ICAEW KNOW-HOW

CORPORATE REPORTING FACULTY

IFRS Update

18 May 2023

This webinar will commence shortly ……

Introduction

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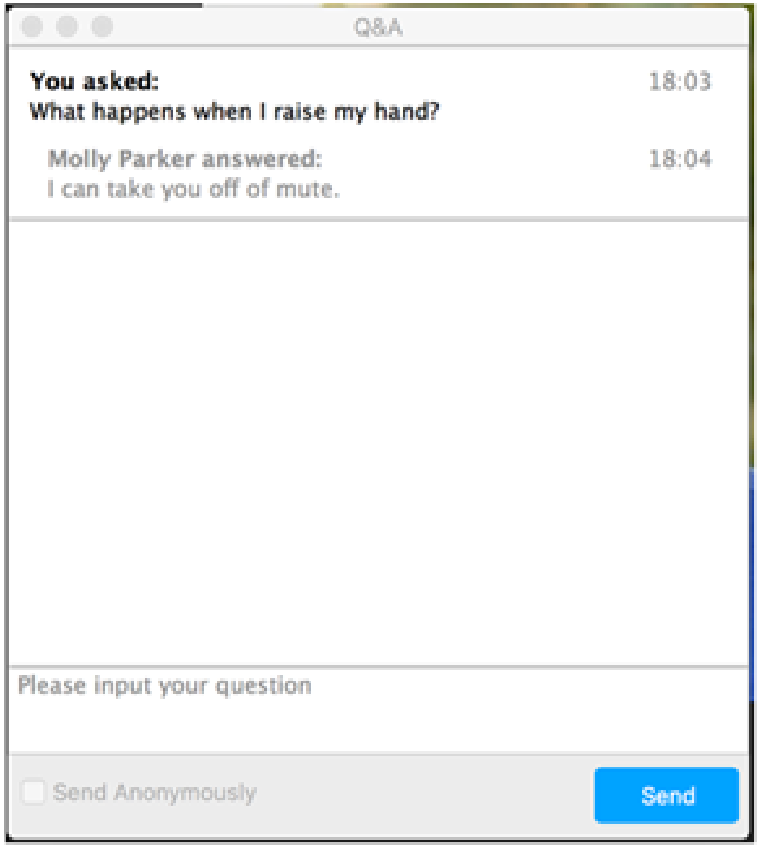
Ask a question and access resources



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Contents

New and amended standards effective 2023

New and amended standards for 2023

IFRS 17

Definition of accounting estimates – IAS 8 amendments

Disclosure Initiative: Accounting policies – IAS 1 amendments

Deferred tax arising from a single transaction – IAS 12 amendments

IFRS 17 for non-insurers

Standard	Effective date	Application
IFRS 17	January	Retrospective

Remember:

- IFRS 17 potentially affects many entities
- Don’t assume it doesn’t apply
- There are various types of contracts a non-insurance company may issue that potentially may fall in scope
- Scope exemptions may not be available in all cases

Examples of contracts that may fall in scope

- Financial guarantees
- Performance guarantees
- Fixed fee maintenance contracts
- Product and extended warranties

Call to action:

If companies you work with have any contracts that may be in scope:

- Access ICAEW resources
- Check contracts
- Carefully consider whether they are in scope
- Consider whether exemptions are available

Summary of other amendments

IAS 8 amendments - Definition of accounting estimate:

- Monetary amount subject to estimation uncertainty
- Developing an accounting estimate uses:
  - A measurement technique; and
  - Inputs

IAS 1 amendments - Disclosure of accounting policies:

- Now disclose material rather than significant accounting policies

IAS 12 amendments:

- Clarifies recognition of deferred tax on transactions that give rise to equal and offsetting temporary differences

On the horizon

On the horizon

IFRS amendments effective 1 January 2024

(earlier application permitted)

Amendment to **IFRS 16** 'Leases'	Lease Liability in a Sale and Leaseback

! **Endorsed by the UKEB on 16 May 2023**

On the horizon

Amendments to IAS 1 not yet endorsed by UK

Now

Non-current classification of a liability is based on the right to defer settlement of that liability for at least 12 months after the reporting date

2020

2020 amendments to IAS 1 on classification of liabilities:
Amendment that a company has a right to defer settlement only if it would have complied with covenants based on its circumstances at the reporting date, even though compliance is required only after that date

