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# IFRS in Focus
## Financial reporting
## Closing Out 2021

## Contents



In this special edition of *IFRS in Focus*, we set out financial reporting issues that may be relevant for years ending on or after 31 December 2021 as a result of areas of regulatory focus, the current economic environment or changes in accounting standards.

Uncertainty continues to be a significant factor in industries and economies around the world, whether generated by the effects of climate change, the ongoing COVID-19 pandemic or other factors. This uncertainty can affect corporate reporting in a number of ways, generating investor and regulatory focus and influencing developments in reporting requirements.

### Climate change and corporate reporting

Climate change and the transition to a lower carbon economy continues to be a critical business issue for entities, lenders, governments, regulators and investors. Business stakeholders are increasingly asking entities how they are factoring the effects of climate change and the transition to a lower carbon economy into their critical accounting judgements and estimates.

As a result, along with an increased focus on how climate-related issues are reflected in the existing requirements of IFRS Standards there is a number of initiatives to enhance corporate reporting to better reflect how sustainable a business is and its effect on its environment, including carbon emissions.

Where disclosures of this kind are provided outside the financial statements (either under an established framework such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, based on local regulatory requirements or otherwise), it is important that they are consistent with the data and judgements used in preparing the financial statements and supporting financial statement disclosures. In particular,

- Judgements and estimates underpinning financial statements must be consistent with the climate commitments and strategies discussed in the narrative part of an annual report.
- Forecasts used for financial reporting purposes should reflect the entity's strategic plans and committed actions at the reporting date – based on best estimates at the reporting date.

**For more information please see the following websites:**

www.iasplus.com
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- Investors want to understand whether these forecasts are aligned with the goals of the Paris Agreement. There are multiple possible scenarios and ranges of possible outcomes under different climate change trajectories. It is important for entities to be clear about the assumptions used and to make greater use of sensitivity analysis.

### TCFD recommendations

The Financial Stability Board (FSB) established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The TCFD recommendations are organised around four core elements of how organisations operate (Governance, Strategy, Risk Management and Metrics and Targets). These four elements, which are universally applicable to organisations across sectors and jurisdictions, are interlinked and designed to function together to provide an effective approach to responding to climate-related issues. They also provide the structure for the recommended disclosures.

This has become a generally accepted framework for organisations to explain their strategic response to climate change and its potential financial impacts. In line with the TCFD recommendations, investors are also increasingly calling on organisations to adopt the disclosures in their mainstream filings, and regulators in many jurisdictions have incorporated, or are looking to incorporate, them into mandatory reporting requirements. Applying the TCFD recommendations will help organisations enhance transparency and be better prepared for mandatory climate-related financial disclosures based on global sustainability standards published by the ISSB (see box below).

The recommendations and additional guidance are available on the TCFD publications page.

### International Sustainability Standards Board

In November 2021, the IFRS Foundation (IFRSF) announced the creation of the International Sustainability Standards Board (ISSB). The ISSB sits alongside the International Accounting Standards Board (IASB) with a remit to set global sustainability reporting standards. The intention is for the ISSB to play the same role for sustainability reporting as the IASB does for financial reporting.

The creation of the ISSB is a significant step in response to the urgent need for investors and other stakeholders to understand how climate and sustainability risks and opportunities faced by business affect enterprise value and financial performance. Global sustainability standards will facilitate consistent and comparable reporting across jurisdictions which will help direct capital to long-term, resilient business in the transition to a low-carbon economy.

A Deloitte *Purpose-driven Business Reporting in Focus* explains the developments around the ISSB and summarises two prototype standards on climate and general requirements that have been published by the IFRSF.

A Deloitte *A Closer Look* provides a background on investor expectations in respect of climate as well as what requirements are highlighted by the IFRS Foundation's publication 'In Brief: IFRS Standards and climate-related disclosures' and the IASB's educational material on the effects of climate-related matters on financial statements and how might they apply in practice.

### Effects of the COVID-19 pandemic

Two years on from the first outbreaks of COVID-19, the pandemic remains a significant factor across the globe, although there is now much greater variation in terms of infection and vaccination rates and in the level and nature of government actions to restrict the transmission of COVID-19 and to support industries that are adversely affected.

As such, the considerations detailed in the Deloitte *IFRS in Focus – Accounting considerations related to the Coronavirus 2019 disease* remain relevant but should be considered carefully in the context of the particular circumstances experienced by the reporting entity.

**Supply chain disruptions, labour shortages, commodity prices and general inflationary pressures**

Supply chain disruptions, labour shortages, increasing commodity prices and general inflationary pressures have arisen in various parts of the world as a result of the lifting of COVID-19 restrictions, governmental stimulus packages and global trade tensions.

*Supply chain disruptions*

Supply chain disruption is significantly increasing the production and distribution costs for many entities. If this results in a higher cost of inventory, entities should consider whether a write-down to net realisable value is required.

As well as increasing costs, supply chain disruption can increase the time taken to produce a finished product and, therefore, the volume of unfinished inventory at the reporting date. This can make the accuracy of systems and controls to ensure that raw materials and work in progress (some of which may be physically held by third parties) are properly recognised and measured more important.

When goods are being produced to satisfy an existing customer contract, increased costs might decrease the profitability of a contract or even result in a loss. If an entity is unable to raise its prices under a revenue contract with customers, it should consider the potential accounting implications of reduced or negative profitability on a revenue contract, including the period in which to record a loss if applicable.

Similarly, changes to manufacturing processes to allow for delays in receiving components or the use of alternative components will need to be reflected in inventory costing calculations.

*Labour shortages*

Labour shortages may manifest themselves in the form of employee turnover and demands for higher wages at all levels of the organisation.

As costs of retaining labour increase in a production environment, entities should consider how these increased labour costs affect the cost of inventory and whether these higher costs can be recovered through price increases or whether a write-down to net realisable value is necessary. Similarly, the effect of increased employee costs on the accounting for contracts with customers should be considered carefully.

Changes to employee benefit packages (whether via bonuses, additional share-based payment awards or otherwise) will also need to be assessed carefully and accounted for in accordance with the requirements of IAS 19 *Employee Benefits* or IFRS 2 *Share-based Payment*.

