MOORE IFRS NEWS

Issue 012 – January 2023

Moore IFRS News provides you with technical updates and tips in relation to IFRS financial Reporting.

IASB proposes temporary relief from deferred tax accounting for OECD Pillar Two taxes

The IASB has **proposed amendments** to IAS 12 *Income taxes* to provide temporary relief from accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the OECD. The proposed amendments would introduce:

- A temporary exemption to the accounting for deferred taxes arising from the implementation of the rules
- Additional disclosure requirements for the affected companies
- It is proposed that the amendments will be effective immediately (annual reporting periods beginning 1 January 2023) and will be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The deadline for comments on the proposals is 10 March 2023.

IASB Chair discusses IFRS 17 *Insurance Contracts* which is now effective

The Chair of the IASB – Andreas Barckow has provided a short **video** to remind stakeholders of the application of IFRS 17 which is effective for years beginning on or after 1 January 2023.

ISSB Corporate Reporting Webinar Series

The ISSB are holding a **series of webinars** exploring the two proposed standards. This will include discussions of how companies can start to gather data and processes to put in place for ISSB reporting purposes using tools already widely available to businesses. The webinar series consists of:

- Better information for better decisions – Introduction to investor-focused sustainability disclosure (24 January 2023)
- Any size or stage – Getting started on climate disclosure (31 January 2023)
- Connectivity and controls – The path to investor-grade disclosure (7 February 2023)

Recordings will be made available of each webinar after each event.

IFRS for SMEs Update

The IASB has released the **December IFRS for SMEs Accounting Standard Update** which summarises the developments around the SMEs Standard.

The IASB has also released a **webcast** that provides further details on the financial instruments proposals in the Exposure Draft *Third Edition of the* IFRS for SMEs *Accounting Standard*. The deadline for comments on the proposals is 7 March 2023.

IASB December 2022 Meeting

The December IASB meeting was held on 13 – 15 December. At that meeting they covered

- *IASB Work Plan Update*
  The IASB received an update on their **work plan** including how they might work with the ISSB on the Management Commentary Project and the similarities and differences between the Management Commentary Project and the Integrated Reporting Framework. The Board did not make any decisions.
- *Financial instruments with the Characteristics of Equity*
  The IASB discussed concerns that the information disclosed on equity instruments in financial statements are too limited. The staff have been instructed to explore the presentation requirements further.

  The IASB discussed the presentation of gains and losses on financial liabilities measured at fair value through profit or loss, where the liability contains contractual obligations to pay the holder amounts based on the entity's performance or net assets. The Board tentatively decided to require that such gains and losses be disclosed separately.
- *Rate-regulated Activities*
  The IASB redeliberate the proposals from the Exposure Draft *Regulatory Assets and Regulatory Liabilities* including tentatively deciding that:
  - Entities are not permitted to recognise a regulatory asset inflation adjustment to the regulatory capital base
  - Entities are only permitted to recognise a regulatory asset or liability relating to an allowable expense or performance incentive when there is a direct relationship between the entity's capital base and its property, plant & equipment and it has an enforceable right(obligation) to add(deduct) the allowable expense or performance incentive from future regulated rates.

- *Equity Method*
  The IASB continued to discuss how the equity method in IAS 28 *Investments in Associates and Joint Ventures* should be applied. Specifically, they tentatively decided that:
  - Where investors purchase additional interests in an associate it still forms a single investment in the associate and accordingly if there is a subsequent partial disposal, the investor would recognise the proportion derecognised as a proportion of the carrying amount of the investment at the date of disposal.
  - If an investor had reduced its interest in an equity accounted investment to zero would not recognise any unrecognised losses on purchasing additional interests in the associate
  - Investors would recognise its share of an associate's comprehensive income until its interest in the associate is reduced to zero. However, if the comprehensive loss is greater than the carrying amount of an investment, the investor would first recognise its share of the associate's profit or loss and then its share of other comprehensive income to the extent of the carrying amount of its investment.
- *Goodwill and Impairment*
  The IASB has decided to move the project to the standard-setting phase in their work plan. It confirmed its tentative views to make no changes to the intangible asset recognition criteria in IFRS 3 *Business combinations* and tentatively decided not to require an entity to present the amount of total equity excluding goodwill as a separate line item in the statement of financial position. This reverses a previous tentative view.
- *Digital Financial Reporting Strategy*
  The IASB discussed what areas of digital financial reporting activities it should prioritise and did not make any decisions.
- *Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures*
  In July 2021 the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* that would permit eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements in their financial statements. The IASB tentatively decided that the disclosure requirements of IFRS 8 *Operating Segments,* IFRS 17 *Insurance Contracts* and IAS 33 *Earnings per Share* would remain applicable to subsidiaries without public accountability. In addition, the disclosure requirements in IAS 34 *Interim Financial Reporting* would be reduced. Subsidiaries applying the new standards would also be required to disclose that the standard has been applied.
- *Lack of Exchangeability*
  The IASB discussed feedback on its Exposure Draft *Lack of Exchangeability* and tentatively decided to keep the proposal principally as contained in that Exposure Draft. At a future meeting they will discuss a potential effective date for these amendments.

For further information refer to the **IASB Update** or listen to the **IASB December Podcast**.