2022

2020 amendments to IAS 1 on non-current liabilities with covenants:
Covenants with which a company must comply after the reporting date do not affect the classification of a liability as current or non-current at that date. Introduced additional presentation and disclosure requirements

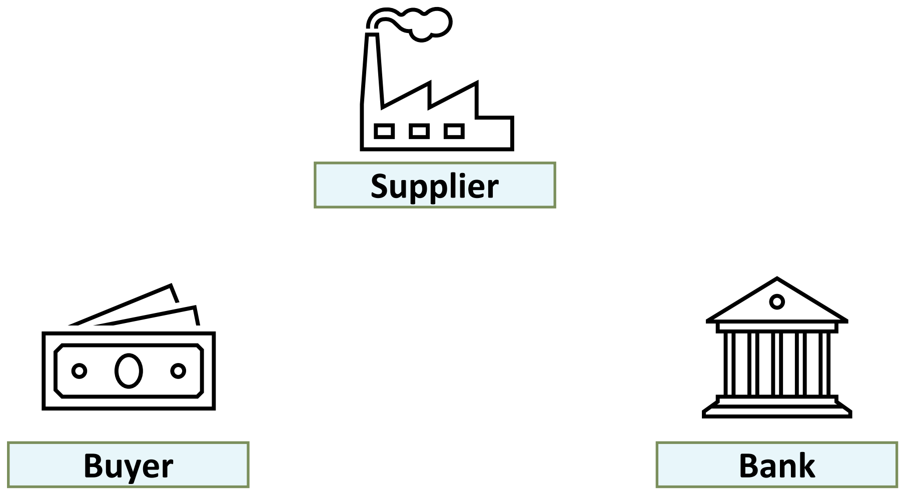
IASB effective date 1 January 2024

On the horizon

Expected amendments to IAS 7 and IFRS 7

Expected to be issued by the IASB in May 2023, with an effective date 1 January 2024

- New disclosure requirements for supplier finance arrangements
- Accelerated timeline compared to other amendments due to significant public scrutiny on supplier finance arrangements
- Subject to the UKEB endorsement



On the horizon

OECD global minimum taxes (Pillar 2)

Background

- Pillar 2 establishes global minimum effective tax rate (15%)
- Each jurisdiction will determine if, when and how to enact Pillar 2
- It is currently unclear whether additional deferred taxes should arise as a result of Pillar 2
- Applying the Pillar 2 Rules in the context of deferred tax accounting is likely to be very complex and possibly result in unhelpful reporting outcome

Proposed amendment to IAS 12

- The IASB is proposing a temporary mandatory exception to accounting for deferred taxes arising under Pillar 2, accompanied by new disclosure

Timeline for proposed IAS 12 amendment			
November 2022 IASB decided to propose temporary exception	**9 January 2023** Exposure Draft	**10 March 2023** 60 day public comment period closed	**Q2 2023** Final amendment (immediate and retrospective application subject to UK endorsement)

Impact of rising inflation and interest rates

Impact of rising inflation and interest rates

Rising inflation and interest rates, may introduce new challenges when preparing financial statements and increase the relevance of some disclosures

1 Presentation of financial statements (IAS 1)	2 Impairment of assets (IAS 36)	3 Employee benefits (IAS 19)	4 Revenue (IFRS 15)	5 Financial instruments (IFRS 9 & IFRS 7 & IAS 39)
• Disclosing material information • Current or non-current assets and liabilities • Line item disaggregation • Going concern	• Potential indicators of impairment • Value in use • Fair value less cost of disposal • Disclosures	• Defined benefit plans • Constructive obligations • Loans to employees	• Scope • Significant financing component • Pricing changes • Costs incurred to fulfil contract • Onerous contracts • Disclosures	• Measuring expected credit losses • Hedging reserves • Disclosure

1. Presentation of financial statements (IAS 1)

Disclosing material information	IAS 1 disclosures that become material
Current or non-current assets and liabilities	Debt covenants
Line item disaggregation	Previously aggregated items may have become more material
Going concern	• Customer behaviour and sales volumes • Operating margins • Replacement cost of key operational assets • Funding alternatives

2. Impairment of non-financial assets (IAS 36)

Potential indicators of impairment

Value in use

Fair value less cost of disposal

Disclosures

3. Employee benefits (IAS 19)

Defined benefit plans	Reflecting economic outlook in actuarial assumptions
Constructive obligations	Increasing benefits to mitigate the effects of inflation might create constructive obligation
Loans to employees	Accounting for below-market interest rate loans offered to employees