Increased turnover and the shortage of employees may also put stress on an entity's internal control environments. As employee responsibilities shift, entities should assess whether the appropriately skilled and trained individuals are in place to effectively design, implement, operate and monitor controls, including controls related to information technology.

*Commodity prices*

Increasing commodity prices have also been a reality faced by many entities, with significant increases in, for example, wholesale energy prices having a direct or indirect impact across many industries. These can have a general impact on the costs of an entity's operations (resulting in the possibility of impairment or net realisable value issues or, in extreme cases, questions over whether an entity remains a going concern) or an impact on specific contracts. For example, if the cost of a commodity to be delivered to a customer (or used in the manufacture of a product for a customer) has increased and that cost cannot be passed on to the customer, the recognition of a provision for an onerous customer contract may become necessary.

*General inflation*

In addition to supply chain pressures and labour shortages directly affecting an entity's operations, general price inflation can increase the cost of inventory or of fulfilling customer contracts, resulting in the possibility of write-downs to net realisable value or the recognition of onerous customer contracts.

Inflation may also result in the renegotiation of long-term contracts, such as leases or long-term supply agreements, which in turn may have potential accounting implications. In addition, inflation may lead to an increase in interest rates and corresponding declines in the value of fixed-rate financial assets. As entities review their investment strategies in light of recent inflation, they may consider making different types of investments or moving away from holding excess cash on hand. For example, by investing in gold, digital assets (such as cryptocurrencies) or inflation-indexed debt securities. Entities contemplating such investments should consider the complex accounting and financial reporting that may result from holding them.

Further, entities should monitor the appropriateness of the discount rate used to measure any pension-related liabilities, particularly since even a seemingly small change in the discount rate can affect an entity's pension liability significantly. For example, higher interest rates may lead to decreases in pension liabilities and required employer contributions. However, such decreases may be offset by higher employee wages.

## Uncertainty and financial reporting

The effects of climate change (both in the longer term and the shorter-term effects of government and company actions to reduce carbon emissions) and the ongoing impact of COVID-19, including supply chain disruptions, labour shortages, increasing commodity prices and general inflationary pressures, have some commonality in the sense that they introduce volatility and uncertainty to expectations of an entity's future cash flows and business performance. As discussed below, this can affect accounting estimates required for several areas of financial reporting and makes proper disclosure of judgements made and sensitivity to other possible outcomes particularly important.

### Impairment and the useful life of assets

Entities will need to assess whether any impairment triggers have arisen due to, for example, adverse changes in the market or technical obsolescence of the entity's assets. In addition, the determination of either value in use or fair value less costs to sell (particularly if applying an income approach as described in IFRS 13 *Fair Value Measurement*) for the purposes of an impairment review under IAS 36 *Impairment of Assets* necessitates the forecasting of an entity's cash flows, potentially extending many years into the future.

Both climate change and the ongoing impact of COVID-19 can give rise to such indicators and can add volatility and uncertainty into the forecast of cash flows used in an impairment review. For example, government action following the COP26 summit in Glasgow might be expected to render some carbon-intensive assets obsolete or the nature and extent of public health measures to combat COVID-19 might be unknown. Multiple dimensions of uncertainty may necessitate the consideration of multiple possible scenarios in developing forecasts.

Careful consideration of the cash flow projections, growth rate(s) and discount rate(s) will be critical in terms of the supportability and reasonableness of impairment calculations. When estimating future cash flows, entities must ensure that assumptions are consistent with external sources of information as well as with their climate strategy and any public commitments made in that respect. Projected cash flows should be based on what could have reasonably been known at the reporting date of the conditions that existed at that date (importantly, in the case of a value in use calculation, excluding the effects of restructurings to which the entity was not committed at the reporting date). Key assumptions used in performing impairment tests are likely to represent a source of significant estimation uncertainty and therefore the information required by IAS 36 may need to be supplemented by the information required by paragraphs 125-133 of IAS 1 *Presentation of Financial Statements*, such as sensitivity analyses other than those required in respect of goodwill impairment testing.

The discount rate to be used is an estimate of the rate that a market participant would expect on an equally risky investment. Hence, to the extent that risk and uncertainties about the ongoing impact of the COVID-19 pandemic and/or the effects of climate change or the move to a low-carbon economy are not reflected in the projected cash flows of the asset or cash-generating unit being tested, they should be reflected in the discount rate applied.

The easing, at least in some jurisdictions, of restrictions related to COVID-19 might also give rise to potential reversals of impairments (other than for goodwill, for which reversals are prohibited). Entities will need to assess whether there has been a change in the estimates used to determine the recoverable amount of the assets since the last impairment loss was recognised which could lead to a reversal of impairment. In particular, it is important to note that a reversal of impairment can only arise due to a positive change in forecast cash flows, not merely from the passage of time as a discount unwinds or expected negative cash flows occur (and, as a result, no longer appear in a forward-looking calculation).

Climate or COVID-related risks may also affect the depreciation or amortisation of assets through a change in their useful lives or residual values. For example:

- There may be a decrease in the estimated useful life or residual value of less energy efficient machinery as better technology becomes available in the market.
- The useful life of customer relationships or capitalised development costs associated with an existing product may need to be reduced as an entity (or the market) develops a more environmentally friendly alternative.

Such factors should be incorporated into a review of an asset's useful life and residual value, with any change accounted for as a prospective change in depreciation or amortisation with suitable explanation and disclosure.

**Expected credit losses**

Downturns from the COVID-19 pandemic may, among other things, lead to borrowers experiencing difficulties in meeting their commitments under loan contracts. Lenders or holders of financial receivables will need to reflect that in their assessment of expected credit losses (ECL). Under IFRS 9 *Financial Instruments*, these are measured in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

While banks and other lending businesses continue to face the biggest challenges with regard to ECL (including the effects of climate change on credit risk in the longer term), the effect can also be significant for corporates. Regulators (for example, the European Securities and Markets Authority in its 2021 Common Enforcement Priorities) have highlighted the following points for consideration by financial institutions, but they might also be relevant to corporate entities with material exposure to variations in ECL.

