IFRS Core Tools

IFRS Update of standards and interpretations in issue at 31 March 2023

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 31 March 2023 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 January 2023. For agenda decisions published before 1 January 2023, 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] IFRS - IFRS® Interpretations Committee 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 2023 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 30 June December 2023, and disclosures that are permitted to be adopted early. Our 2023 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 31 December 2023, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 28 February 2023. 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 2023, based on IFRS in issue at 28 February 2023, 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 – 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 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® 2023[3]

Our *International GAAP® 2023* is a comprehensive guide to interpreting and implementing IFRS.[4] It includes pronouncements mentioned in this publication that were issued prior to September 2022, 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® 2023 - The global perspective on IFRS | EY - Global.

Section 1: New pronouncements issued as at 31 March 2023

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
IFRS 17 *Insurance Contracts*	6	1 Jan 2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Definition of Accounting Estimates - Amendments to IAS 8	10	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	9	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	10	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	11	1 Jan 2024	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2024
Classification of Liabilities as Current or Non-current and *Non-current Liabilities with Covenants - Amendments to IAS 1*	8	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	12	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.

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 (March 2023)
EYG no. 002010-23Gbl

Market updates on impact of IFRS 17 and IFRS 9 (March 2023)
EYG no. 001901-23Gbl

Disclosure of expected impacts of IFRS 17 and IFRS 9 prior to initial application (November 2022)
EYG no. 009961-22Gbl

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

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

Classification of Liabilities as Current or Non-current and *Non-current Liabilities with Covenants - Amendments to IAS 1*

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

Key requirements

In January 2020 and October 2022, the Board issued amendments to 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 settlement 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
- Disclosures

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 the required covenants only at a date subsequent to the reporting period ("future covenants"), the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. Furthermore, the Board specified that the requirements in paragraph 72B apply only to liabilities arising from loan arrangements.

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 to covenants which the entity is required to comply with on or before the reporting date 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. However, in these circumstances an entity may need to disclose information about the timing of settlement to enable users to understand the impact on its financial position.

Meaning of the term 'settlement'

The Board added 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'.

Disclosures

IAS 1.76ZA has been added to require an entity to provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. This disclosure must include information about the covenants and the related liabilities as well as any facts and circumstances that indicate the entity may have difficulty complying with the covenants.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed. However, an entity that applies the 2020 amendments early is also required to apply the 2022 amendments, and vice versa.

Impact

The combined impact of the 2020 amendments and the 2022 amendments will have implications for practice. Entities will, therefore, need to carefully consider the impact of the amendments on existing and planned loan agreements. In this context, it is important to highlight that the amendments must be applied retrospectively.

Other EY publications

IFRS Developments Issue 209: The IASB amends the requirements for classification of non-current liabilities with covenants (November 2022) EYG No. 009933-22Gbl

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 'material accounting policy information'

  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 their nature.

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

Disclosure of immaterial information

The amendments to IAS 1 require that if an entity decides to disclose accounting policy information that is not material, it needs to ensure that this immaterial information does not obscure material information.

Illustrative examples

The amended PS provides two examples to illustrate how an entity makes materiality judgements about accounting policy information disclosures.

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

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

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

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 *Leases* 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

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 *Business Combinations*. 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.

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q1 2023

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 IFRS IC has not published any agenda decisions in the period from 1 January 2023 (since our previous edition of *IFRS Update*) to 31 March 2023. For agenda decisions published before 1 January 2023, 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).'

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

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 9 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 *Fair Value Measurement*. The Board published an Exposure Draft (ED) in March 2021.

In 2022, after considering feedback provided in comment letters, the IASB decided to develop the method proposed in the ED, although certain elements of the proposal would not be pursued. The IASB also decided not to proceed with any further work on the disclosure requirements in IFRS 13 and IAS 19.

In March 2023, the IASB announced that it concluded its Targeted Standards-level Review of Disclosures project. As a result of completing the project, the IASB published guidance for the Board to use when developing and drafting disclosure requirements in future standard-setting activities.

Subsidiaries without Public Accountability

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.

Currently the IASB is redeliberating the proposals in light of the comment letters received.

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 considered and discussed the feedback received on the ED during Q1 2022.

In addition, the Board is also planning to collaborate with the International Sustainability Standards Board (ISSB), considering the advice from stakeholders that the work of the two boards should be connected and cooperative. The projects to be worked on by the ISSB, and the timing of those projects will be informed by the ISSB's own consultation on its agenda, which is planned to occur during the first half of 2023.

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 212: New guidance for developing disclosure requirements (March 2023)
EYG No. 002574-23Gbl

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.

