 2020. In June 2021, the Board tentatively decided to make no changes to the project's scope. In September 2022, the Board tentatively decided to propose amending disclosure requirements of IFRS 3. ▸ The Board will decide in Q4 2022 whether it should retain the impairment-only model to account for goodwill (its preliminary view) or explore reintroducing amortisation of goodwill.
Business Combinations under Common Control ▸ In November 2020, the IASB published the Discussion Paper (DP) *Business Combinations under Common Control*. The DP identifies two methods of accounting for business combinations under common control (BCUCC) by a receiving entity. The key proposals are: ▸ That the acquisition method should, in principle, be applied to those BCUCC that affect non-controlling shareholders of the receiving entity and that a single book-value method should be applied to all other BCUCC, subject to the following: ▸ The optional exemption from the acquisition method: a receiving entity should be permitted to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use this method, and they have not objected.	▸ The DP was issued in November 2020. The comment period closed on 1 September 2021 and the IASB began considering the feedback received at its December 2021 meeting. ▸ The IASB will continue to redeliberate the project proposals at future meetings.

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<tr><th>Other projects</th><th>Status/next steps</th></tr>
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The exception from the acquisition method: a receiving entity should be required to use a book-value method if all of its non-controlling shareholders are the entity’s related parties as defined in IAS 24 Related Party Disclosures.
The acquisition method should be applied according to IFRS 3 but considering that the consideration may not be at arm’s length and may lead to a distribution of or contribution to equity.
A book-value method, measuring the assets and liabilities received using the transferred entity’s book values, should be applied to all BCUCC that do not affect non-controlling shareholders.
When applying the book-value method, the receiving entity should measure consideration paid in assets at the receiving entity’s book values of those assets at the combination date or if by assuming liabilities at the amount determined at the combination date using the IFRS Standards applicable for initial recognition of a liability of that type.
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Rate-regulated Activities
In January 2021, the IASB published the Exposure Draft (ED) Regulatory Assets and Regulatory Liabilities. The ED sets out proposals for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense. The key proposals are:
Regulatory assets and regulatory liabilities exist due to a regulatory agreement that determines the regulated rate in such a way that some, or all, of the total allowed compensation for goods or services supplied in one period is charged to customers in a different period.
An entity recognises its regulatory assets and regulatory liabilities existing at the end of the reporting period and its regulatory income and expense arising during the reporting period.
If it is uncertain whether a regulatory asset or regulatory liability exists, an entity will recognise that regulatory asset or regulatory liability if it is ‘more likely than not’ that it exists.
An entity measures regulatory assets and regulatory liabilities at historical cost using estimates of future cash flows by applying a cash-flow-based measurement technique.
In predicting uncertainty, an entity can use either the ’most likely amount’ and ’expected value’ methods.
All regulatory income or regulatory expense should be presented as a separate line item immediately below revenue.
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The ED was issued in January 2021 and was open for comment until 30 July 2021.
In November 2021, the IASB completed its discussion of the feedback received.
In December 2021, the IASB agreed with the proposed plan for redeliberations.
In February 2022, the Board started redeliberating specific topics relating to determining whether a regulatory agreement is within the scope of the proposals and the definition of a regulator.
The Board tentatively decided that the standard will include the existence of a regulator as part of the conditions necessary for a regulatory asset or a regulatory liability to exist.
In May 2022, the Board tentatively decided to clarify interaction of the scope of the proposals with IFRS 15 and IFRS 9.
In July 2022, the Board tentatively decided to amend the guidance related to: a) the components of total allowed compensation; and b) the recognition of regulatory returns on an asset not yet available for use.
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Other projects	Status/next steps
Supplier Finance Arrangements ▸ In December 2020, the Board published the IFRS Interpretations Committee's Agenda Decision *Supply Chain Financing Arrangements – Reverse Factoring*. Subsequently, the Board met in June 2021 and decided to add a narrow-scope standard-setting project to its work plan, with the aim to develop disclosure requirements for supplier finance arrangements. The Board decided to propose amending IAS 7 *Statement of Cash Flows* and I FRS 7 *Financial Instruments: Disclosures* to that effect. ▸ In November 2021, the IASB published the Exposure Draft *(ED) Supplier finance arrangements*. The ED proposes to introduce new disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's' liabilities and cash flows.	▸ The ED issued in November 2021 was open for comment until 28 March 2022. The Board subsequently has considered feedback received and is expected to decide on the project's direction in November 2022.
Post-implementation Review, IFRS 9 Financial Instruments Classification and Measurement ▸ In September 2021, the Board published a Request for Information (RFI) for its Post Implementation Review (PIR) of the Classification and Measurement (C&M) requirements of IFRS 9. The RFI divided the PIR into six broad topics on which the Board asked for feedback: ▸ Business model for managing financial assets ▸ Contractual cash flow characteristics ▸ Equity instruments and other comprehensive income ▸ Financial liabilities and own credit ▸ Modifications to contractual cash flows ▸ Amortised cost and the effective interest method ▸ Transition ▸ Other matters ▸ With respect to the contractual cash flows characteristics topic, the specific focus is on the growing volume of loans whose interest rate may vary depending on the borrower's performance against certain Environmental, Social or Governance (ESG) targets. The issue is whether this feature means that the loan does not meet the SPPI (Solely Payments of Principal and Interest) criteria if the effect is neither *de minimis* nor can be viewed as compensation for the credit risk of that particular asset. In May 2022, the Board agreed that this is a high priority area which should be addressed as soon as possible. ▸ IFRS 9 contains guidance on when so-called Contractually Linked Instruments (CLIs) are viewed as satisfying the SPPI criteria.	▸ In April 2022, the Board discussed the feedback received in response to the RFI along with initial thinking on the issues associated with the contractual cash flows characteristics (otherwise known as the SPPI test). ▸ In May 2022, the Board agreed to start a standard-setting project to clarify aspects associated with an asset's contractual cash flow characteristics. The IASB agreed that in this regard, assets with ESG features were a high priority area for which standard setting is required. The staff assigned a medium priority to questions raised on CLIs, as whilst it is important, it is not pervasive for entities' financial statements. ▸ In June 2022 the IASB considered feedback received in response to the RFI on equity instruments for which the entity has elected to present fair value changes through other comprehensive income, and it was decided that further analysis will be discussed at a future meeting. ▸ As of July 2022, the Board had discussed the majority of topics put forward in the IFRS 9 PIR with respect to classification and measurement. In September 2022, the Board continued discussions on contractual cash flow characteristics, including the general requirements and financial assets with non-recourse features and contractually linked instruments. The Board is expected to complete the remaining deliberations in 2022.