- **Management overlays:** Material adjustments that are used in the measurement of ECL require enhanced disclosure to fulfil the disclosure objective in IFRS 7 *Financial Instruments: Disclosure*. These adjustments often take the form of ECL model revisions, including updates of the model inputs, or are applied outside the primary models. For each material adjustment, it would be expected that the entity provides detailed and specific information on its impact on the ECL estimate, the rationale for the adjustment and the method applied. The description of the methodology should include significant inputs and assumptions. It should also be disclosed if the adjustments relate to a specific impairment stage and what impact they have on staging of the underlying instruments. It is also recommended that entities consider how their ECL sensitivity disclosures in the notes to the financial statements can incorporate material management overlays. Significant changes in the methodologies and assumptions from the previous reporting period should be explained, together with the reasons for those changes. Users should be able to see the extent of the movements, their nature and the reasons for the development of adjustments.
- **Significant changes in credit risk:** Entities are required by IFRS 7:35F-G to disclose the basis for the inputs and assumptions and the estimation techniques used to determine whether a significant increase in credit risk has occurred for financial instruments since their initial recognition or whether a financial asset is credit impaired. The disclosure should include the quantitative and qualitative factors applied and any material differences in the application of the factors across portfolios. If borrowers have been provided with significant relief measures that have not resulted in the derecognition of the loan, lenders should describe how they determined whether there has been a significant increase in credit risk for these loans or whether they are impaired. Furthermore, if entities are applying the 'low credit risk' expedient, entities should describe the main types of transactions or portfolios that are impacted by these expedients, including qualitative and quantitative criteria used to define 'low credit risk'. If the entity grouped instruments together to determine whether there is a significant increase in credit risk, the expectation is that key risk characteristics for the grouping are explained and how the collective assessment was performed.
- **Forward-looking information:** Regulators expect that entities continue to give detailed explanations on how they considered the impact of the pandemic in the macroeconomic scenarios used in determining ECL. Entities should provide specific disclosures on the main judgements and estimations related to uncertainties that have been taken into account when defining scenarios and their weight. This includes quantitative information on the macroeconomic variables considered for each scenario and main geographical areas and/or sectors. Providing granular disclosures on the sensitivity analysis will be important, including the quantitative impact of this analysis on the ECL and, where appropriate, on staging.
- **Changes in loss allowances:** Entities are reminded that the tabular reconciliation of the loss allowance (impairment amount) from the opening balance to the closing balance should be disaggregated by class of financial instrument and it should separately provide information about the changes in loss allowances for off-balance sheet commitments. A narrative explanation should be given in addition to the tabular format, including an analysis of the reasons for changes in the loss allowance during the period. Reconciliations should be disclosed both at the entity level and for significant portfolios with shared credit risk characteristics. In addition, entities should explain how significant changes in the gross carrying amount during the period contributed to changes in the loss allowance.
- **Changes in credit risk exposure:** When providing quantitative information on credit risk exposures, entities should provide an appropriate level of disaggregation to make significant credit risk concentrations transparent. Regulators find it useful to provide a breakdown by stages for all levels of disaggregation. Quantitative disclosures and the narrative descriptions provided in different parts of the financial statements or of the management report should be clearly linked to each other. Disclosures on credit enhancements should be sufficiently granular to enable users to understand material concentrations of credit risk. Where appropriate, disaggregation of exposures by loan to value ranges can be provided.

### Going concern

As well as affecting the measurement and recognition of individual balances in the financial statements, uncertainty of the kind generated by climate change or the ongoing effects of the COVID-19 pandemic can threaten the viability of some businesses. For such entities, deciding whether it remains appropriate to prepare their financial statements on a going concern basis and what level of disclosure is required to explain that consideration may involve a greater degree of judgement than usual.

IAS 1 requires that when preparing financial statements, whether annual or interim, management assesses the entity's ability to continue as a going concern. The Standard defines going concern by explaining that financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In making this assessment, IAS 1 requires management to look out at least 12 months from the end of the reporting period but emphasises that the outlook is not limited to 12 months. This is not inconsistent with some national regulations that require consideration of going concern for 12 months from the date that financial statements are authorised for issue.

In January 2021, the IFRS Foundation published educational material titled *Going concern—a focus on disclosure*. The educational material notes that management may need to consider factors that relate to the entity's current and expected profitability, the timing of repayment of existing financing facilities and potential sources of replacement financing and that, in the current stressed economic environment, an entity may be affected by a wider range of factors than in the past. For instance, the COVID-19 pandemic may give rise to factors such as the effects of any temporary shut-down or curtailment of the entity's activities, possible restrictions on activities that might be imposed by governments in the future, the continuing availability of any government support and the effects of longer-term structural changes in the market (such as changes in customer behaviour).

The educational material also highlights that IAS 10 *Events after the Reporting Period* explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue. If, before the financial statements are authorised for issue, circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading, the financial statements must not be prepared on a going concern basis.

The decision over whether to prepare the financial statements on a going concern basis is a binary one, but the circumstances in which that basis is used can vary widely, from when an entity is profitable and has no liquidity concerns to when it is a 'close call' to prepare the financial statements on a going concern basis, even after considering any mitigating actions planned by management. In the continued stressed economic environment, clear disclosure of where the entity sits within that spectrum and the assumptions and judgements made as part of management's assessment is likely to be a focus for users of financial statements.

A Deloitte *IFRS in Focus* explains the IASB educational material in further detail and illustrates the disclosure requirements that might apply in different circumstances.

### Income taxes

The determination of whether deferred tax assets (DTAs) should be recognised is similar to an impairment review in that it requires a forecast of future performance (albeit, of future taxable profits rather than of cash flows). As such, this assessment is equally sensitive to uncertainties generated by climate, COVID-19 or other factors.

The nature of evidence supporting the recognition of deferred tax assets by loss-making entities is, therefore, equally subject to scrutiny. Where material DTAs are recognised despite the uncertainty, the evidence supporting this recognition must be disclosed, particularly if the entity is loss-making and utilisation of the DTAs depends on future profits. In addition, disclosure of the significant accounting judgements (e.g. how the probability of recoverability of deferred tax assets was determined) and significant sources of estimation uncertainty (including the carrying amounts affected and an explanation of the effect of any significant changes in key assumptions on the recovery of DTAs) is often required.

More helpful disclosures describe the identity of the taxable entity, its location and the applicable tax rules as well as negative and positive evidence considered. They also include the periods over which the DTAs are expected to be recovered.

In addition, all entities are required to disclose:

- The amount (and expiry date, if any) of deductible temporary differences, unused tax losses or unused tax credits for which no deferred tax asset is recognised.