Other projects	Status/next steps
Financial Instruments – Accounting for Dynamic Risk Management (DRM) • The IASB has now completed its initial deliberations on what may become the future hedge accounting model for interest rate risk for many banks. The IASB has sought to align the accounting model with the approach actually used for risk management, so as to limit any inconsistencies between them. • In particular, the DRM model has moved away from traditional hedge accounting models that focus on a specific hedged amount, to a risk management strategy that sets out an acceptable range (using risk limits) within which the risk exposure can vary. The DRM adjustment is currently proposed to be recorded on the balance sheet. • A summary of the discussions made until November 2022 are contained in our publication, *Applying IFRS The IASB has outlined its proposed new dynamic risk management accounting model* (November 2022). Since the publication of the Applying IFRS the IASB has tentatively decided that own equity may not be included as an exposure in the DRM model, but excess floating rate assets can be, which allows a strategy of managing variability in net interest income to be reflected in the DRM model. • The IASB also tentatively decided that, when an entity determines its current net open risk position under the DRM model, financial assets measured at fair value through other comprehensive income (FVOCI) are eligible for designation in the DRM model, but financial assets measured at fair value through profit or loss (FVPL) are not.	• A number of important details have yet to be determined and the IASB has set out a project plan to address these issues, which commenced in the fourth quarter of 2022, to work towards an Exposure Draft.
Financial Instruments with Characteristics of Equity (FICE) ▸ The IASB started its current FICE project in 2020 with the aim of addressing issues that arise in applying *IAS 32 Financial Instruments: Presentation* and to expand the disclosure requirements relating to issued financial instruments. ▸ A summary of the tentative decisions made until June 2022 are contained in our publication, *Applying IFRS - Financial Instruments with Characteristics of Equity (FICE)* ▸ 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 circumstances outside the contract.	• Many of the components of the project have now been discussed and have been tentatively agreed but the possible date for the issue of an Exposure Draft has not yet been set.

Other projects	Status/next steps
▸ 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, the accounting for a settlement in a variable number of an entity's own equity and how to treat the expiry of written put options. ▸ In September 2022, the Board tentatively decided to propose amendments to IAS 32 to clarify the accounting for obligations to redeem an entity's own equity. The IASB also tentatively decided to clarify that written put options and forward purchase contracts on an entity's own equity instruments are required to be presented gross. ▸ In February 2023, the IASB discussed various issues impacting classification and presentation, for example the need for consistency in the use of the term 'reclassification' in IAS 32; and obligations to redeem own equity instruments. ▸ The IASB also discussed potential presentation requirements to meet the needs of users, which include transparency about whether an entity has issued instruments other than ordinary shares that are classified as equity; and a clear distinction of the returns to ordinary shareholders.	

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.
• In December 2022, the Board discussed its proposals on how an entity would assess whether a currency is exchangeable into another currency. The IASB tentatively decided to proceed with its proposed approach (subject to various clarifications) to set out the factors an entity would evaluate to assess exchangeability and to specify how those factors affect the assessment of exchangeability. The Board also discussed its proposals on how an entity would determine the spot exchange rate when exchangeability is lacking and tentatively decided:
  ▸ To amend proposed paragraph 19A to state that 'an entity's objective in estimating the spot exchange rate is to reflect at the measurement date the rate at which an orderly exchange transaction would take place between market participants under prevailing economic conditions';
  ▸ To continue to permit, but not require, the use of observable exchange rates in estimating the spot exchange rate; and
  ▸ To make no change to add detailed estimation requirements or to specify the techniques or reference rates to be used by an entity in estimating the spot exchange rate.
• In February 2023, the Board tentatively decided to proceed with the proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, but not to make amendments to IFRS 13. The Board also tentatively decided to require an entity to apply the amendments for annual reporting periods beginning on or after 1 January 2025 and to permit earlier application.
	• Amendments to IAS 21 are expected to be published in Q3 2023.

Other projects	Status/next steps
Business Combinations: Disclosures, Goodwill and Impairment In March 2020, the IASB published the Discussion Paper (DP) *Business Combinations: Disclosures, Goodwill and Impairment*. The Board's overall objective is to explore whether companies can provide investors, at a reasonable cost, with more useful information about their acquisitions. The Board has been examining: • How to improve the information companies disclose about business combinations, particularly regarding performance post acquisition • Whether to retain the impairment-only approach to accounting for goodwill • Whether it is possible to improve the effectiveness of the impairment test of cash generating units containing goodwill in IAS 36 *Impairment of Assets* • Other topics such as intangible assets acquired in a business combination	• In November 2022, the Board tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill. • In December 2022, the Board decided to add this project to its standard setting programme and is now working towards developing proposals to include in an Exposure Draft.
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 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.	• The Board began considering the feedback received on the DP at its December 2021 meeting. • The IASB will continue to redeliberate the project proposals at future meetings.