4. Revenue (IFRS 15)

Scope	Is it probable the entity will collect the consideration
Significant financing component	Increased impact of time value of money might require adjustment of the promised amount of consideration
Pricing changes	As a result of a contract modification or a change in consideration an entity expects to be entitled to
Costs incurred to fulfil contract	Additional costs due to the rising prices might not be recovered
Onerous contracts	More contracts may become onerous (IAS 37)
Disclosures	Information about the nature, amount, timing and uncertainty of cash flows arising from revenue

5. Financial instruments (IFRS 9 & IFRS 7 & IAS 39)

Measuring expected credit losses

- Appropriateness of practical expedients, stratification and historical loss rates
- Possible moves from stage 1 to stage 2 or 3 (lifetime ECL instead of 12-month ECL)
- Adjusting historical information

Hedging reserves

- Recoverability of hedging reserves
- Disclosures about significant debit balances in OCI

Disclosure

- Sensitivity analysis
- Exemption from disclosing fair value information
- Inflation risk
- Liquidity risk for collateral calls

FRC Thematic reviews

FRC Thematic reviews

- Judgements and estimates
- Earnings per share
- Deferred tax assets
- Business combinations
- Annual review of corporate reporting

1) Cash flow statements

Why No. 1?

- Cash flow statements = No. 1 issue identified in FRC's Annual Review of Corporate Reporting
- Parent company cash flow statements were a key source of issues

Key issues:

- Classification
- Netting
- Non-cash transactions

Polling question

A parent company, which is not a financial institution, provides an intercompany loan to its subsidiary (the borrower). In other words, the parent makes a cash advance to its subsidiary and in return receives repayments from its subsidiary. How should these cash flows (the advance and the repayments) be classified in the parent company cash flow statement?

1) Operating activities

2) Investing activities

3) Financing activities

Polling question - debrief

Answer: B investing activities

IAS 7.16 gives examples of cash flows from investing activities, including:

- Cash advances and loans made to other parties
- Cash receipts from the repayment of advances and loans made to other parties

The exception being if the loan is made by a financial institution.

Note: Cash proceeds from / repayments of borrowings = financing activities

Case study – cash flow extracts

	£’000
Investing activities	
Purchase of fixed assets	(120)
Additions of right-of-use assets	(500)
Financing activities	
Proceeds from lease	500
Amounts advanced to / received from Group companies	340

Case study - debrief

Concerns:

- The initial recognition of a lease (ROU asset and lease liability) is a non-cash transaction
- "Amounts advanced" implies lending which is an investing activity
- It appears amounts borrowed and lent have been offset in one line item

2) Earnings per share - Reminder

Remember:

- Profit or loss from continuing operations = the control number

The control number:

- Determines whether potential ordinary shares (POS) are dilutive or antidilutive
- POS are antidilutive when their conversion would reduce loss per share (or increase earnings per share)
- Therefore: If the control number is a loss – the POS are antidilutive

Example

For 2022 - Calculation PLC has:

- A loss from continuing operations
- But a profit from discontinued operations
- 3,000 share options outstanding – Assume this translates to 1,000 POS (applying the treasury stock method)

Outcome:

- There are no dilutive POS in 2022 – as control number is a loss
- Continuing operations: basic EPS = diluted EPS
- Discontinued operations: basic EPS = diluted EPS

3) Contingent consideration

Common pitfalls

- Inconsistent terminology - deferred vs contingent
- Payments contingent on continuing employment
- Missing disclosures – range of outcomes
- Missing disclosures – sensitivity