- For each type of temporary difference and unused tax losses, the amount of DTAs recognised and related movements in profit or loss.

If there is a significant difference between the implied rate on the underlying item for a DTA and the standard or effective rate of tax reported by the entity, this difference should be explained.

Furthermore, entities are reminded that they should give explanations for significant reconciling items (particularly large one-off items) affecting the relationship between income tax expense and accounting profit multiplied by the applicable tax rate.

The 2019 ESMA public statement on IAS 12 *Income Taxes* provides more detail on what is expected with regard to the application of the requirements relating to the recognition, measurement and disclosure of DTAs arising from unused tax losses in IFRS financial statements.

**Provisions and contingent liabilities**
Whether or not provisions are quantitatively large in the context of an entity's statement of financial position, the circumstances to which they relate can often be of great significance to investors as they shine a light on an entity's obligation to, for example, remediate environmental damage caused by its operations. Regulators continue to identify room for improvement in several areas relating to provisions.

Explanations of provisions and contingencies in the financial statements should be clear and concise. The level of detail for these explanations should be guided by the complexity of the provision and its potential impact on the entity's financial position, financial performance or cash flows. It is important to describe the underlying obligating event, particularly in circumstances such as restructuring, dilapidations of property or self-insurance where determining whether such an event has occurred can require significant judgement. Classes of provisions should be labelled to be specific and to convey informational value.

The method for arriving at the best estimate for a provision must also be sufficiently explained. In particular, it should be clear to users whether the entity has applied the 'expected value' or the 'most likely outcome' approach to arrive at the estimate. If entities are unable to estimate the amount of probable or possible economic outflow, they are encouraged to explain the reasons why they were unable and provide information regarding the magnitude of the potential impact.

Entities are also expected to provide information about the anticipated timing of cash outflows associated with a provision, particularly if the provision is long-term in nature. Where the effect of discounting a provision is material, the discount rate used must be explained, together with a description of the method used to determine the rate. The discount rate and the cash flow forecasting can represent key sources of estimation uncertainty, and the requirements in IAS 1 apply (see below). Particularly, it is expected that material sensitivity of the provision amount to the discount rate and/or cash flow forecasting is explained.

**Government assistance**
Government assistance assumed an increased level of importance in 2020 in many jurisdictions as governments implemented measures to support businesses affected by the COVID-19 pandemic. Many of those programmes continued to operate in 2021 and government assistance in various forms might be expected to continue to be a feature of various industries (both in response to COVID-19 and for other purposes, for example to incentivise the move to a low carbon economy).

The accounting for such support depends upon the precise features of each scheme, but an important judgement is often the determination of which IFRS Standard should be applied. For example, government support might come in the form of:

- A government grant in the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance.*

- A tax credit in the scope of IAS 12.

- A loan extended at a below market rate of interest, requiring recognition of a government grant under IAS 20:10A.

Once the appropriate standard is identified, care is needed in determining the appropriate recognition of the benefit of government support in accordance with that standard.

Disclosure of government support (both in terms of the actual impact of government assistance measures in terms of eligibility, conditions and consequences and also of any significant judgements made in determining how it should be accounted for) also remains important.

**Judgements and estimates**

The areas discussed above all, to a greater or lesser degree, require the application of judgement in characterising an item or transaction and of estimation in its measurement. IFRS Standards recognise the importance that users assign to judgements and estimates by including specific disclosure requirements in many standards together with a general requirement in IAS 1 to disclose:

- The judgements, apart from those involving estimations that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

- Information (including, when necessary, sensitivity analyses) about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

These disclosures have been the subject of regulatory focus for some years, highlighting that:

- The requirement to disclose key sources of estimation uncertainty applies when there is a significant risk of material adjustment within the next financial year. Voluntary disclosure of possible changes in the longer-term are useful but should be clearly distinguished to help users identify the most critical areas of estimation uncertainty in the immediate future.

- With regard to significant accounting judgements, entities should explain why the judgement was necessary and which factors were considered in applying the judgement. The accounting outcomes of any significant judgements should be sufficiently explained.

Regulators and investors also increasingly compare significant judgements or estimation uncertainties with information provided elsewhere in the annual report. Inconsistencies between judgements and estimates and, for example, disclosure of risks faced by the entity are likely to be scrutinised.

A Deloitte *IFRS in Focus* provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Assumptions related to the impact of climate change or the transition to a lower carbon economy may have a significant risk of resulting in a material adjustment within the next financial year to the carrying amounts of, for example, an asset being assessed for impairments and liabilities. This might arise from changes to expected cash flows within the next year or to longer-term assumptions which are at risk of significant revision within the next year. These disclosures should be presented in a manner that helps users of the financial statements to understand the judgements management has made about the future. The nature and extent of the information to be disclosed will vary according to the nature of the assumptions.

In addition to the above requirements, paragraph 39 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* also requires disclosure of the nature and amount of a change in estimate that either has an effect in the current period or is expected to impact future periods. There is a number of areas when changes in estimates may occur due to climate-related factors.

The transition to a low carbon economy may also give rise to new transactions for which significant judgements may be required in developing accounting policies. For example, 'green' bonds, carbon offsetting or emission trading schemes.

**Non-financial statements and alternative performance measures**

The pandemic continues to have a high impact on the economic activities of entities. Regulators note that this may impair an entity's ability to meet any pre-determined sustainability-related goals in the short and medium term. Entities are therefore encouraged to provide an explanation of how these goals are affected and how they have been adjusted in response to the pandemic. It is also recommended that entities explain the pandemic's impact on their business model and non-financial key performance indicators (KPIs).

Alternative performance measures (APMs) will be particularly scrutinised by regulators if they are adjusted or newly introduced solely to show the impacts of COVID-19 on the entity's performance. The pandemic has caused a drastic change in world markets that can no longer be seen as a one-off event. Therefore, separate presentation of pandemic impacts may not be appropriate. It would be better to explain these changes in the narrative reporting rather than adjusting or introducing new APMs.

Regulators explicitly discourage entities to use APM labels that could lead to confusion with commonly accepted financial aggregates such as 'EBITDA'. APMs disclosed should be given meaningful labels reflecting their content and basis of calculation to avoid conveying misleading messages to users. For example, the term 'EBITDA' should not be used if items other than interest, taxes, depreciation, and amortisation are adjusted from the net result.