Other projects	Status/next steps
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.	• The ED was issued in January 2021. The comment period closed on 30 July 2021 and the IASB began considering the feedback received at its October 2021 meeting. • In February 2022, the Board started redeliberating specific topics. • In February 2023, the Board discussed its plan to redeliberate the proposed recognition requirements in the ED. The Board also started to redeliberate specific topics included in the plan and made tentative decisions relating to: ▸ The threshold for the recognition of regulatory assets and regulatory liabilities ▸ The relationship between an assessment of enforceability and the recognition of regulatory assets and regulatory liabilities; and ▸ The accounting for performance incentives, except those that relate to an entity's performance over several periods (long-term performance incentives). • No date has yet been set for when an IFRS Accounting Standard will be published.
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 IFRS 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 considered feedback received and tentatively decided in November 2022 to proceed with the proposal to add disclosure requirements about supplier finance arrangements. • The next milestone is for the Board to issue the amendments which are expected to be published in Q2 2023 with an effective date of 1 January 2024.

Other projects	Status/next steps
Exposure Draft- Amendments to the Classification and Measurement of Financial Instruments • As of March 2023, the IASB has completed its discussions on the topics put forward in the Post Implementation Review (PIR) for IFRS 9 with respect to classification and measurement. As a result, the Board published its Project Report and Feedback Statement, which summarises the steps taken, topics discussed, and tentative conclusions reached. • In response to the decisions made as part of the PIR, in March 2023 the IASB released the Exposure Draft (ED) Amendments to the Classification and Measurement of Financial Instruments. • In the ED, the IASB proposes amendments to the requirements for: ▸ Settling financial liabilities using an electronic payment system; and ▸ Assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features. • Clarifying amendments are also proposed for non-recourse assets and contractually-linked instruments. • In addition, disclosure changes are proposed for equity instruments at fair value through other comprehensive income (FVTOCI) and financial instruments with contractual terms that reference a contingent event.	• The comment deadline is 19 July 2023. No effective date for the amendments has been put forward at this stage.
Post-implementation Review of IFRS 15 Revenue from Contracts with Customers • In March 2023, the Board discussed the staff analysis and recommended questions for the request for information (RFI) for the post-implementation review (PIR) of IFRS 15 *Revenue from Contracts with Customers* based on the findings of the staff's outreach and research during phase 1.	• The IASB plans to approve the publication of, and set a comment period for, the RFI at a future meeting. • The RFI is expected to be published during Q2 2023.
International Tax Reform – Pillar Two Model Rules • In November 2022, the Board discussed the potential effects of the OECD's Pillar Two model rules on the accounting for income taxes by an entity applying IAS 12 *Income Taxes*. In particular, the Board considered whether to undertake a standard-setting project in response to the imminent implementation of the rules. • The Board tentatively decided to amend IAS 12 to introduce a temporary exception from the requirement to account for deferred taxes arising from the implementation of the OECD's Pillar Two model rules (including any qualified domestic minimum top-up tax). The exception would apply until the Board either removes the exception or makes it permanent. The Board also tentatively decided to amend IAS 12 to require certain additional disclosures. • In January 2023, the IASB published the Exposure Draft (ED) *International Tax Reform–Pillar Two Model Rules*.	• The Board has scheduled a supplementary meeting in April 2023 to discuss feedback on the ED and plans to complete any resulting amendments in Q2 2023.

The table below sets out the estimated timeline for the remaining projects on the IASB's agenda as at the end of March2023.

IASB projects	Next milestone	Expected date
Research projects		
Extractive Activities	Decide Project Direction	Q3 2023
Equity Method	Decide Project Direction	April 2023
Post-implementation Review, IFRS 9 Impairment	Request for Information	May 2023
Post-implementation Review, IFRS 15 *Revenue from contracts with customers*	Request for Information	Q2 2023
Standard-setting and related projects		
Second Comprehensive Review of the IFRS for SMEs Accounting Standard	Exposure Draft Feedback	Q2 2023
Maintenance projects		
Provisions – Targeted Improvements	Decide Project Direction	–
Climate-related Risks in the Financial Statements	Review research	H2 2023
Annual Improvements to IFRS Accounting Standards	Exposure Draft	H2 2023

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ED None

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