Interesting issues from FRC Thematic reviews

Cash flow statements

- Classification
- Netting
- Non-cash transactions

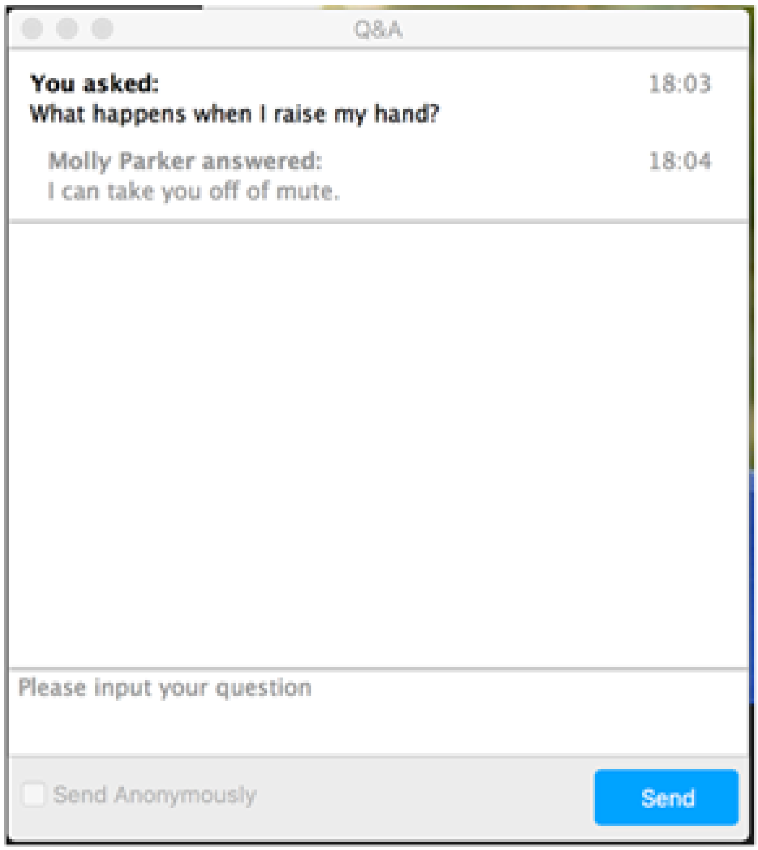
Earnings per share reminders

- The control number
- Dilutive vs antidilutive

Contingent consideration – common pitfalls

- Payments linked to employment
- Terminology and disclosure

Ask a question and access resources



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Faculty resources *icaew.com/corporatereporting icaew.com/crfac*

- ICAEW factsheets
  - icaew.com/crffactsheets
  - 2023 IFRS Accounts (to be published)
  - 2022 IFRS Accounts
- Non-financial reporting
  - icaew.com/nfr
- Webinar recordings
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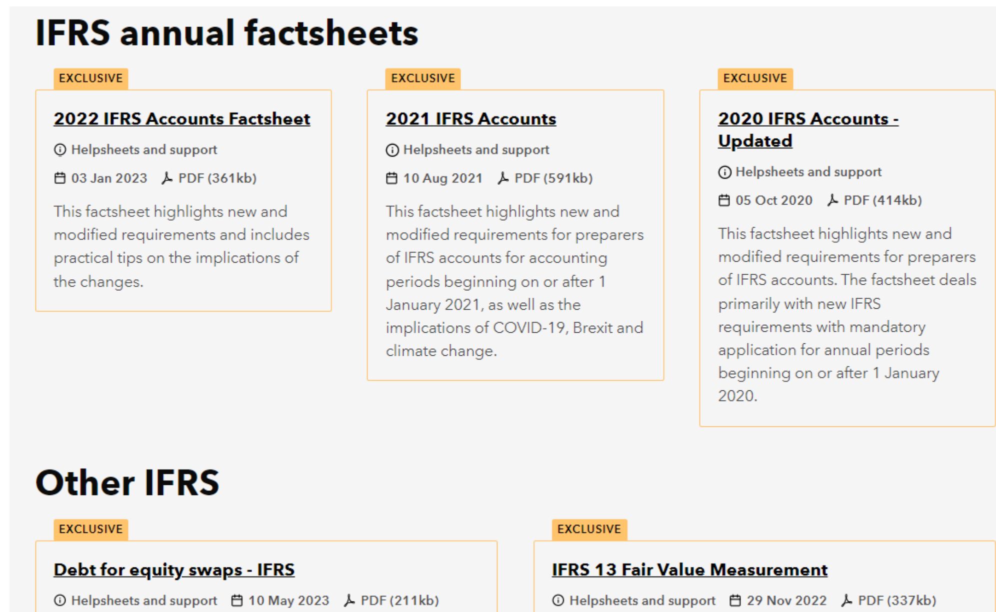

ICAEW resources *icaew.com*

- Academy virtual classroom courses:
  - icaew.com/academy

12 July: IFRS 9 Financial Instruments for non-financial institutions

25 July: Accounting for intangible assets in an evolving world

13 Sep: Confidence with impairments

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Questions

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Thank you for attending

Please take the time to fill out our short survey.

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