In addition, APMs should be neutral. Presenting biased APMs which are adjusted to exclude only one-off losses (e.g. impairment losses) but include one-off gains of the same nature (e.g. reversal of impairments or grants) may not constitute a fair review of the development and performance of the business and the position of the entity.

Entities should consult the still relevant IOSCO Statement on Non-GAAP Financial Measures and ESMA Guidelines on Alternative Performance Measures (updated in 2020) when selecting and presenting APMs.

### Currency and hyperinflation

Another symptom of uncertainty in the world economy is increasing levels of inflation which may reach hyperinflationary level in some economies and result in governments imposing restrictions on exchange between local and internationally traded currencies. These issues present financial reporting challenges in:

- Determining whether an economy is hyperinflationary (as that term is defined in IAS 29 *Financial Reporting in Hyperinflationary Economies*, which includes several characteristics of hyperinflation, including a cumulative inflation rate over three years that approaches or exceeds 100%) and, if so, which general price index should be applied to amounts in the financial statements.

- Determining an entity's functional currency in circumstances where both a local and international currency are in common use. This can be particularly significant where the local currency is hyperinflationary as IAS 29 is only applied by entities whose functional currency is the currency of a hyperinflationary economy (rather than by any entity operating in that economy).

- Identifying a suitable exchange rate for translating monetary items in individual financial statements and in retranslating the financial statements of a foreign operation in its parent's presentation currency.

When inflation or exchange issues result in a significant judgement or give rise to a source of estimation uncertainty, disclosure should be provided as required by IAS 1:122 and 125.

Based on data available at the time of writing, including inflation forecasts from the International Monetary Fund (IMF) and the indicators laid out in IAS 29, the following economies should be considered hyperinflationary economies for the purposes of applying IAS 29 and for retranslation of foreign operations in accordance with IAS 21 The *Effect of Changes in Foreign Exchange Rates* in financial statements for the year ending 31 December 2021:

- Argentina
- Islamic Republic of Iran
- Lebanon
- South Sudan
- Sudan
- Suriname
- Syrian Arab Republic
- Venezuela
- Yemen
- Zimbabwe

### Significant agenda decisions from the IFRS Interpretations Committee

As detailed in the appendix to this publication, the IFRS Interpretations Committee has published a number of agenda decisions providing guidance on the appropriate accounting for specific transactions. Some of the matters addressed that might apply more widely are discussed below.

#### Software-as-a-Service arrangements

The Committee has published two agenda decisions (one in 2019, the other in 2021) clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be accounted for by the customer.

The 2019 agenda decision concludes that a SaaS arrangement that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract (rather than a software lease or the acquisition of a software intangible asset).

The 2021 agenda decision goes further by addressing how a customer should account for the costs of configuring or customising the supplier's application software in a SaaS arrangement that is determined to be a service contract. It concludes that:

- Often, the configuration and customisation costs do not result in an intangible asset of the customer. Instead, the customer recognises the costs as an expense when the configuration or customisation services are received. If the customer pays the supplier before receiving those services, the prepayment is recognised as an asset.

- In limited circumstances, certain configuration and customisation activities undertaken in implementing SaaS arrangements may give rise to a separate asset. This may be the case if the arrangement results, for example, in additional code from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits. The customer recognises an intangible asset if the additional code is 'identifiable' and meets the recognition criteria in IAS 38 *Intangible Assets*.

- When the configuration and customisation activities do not give rise to an intangible asset, if the configuration or customisation services are performed by the supplier of the application software (or its subcontractor) and the services received are not distinct from the right to receive access to the supplier's application software, the customer recognises the costs as an expense over the term of the SaaS arrangement. If instead, the configuration or customisation services are performed by a third-party supplier, the customer recognises the costs as an expense when the third-party supplier configures or customises the application software.

The conclusions reached in the agenda decisions may change current accounting practice for cloud-computing arrangements. Every SaaS arrangement is unique. The analysis and determination of the appropriate accounting treatment of configuration and customisation costs incurred in implementing SaaS arrangements could require significant judgement and often also require a deep understanding of certain technical aspects of the arrangement. This may require collaboration between various departments, e.g. finance and IT, to ensure all the information is considered.

Where a change in accounting policy is required to apply the conclusions reached by the Committee, an entity must account for the change applying IAS 8. For example, an entity may be required to derecognise costs previously recognised as an intangible asset and restate the comparative period(s).

A Deloitte *A Closer Look* gives more detail on the different variations of SaaS arrangements, their accounting treatment, practical implications and considerations beyond the immediate accounting.

**Costs necessary to sell inventories**
In June 2021, the Committee published an agenda decision about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. In particular, the agenda decision addresses whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale.

The Committee concluded that the requirement in IAS 2 *Inventories* to estimate the cost necessary to make the sale does not limit such costs to only those that are incremental. Applying IAS 2, an entity would instead estimate the costs necessary to make the sale in the ordinary course of business. The Committee observed that an entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.

**Supplier financing arrangements**
In December 2020, the Committee published an agenda decision that addressed supplier financing (or 'reverse factoring') arrangements and how these should be presented in the statement of financial position, the statement of cash flows and the notes to the financial statements.

In its statement of financial position, an entity applies the requirements in IAS 1 to determine how to present liabilities that are part of a reverse factoring arrangement. If the liabilities are similar in nature and function to trade payables, for example, when they are part of the working capital used in the entity's normal operating cycle, an entity presents such liabilities as trade payables. If the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position, an entity presents such liabilities as a separate line item. For this determination, an entity considers the amounts, nature and timing of those liabilities, including factors such as whether additional security is provided as part of the arrangement that would not be provided without the arrangement, or the extent to which the terms of the liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.

An entity assesses whether and when to derecognise a liability that is (or becomes) part of a reverse factoring arrangement applying the derecognition requirements in IFRS 9. An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies the guidance noted above from IAS 1 in determining how to present that new liability in its statement of financial position.

Applying IAS 7 *Statement of Cash Flows*, an entity determines whether the cash flows from reverse factoring arrangements are operating or financing cash flows. The Committee observed that if the entity considers the related liability to be a trade or other payable that is part of the working capital used in the entity's principal revenue-producing activities, the entity presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows. In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities and provides the disclosures required by IAS 7:44A on changes in liabilities arising from financing activities.