Other projects	Status/next steps
▸ To address the two issues above arising from the application of the contractual cash flow characteristics assessment, the IASB has commenced a standard setting project to develop additional application guidance and examples. The objective is to clarify application challenges with regard to financial assets with ESG linked features and CLIs. The intention is to publish an exposure draft (ED) in early 2023. ▸ In July 2022, the IASB staff assessed in connection with the assessment of assets with ESG features, what constitutes a basic lending arrangement and whether and how the nature of a contingent event impacts the SPPI assessment. The staff noted that the assessment is based on what the lender is being compensated for, and if the contractual cash flows resulting from the ESG-linked feature do not introduce compensation for ESG risks, the staff believe that a financial asset with ESG-linked features could have contractual cash flows that are not inconsistent with a basic lending arrangement. ▸ The PIR of IFRS 9 with respect to impairment will commence in H1 2023. In September 2022, the Board agreed to consider in H2 2023 when to begin the PIR of the hedge accounting requirements of IFRS 9.	

The table below sets out the estimated timeline for the remaining projects on the IASB's agenda as at the end of September 2022.

IASB projects	Next milestone	Expected date
Research projects		
Extractive Activities	Decide Project Direction	September 2022
Equity Method	Decide Project Direction	–
Post-implementation Review, IFRS 9 Impairment	Request for Information	H1 2023
Standard-setting and related projects		
Second Comprehensive Review of the IFRS for SMEs Standard	Exposure Draft Feedback	H1 2023
Maintenance projects		
Provisions – Targeted Improvements	Decide Project Direction	–

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EYG no. 008888-22Gbl
ED None

UKC-025511.indd (UK) 10/22.
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