IFRIC November 2022 Meeting

The November IFRIC meeting was held on 29 November 2022. At that meeting IFRIC discussed

- *Definition of a lease – substitution rights – tentative agenda decision*
  IFRIC was asked about how the substitution rights requirements in Paragraph B14 of IFRS 17 *Leases* would apply to a fact pattern where an entity leases 100 batteries for electric buses for 10 years. The supplier may substitute individual batteries, but it would not be economically viable for the supplier to substitute batteries that had been used for less than 3 years, although it could economically benefit from substituting a battery that had been used for a longer period.

  IFRIC's tentative decision is that each battery represents a separate identifiable asset, and that although the practical ability to substitute each battery existed (Paragraph B14(a)), it did not appear in this instance that it was economically feasible (B14(b)) to substitute the batteries throughout the term of the arrangement.

  This tentative agenda decision is currently open for comment.

- Potential amendments for the next annual improvements cycle and will provide the following recommendations to the IASB:
  - Potential minor inconsistency in wording around hedging in para B6 of IFRS 9 *Financial Instruments*
  - Potential minor inconsistency in wording around entities acting as agents in B73 and B74 of IFRS 10 *Consolidated Financial Statements*
  - Update to IAS 7 *Cash Flow Statements* to refer to 'at cost' rather than 'the cost method' that is no longer used in IFRS terminology.
  - Clarification in 1G20C of IFRS 7 *Financial Instruments: Disclosures* that the example doesn't illustrate all the requirements of paragraph 35M

- IFRIC members provided views on what the IASB should consider in their post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

For further information refer to the **IFRIC Update** or listen to the **Q4 2022 IFRIC Podcast** which discussed Key IFRIC activities during Q4

ISSB December 2022 Meeting

At the December meeting the ISSB discussed:

- *General Sustainability-related Disclosures*
  The ISSB decided to expand and clarify aspects of proposed IFRS S1 *General Requirements for Disclosures of Sustainability-related Financial Information* including how to identify sustainability-related risks and opportunities and what information is material and how you may consider this in complex business models operating across a number of industries. The Board also decided to clarify the objective of draft IFRS S1 and added more details around value creation and its links with sustainability-related risks and opportunities of the entity.

- *Climate-related Disclosures*
  The ISSB discussed a number of issues regarding the proposed IFRS S2 including

  - Modified the proposed disclosure requirements around Green House Gases (GHG) including removal of the requirement to disclose GHG emissions intensity or disaggregation by constituent gases. However more disclosure will be required around inputs assumptions and estimation techniques used to measure GHG emissions and to disclose Scope 2 GHG emissions by location

  - Temporary relief from reporting Scope 3 GHG emissions for the first year applying IFRS S2 and relief where entities in their value chain have different year-ends to the entity reporting. In addition further guidance will be provided to assist entities in calculating Scope 3 emissions and require more disclosures around how they are determining Scope 3 emissions

  - Proposed Appendix B (industry-based requirements) become illustrative examples changes to enhance international applicability of some of the disclosures in the appendix and amending for some minor inconsistencies as that were included in the exposure draft.

  - For financed and facilitated emissions by industries such as Banks, Insurance and Asset Management & Custody Activities (but not for the Investment Banking & Brokerage industry), clarify that these disclosures will need to be disclosed as scope 3 emissions and modify some of the industry specific disclosures included in proposed appendix B.

- *ISSB Consultation on Agenda Priorities*
  The ISSB tentatively decided to seek feedback in a request for information on potential projects on

  - Biodiversity, ecosystems, and ecosystem services

  - Human capital, with an initial focus on diversity, equity, and inclusion

  - Human rights, with an initial focus on labour rights and communities' rights in the value chain

  - A Potential joint project with the IASB on connectivity in reporting, building on the IASB's management commentary and integrated Reporting projects.

For further information refer to the **ISSB Update** or listen to the **ISSB December Podcast**.

ISSB January 2022 Meeting

At the January meeting the ISSB discussed a range of sweep issues regarding both Draft IFRS S1 and IFRS S2, including:

- the objective for disclosing metrics and targets
- tentatively deciding to introduce a requirement for entities to disclose the judgements that they have made that have the most significant effects on the sustainability related risks and opportunities in both draft IFRS S1 and draft IFRS S2.
- include the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' into the proposed standard
- providing limited exemptions in draft S1 from the requirement to disclose information about sustainability-related opportunities in circumstances when it may be commercially sensitive
- the proposed requirements in draft IFRS S1 and draft IFRS S2 for an entity to disclose current and anticipated financial effects of sustainability-related risks and opportunities
- tentatively confirmed that draft IFRS S2 will require an entity to use scenario analysis to assess its climate resilience
- tentatively confirmed that draft IFRS S2 would provide some relief in reporting Scope 3 emissions where entities in its value chain have different reporting periods.
- tentatively decided that in draft IFRS S2 an entity would need to disclose its climate-related targets and how they relate to the latest international agreements on climate change

At the next meeting the ISSB will aim to make the final redeliberations on the content of draft IFRS S1 and IFRS S2 including the effective date and look towards finalising the standards.

For further information refer to the **ISSB Update** or listen to the **ISSB January Podcast**.

CONTACT US

We value your feedback on using these network resources. Contact us for any questions, comments, or ideas.

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