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from an entity's statement of cash flows. Consequently, if no cash inflow or cash outflow occurs for an entity in a financing transaction (e.g., derecognition of a trade payable with recognition of a new financial liability), the entity discloses the transaction elsewhere in the financial statements in a way that provides all the relevant information about the financing activity.

Applying IFRS 7, an entity would be required to provide information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. The Committee observed that reverse factoring arrangements often give rise to liquidity risk. An entity would disclose:

- How exposures to risk arising from financial instruments, including liquidity risk, arise.
- The entity's objectives, policies and processes for managing the risk.
- Summary quantitative data about the entity's exposure to liquidity risk at the end of the reporting period (including further information if this data is unrepresentative of the entity's exposure to liquidity risk during the period).
- Concentrations of risk.

In addition, an entity applies IAS 1 in determining whether to provide additional disclosures about the effect of reverse factoring arrangements on its financial position, financial performance and cash flows. An entity discloses the judgements that management has made in assessing how to present liabilities and cash flows related to reverse factoring arrangements if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements. In addition, an entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements.

**Attributing benefit to periods of service**

In April 2021, the Committee published an agenda decision with regard to IAS 19 that addresses the periods of service to which an entity attributes benefit for particular defined benefit plans. These plans entitle employees to a lump sum benefit payment when they reach a specified retirement age provided they are employed by the entity when they reach that retirement age. The amount of the retirement benefit to which an employee is entitled depends on the length of employee service with the entity before the retirement age and is capped at a specified number of consecutive years of service.

The Committee made their observations in the agenda decision based on an example in which the retirement age is 62 and the calculation of the retirement benefit is capped at 16 years of service. In that example, if employees join before the age of 46, any service the employee renders before the age of 46 does not lead to benefits under the plan. Accordingly, the entity's obligation to provide the retirement benefit arises for employee service rendered only when the employee reaches the age of 46. For employees who join the entity on or after the age of 46, any service the employee renders leads to benefits under the plan.

The Committee's observation aligns with the outcome set out in an example that is part of IAS 19 and therefore the Committee concluded that the principles and requirements in IAS 19 provide an adequate basis for an entity to determine the periods to which retirement benefit is attributed.

## Other areas of focus

### IBOR reform

In 2020, the Phase 1 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39 and IFRS 7* became effective. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

The Phase 2 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* (outlined in the appendix below) are now also mandatory to apply for reporting periods that began on or after 1 January 2021. Adopting these amendments enables entities to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

A Deloitte *IFRS in Focus* explains the Phase 2 amendments in detail.

A Deloitte *A Closer Look* discusses the disclosure requirements for the interest rate benchmark reform amendments.

### Cash flow statements

The proper reporting of cash flows remains an area of focus for investors and regulators. The basic principles to be applied in the preparation of a statement of cash flows, including care over the classification of cash flows as operating, investing or financing and avoiding incorrect netting of cash inflows and outflows remain important. However, some perhaps more subtle considerations can also be important.

*Applying the definition of 'cash and cash equivalents'*

At a basic level, the function of a statement of cash flows is to present movements between the opening and closing balances of 'cash and cash equivalents'. As such, the determination of what instruments form part of that balance is critical.

In particular, care should be taken in determining whether bank borrowings (including overdrafts), short term investments (noting the stipulation in IAS 7 that only investments with a maturity of less than three months at acquisition can normally qualify as cash equivalents) or investments in money market funds can be said to form part of cash equivalents.

Disclosure of the components of cash and cash equivalents is also disclosed, providing users with visibility on the make up of this critical balance.

*Reconciliation of liabilities from financing activities*

The requirement to disclose movements (both cash and non-cash) in financing liabilities continues to be the subject of scrutiny, particularly where previously voluntary disclosures continue to be provided which might not meet the specific requirements as written.

An agenda decision by the IFRS Interpretations Committee in September 2019 provided additional guidance on the application of this requirement, noting in particular the need to clearly identify the balances considered to be 'liabilities from financing activities' and to avoid inappropriate aggregation in presenting a reconciliation between opening and closing balances.

*Disclosure and consistency*

As with other elements of an annual report, clear disclosures and consistency (both within the cash flow statement itself and with information reported elsewhere) are an important feature of cash flow reporting. For example, inconsistencies within the cash flow statement (for example, some interest payments classified as operating cash flows and others as financing) should be avoided and the descriptions of cash flows used should be clear and consistent with related terminology elsewhere in the financial statements.

A specific disclosure requirement that might be affected by developing economic circumstances is that of "the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group" (often referred to as 'restricted cash'). As well as amounts held 'in escrow' for specific purposes, this can also be relevant to cash held by subsidiaries that cannot easily be remitted to the parent due to exchange restrictions in existence in several jurisdictions.

**IFRS 15 *Revenue from Contracts with Customers***

Although IFRS 15 has been applied by entities for several years, regulators continue to have significant findings in their enforcement activity around this area. These findings often relate to inadequate disclosures.

Entities are reminded that they are required to disclose significant accounting judgements made in applying IFRS 15. This could include judgements made in determining:

- The timing of satisfaction of performance obligations (e.g. judgements made in evaluating when a customer obtains control of promised goods or services for performance obligations satisfied at a point in time).

- The transaction price and the amounts allocated to performance obligations.

In addition, entities should provide clear descriptions of the types of variable consideration that exist within customer contracts as well as disclosure of the methods used to estimate variable consideration and how the variable consideration constraint was applied to the estimated amount.

Disclosure of accounting policies for revenue from significant performance obligations should be clear and entity-specific. Disclosures must explain the timing of revenue recognition, including whether this is at a point in time or over time, and exactly when revenue is recognised for 'point in time' performance obligations. Disclosures must also include the methods used to measure the extent to which 'over time' performance obligations have been satisfied, in particular a description of the method, how it was applied in practice and why the method resulted in the faithful depiction of the transfer of goods or services. The significant payment terms, the nature of promised goods and services and information about the remaining performance obligations are also required to be disclosed.

Entities are required to describe how they concluded whether they were acting as a principal or agent when transacting with customers. The related judgements need to be clearly explained.

Furthermore, an entity needs to provide disclosures relating to material contract balances, including the accounting policy for these balances, an explanation of the nature of the balances, significant changes to the balances, how the timing of satisfaction of performance obligation relates to the typical timing of payment, and the corresponding effect on contract assets and liabilities.

With regard to costs to obtain or fulfil a contract, entities are reminded that they are required to explain the basis for concluding that certain costs are within the scope of IFRS 15 and not another standard (e.g. IAS 16 *Property, Plant and Equipment*) and disclose a breakdown of closing balances of capitalised costs by category.

Entities must also describe the accounting for claims recoverable from third parties (for example whether IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* was applied).

Disaggregated revenue disclosures must be consistent with other information in the annual report and accounts.

**IFRS 16 *Leases***

Regulators remind preparers that accounting policies with regard to leases should be entity-specific and include the policies for sale and leaseback transactions, lease incentives, items outside the scope of IFRS 16 and non-lease components. Lessors should remember to explain the basis for classifying their leases as operating or financing.

The following should be considered by entities that have lease agreements:

- Lessees with significant variable payment features (such as features linked to sales or inflation) must explain the nature and the potential accounting effect of those features.

- Characteristics of the lease contracts and judgements exercised to determine the lease term shall be disclosed.

- Where the reasonable certainty of not exercising a lease extension or exercising a termination option was identified as a significant judgement, the required quantitative and qualitative disclosures about potential future cash outflows not recognised shall be provided.

- The maturity analysis of lease liabilities must be sufficiently disaggregated consistently with the assessment of lease terms and should not include time bands that comprise several years.

- Changes in the lease liability must be consistent with the cash flow statement or finance cost disclosures.

**OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting**

In October 2021, the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (IF) published a statement presenting a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The Two-Pillar Solution would ensure that multinational enterprises are subject to a minimum tax rate of 15%, and would re-allocate profit of the largest and most profitable multinational enterprises to countries worldwide.

Pillar One will be aimed at the taxation of multinational enterprises with global turnover over 20 billion euros and profitability above 10% and will require participating countries to remove digital services tax (DST) that they may have implemented, with a credit receivable (under a complicated formula) for a portion of DST paid in 2022 and 2023. Pillar One is not expected to result in a tax subject to IAS 12 because of its expected formula.

Pillar Two is expected to have broader applicability (aimed at entities with a 750 million euros turnover) and is aimed at ensuring that large multinational groups pay a minimum level of tax (15%) in each country in which they operate. Pillar Two consists of two parts: (i) an income inclusion rule (IIR); and (ii) an undertaxed payment rule (UPR). Broadly, under IIR, if a multinational company's effective tax rate (ETR) in a specific jurisdiction is less than 15%, a top-up tax to make up the difference will be levied on the parent entity of the group in the country in which the parent is resident for tax purposes (which may or may not be the jurisdiction with the lower ETR). The UPR is referred to as a backstop rule. It would apply only where the IIR has not been applied and would allocate the top-up to other companies in the group based on a formulaic approach. It is expected that the Pillar Two amounts would be in the scope of IAS 12 for purposes of the group financial statements (based on the formula to calculate the top up tax).

As of 4 November 2021, 137 member jurisdictions have agreed to the statement. The next steps will be the publication of model rules to implement Pillar Two in late 2021 or early 2022. The Multilateral Convention to implement Pillar One is expected to be finalised by February 2022. The statement indicates that swift implementation is key to stabilising the international tax architecture and avoiding damaging trade disputes. Inclusive Framework members have set an ambitious deadline of 2023 to bring the new international tax rules into effect.

IAS 10 gives as an example of non-adjusting events that generally require disclosure "changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities." Accordingly, if the model rules to implement Pillar Two are published before the date the financial statements are authorised for issue, an entity would assess whether this publication constitutes the announcement of a change in tax laws in the jurisdictions in which it operates, taking into consideration the level of commitment of the applicable governments to implement the rules. If this is the case and if the entity concludes that the rules may have a significant effect on its current and deferred tax assets and liabilities, it would disclose that fact in its financial statements along with an estimate of the impact or a statement that such an estimate cannot be made.

**Special purpose acquisition companies (SPACs)**

In a number of jurisdictions, special purpose acquisition companies (SPACs) are an alternative to traditional initial public offerings (IPOs) for private companies seeking to raise capital. Although the structures of SPACs and the transactions they undertake with private companies differ, they typically share a number of features giving rise to financial reporting issues which may require careful consideration.

A SPAC is typically a 'shell' company formed by a management team or sponsor for the sole purpose of raising cash via an IPO. The cash raised (and/or the equity of the SPAC itself) is then used to fund the acquisition of a 'target' company.

The capital structure of a SPAC can differ, but often includes:

- 'Class B' or 'Founder' shares issued to the management team or sponsor on formation of the company.
- 'Class A' shares and warrants to purchase further shares issued to public shareholders upon IPO (typically, subscribers to the IPO will be offered 'units' consisting of a share plus a fraction of a warrant). The 'Class A' shares and warrants are then traded on a public market (either separately or as a combined unit).
- Warrants to acquire 'Class A' shares purchased by the management team or sponsor, separately from the IPO.

The lifecycle of a typical SPAC might be summarised as a 'pre-acquisition phase', followed by the acquisition of a target company (assuming that is achieved within the allotted time), followed by a post-acquisition phase in which the SPAC is the parent entity of a 'normal' publicly quoted group. Although financial reporting issues can span each of these phases, many are specific to one of those three stages.

*Pre-acquisition stage*

In the pre-acquisition stage, the entity determines the classification of the Class A shares, Class B shares and warrants. All of those could be either equity or financial liabilities, applying IAS 32 *Financial Instruments: Presentation,* depending on their features. For Class B shares, the entity needs to determine whether they are in the scope of IAS 32 or whether IFRS 2 applies.

*Acquisition stage*

The primary accounting consideration in this stage is to identify the acquirer applying IFRS 3 *Business Combinations*. The entity will have to determine whether the accounting follows the legal form of the acquisition or whether, in substance, the reverse has occurred. Once the acquirer has been identified, the entity considers whether the transaction should be accounted for as a business combination or an asset acquisition.

It is often the case that the SPAC will be identified as the accounting acquiree in this transaction, resulting (if the SPAC itself does not meet the definition of a business) in accounting for the transaction as a 'capital restructuring' or 'reverse asset acquisition' by the target company.

*Post-acquisition stage*

The group headed by the SPAC will in many senses be a 'normal' publicly quoted group. However, there may be issues arising from the history of the SPAC that continue to affect the group's reporting after the acquisition.

A Deloitte *A Closer Look* describes the accounting implications for SPACs in detail and also touches on other issues relevant for entities considering a SPAC transaction.

## Appendices

### New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2021

*Amendments to IFRS 16—Covid-19-Related Rent Concessions, including Covid-19-Related Rent Concessions beyond 30 June 2021*

The amendments to IFRS 16 provide lessees with a practical expedient, allowing them not to assess whether a COVID-19-related rent concession meeting specific criteria is a lease modification, but instead to treat it as if it were not a lease modification in accordance with IFRS 16 (for example, by treating a waiver of lease payments as a variable lease payment).

As originally issued, the amendment applied only to concessions relating to payments originally due on or before 30 June 2021. In March 2021, the IASB extended the relief to cover concessions on payment due up to 30 June 2022.

A Deloitte *IFRS in Focus* provides more details on the amendments to IFRS 16—*Covid-19-Related Rent Concessions* and its subsequent extension beyond 30 June 2021.

*Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16—Interest Rate Benchmark Reform (Phase 2)*

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are intended to enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

To this end, the amendments:

- Provide specific guidance on how to treat financial assets and financial liabilities where the basis for determining the contractual cash flows changes as a result of interest rate benchmark reform. This includes a practical expedient requiring that, in certain circumstances, such a change be accounted for prospectively through a change in the instrument's effective interest rate. A similar practical expedient applies to lease liabilities in the financial statements of the lessee.

- Introduce an exception to the existing requirements of both IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 so that changes in the formal designation and documentation of a hedge accounting relationship that are needed to reflect the changes required by interest rate benchmark reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship.

- Require that an entity provide disclosures that enable a user to understand the nature and extent of risks arising from interest rate benchmark reform, how the entity is managing those risks, its progress in completing the transition from interest rate benchmarks to alternative benchmark interest rates and how it is managing the transition.

Consequential amendments are made to IFRS 4 *Insurance Contracts* to ensure that insurers still applying IAS 39 will treat the effects of IBOR reform in a manner consistent with that now required by IFRS 9 and the amendments do not have a fixed end date, instead being designed to naturally cease to be relevant as the effect of interest rate benchmark reform work their way through the financial system.

A Deloitte *IFRS in Focus* provides more details on the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16—*Interest Rate Benchmark Reform (Phase 2).*

### IFRS Interpretations Committee agenda decisions in 2021

Along with its activity developing formal interpretations of IFRS Standards and proposing that the IASB make amendments to Standards, the Committee regularly publishes summaries of issues that it has decided not to add to its agenda, often accompanied by a discussion of the accounting issue submitted.

In August 2020, The Trustees of the IFRS Foundation issued an updated IFRS Foundation Due Process Handbook establishing that the explanatory material in the agenda decisions published by the IFRS Interpretations Committee derives its authority from the IFRS Standards themselves and, therefore, that its application is required with the general requirements of IAS 8 for retrospective application applying when an agenda decision results in a change of accounting policy.

The IFRS Foundation Due Process Handbook and each *IFRIC Update* also note that it is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, to obtain new information or adapt its systems). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless, an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Standards.

The following agenda decisions have recently been published by the Committee:

| | |
|---|---|
| December 2020 *IFRIC Update* | Supply Chain Financing Arrangements—Reverse Factoring |
| March 2021 *IFRIC Update* | IAS 38—Configuration or Customisation Costs in a Cloud Computing Arrangement |
| April 2021 *IFRIC Update* | IAS 19—Attributing Benefit to Periods of Service |
| | IFRS 9—Hedging Variability in Cash Flows due to Real Interest Rates |
| June 2021 *IFRIC Update* | IAS 2—Costs Necessary to Sell Inventories |
| | IAS 10—Preparation of Financial Statements when an Entity is No Longer a Going Concern |
| September 2021 *IFRIC Update* | IFRS 16—Non-refundable Value Added Tax on Lease Payments |
| | IAS 32—Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition |

**New and revised standards available for early application in years ending 31 December 2021**

IAS 8:30 requires entities to consider and disclose the potential impact of new and revised IFRS Standards that have been issued but are not yet effective. As discussed above, the sufficiency of these disclosures is a current area of regulatory focus.

The list below reflects a cut-off date of 30 November 2021. The potential impact of the application of any new and revised IFRS Standards issued by the Board after that date, but before the financial statements are issued, should also be considered and disclosed.

For each, a link is provided to a Deloitte *IFRS in Focus* presenting an overview of the new or amended IFRS Standard.

| **IFRS** | **Effective date—periods commencing on or after:** |
|---|---|
| **New standards** | |
| IFRS 17 Insurance Contracts including Amendments to IFRS 17 | 1 January 2023 * |
| | |
| **Amended Standards** | |
| Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | The IASB decided in December 2015 to defer indefinitely the effective date of these amendments. Early application is permitted. |
| Amendments to IFRS 3—References to the *Conceptual Framework* | 1 January 2022 |
| Amendments to IAS 16—Property, Plant and Equipment—Proceeds before Intended Use | 1 January 2022 |
| Amendments to IAS 37—Onerous Contracts—Cost of Fulfilling a Contract | 1 January 2022 |
| Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 *Agriculture*—Annual Improvements to IFRS Standards 2018-2020 | 1 January 2022, except for the amendment to IFRS 16 for which no effective date is stated as it regards only an illustrative example. |
| Amendments to IAS 1—Classification of Liabilities as Current or Non-current including Classification of Liabilities as Current or Non-current—Deferral of Effective Date | 1 January 2023 |
| Amendments to IAS 12—Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2—Disclosure of Accounting Policies | 1 January 2023 |
| Amendments to IAS 8—Definition of Accounting Estimates | 1 January 2023 |

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. iGAAP on DART allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- Model financial statements for entities reporting under IFRS Standards

In addition, our *Beyond the numbers* volume of iGAAP provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to DART, click here to start the application process and select the iGAAP package.

For more information about DART, including pricing of the subscription packages, click here.

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