



# Navigating the changes to International Financial Reporting Standards

A briefing for preparers of IFRS financial statements

2022 Edition



## Contents

<b>Introduction</b>	<b>1</b>	<b>Effective from 1 April 2021</b>	<b>18</b>
<b>Effective dates of new Standards (based on Standards issued at 31 December 2021)</b>	<b>2</b>	Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	19
<b>Effective from 1 January 2020</b>	<b>3</b>	<b>Effective from 1 January 2022</b>	<b>20</b>
Conceptual Framework for Financial Reporting	4	Narrow Scope Amendments to IFRS Standards	21
Definition of a Business (Amendments to IFRS 3)	6	<b>Effective from 1 January 2023</b>	<b>23</b>
Definition of Material (Amendments to IAS 1 and IAS 8)	8	IFRS 17 Insurance Contracts	24
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	10	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	29
<b>Effective from 1 June 2020</b>	<b>12</b>	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	30
COVID-19-Related Rent Concessions (Amendment to IFRS 16)	13	<b>Grant Thornton's IFRS publications</b>	<b>31</b>
<b>Effective from 1 January 2021</b>	<b>15</b>		
Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	16		

### Important Disclaimer:

This document has been developed as an information resource. It is intended as a guide only and the application of its contents to specific situations will depend on the particular circumstances involved. While every care has been taken in its presentation, personnel who use this document to assist in evaluating compliance with International Financial Reporting Standards should have sufficient training and experience to do so. No person should act specifically on the basis of the material contained herein without considering and taking professional advice. Neither Grant Thornton International Ltd, nor any of its personnel nor any of its member firms or their partners or employees, accept any responsibility for any errors it might contain, whether caused by negligence or otherwise, or any loss, howsoever caused, incurred by any person as a result of utilising or otherwise placing any reliance upon this document.

# Introduction

This publication is designed to give preparers of IFRS financial statements a high-level awareness of recent changes to International Financial Reporting Standards. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones.

## What's new in the 2022 edition

The 2022 edition of the publication has been updated for changes to International Financial Reporting Standards (IFRS) that were published between 1 January 2021 and 31 December 2021.

The publication now covers 31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021 and 31 March 2022 financial year ends.

## Contents

The effective dates table on the next page lists all the changes covered in the publication, their effective dates, and the page in the publication on which the appropriate summary can be found.

## How to use the publication

### Identifying the changes that will affect you

The effective dates table has been colour coded to help entities planning for a specific financial reporting year end, and identifies:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

Where a change is not yet mandatorily effective for a particular year end, it may still be possible for an entity to adopt it early (depending on local legislation and the requirements of the particular change in concern).

Where a change has been made but an entity is yet to apply it, certain disclosures are required to be made under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Disclosures required include the fact that the new or amended Standard or Interpretation has been issued but it has not yet been applied, and known or reasonably estimable information relevant to assessing its possible impact on the financial statements in the period of initial application.

### Identifying the commercial significance of the changes in the publication

For each change covered in the publication, we have included a box on its commercial implications. These sections focus on two questions:

- how many entities will be affected?
- what will be the impact on affected entities?

A traffic light system indicates our assessment of the answers to these questions.

### Other Grant Thornton International publications

Where appropriate, references have been made to other Grant Thornton International publications that provide more detailed information on the changes discussed in this publication. A list of other publications is provided on pages 32 to 35 and should you require further assistance, please get in touch with the IFRS contact in your local Grant Thornton office.

### Grant Thornton International Ltd

January 2022

**'The publication now covers 31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021 and 31 March 2022 financial year ends.'**

# Effective dates of new Standards

Based on Standards issued at 31 December 2021

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early Application?	31 Mar 2021 year end	30 Jun 2021 year end	30 Sep 2021 year end	31 Dec 2021 year end	31 Mar 2022 year end
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IFRS 3	Definition of a Business (Amendments to IFRS 3)	1 January 2020	✓					
IAS 1 and IAS 8	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020	✓					
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IFRS 16	COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 June 2020	✓ <sup>2</sup>					
Various	Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 April 2021	✓					
IFRS 3	References to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IAS 16	Proceeds before intended use (Amendments to IAS 16)	1 January 2022	✓					
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	✓					
IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)	1 January 2022	✓					
IFRS 17	Insurance Contracts, including: Amendments to IFRS 17	1 January 2023	✓ <sup>1</sup>					
IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023	✓					
IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)	1 January 2023	✓					
IAS 1	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023	✓					
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	✓					

The colour coding gives an indication of when the changes covered in the publication become effective in relation to the specific financial reporting year ends set out in the table.

Key: ■ Change already in mandatory effect ■ Change effective for the first time ■ Change not yet effective

## Notes

<sup>1</sup> Entities that early adopt IFRS 17 must apply IFRS 9 before or on the same date.

# Effective from 1 January 2020

The Amendments mentioned on pages 4 to 11 are effective for accounting periods beginning on or after 1 January 2020.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Amendments are:

- Conceptual Framework for Financial Reporting<sup>1</sup>
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

<sup>1</sup> Includes 'Amendments to References to the Conceptual Framework in IFRS Standards'

# Conceptual Framework for Financial Reporting

In March 2018, the IASB published a revised 'Conceptual Framework for Financial Reporting' (Conceptual Framework) concluding its long-running project in this area. Although it is not a Standard and will not immediately change or override any existing Standards, it may affect entities that develop or select accounting policies in accordance with the previous version of the Conceptual Framework that was issued in 2010.

## Background

The Conceptual Framework describes the objective of, and the concepts for, general purpose financial reporting. It is mainly a tool for the IASB to develop and revise Standards that are based on consistent concepts, but entities might also use it when they have to develop accounting policies when no Standard applies or when a Standard allows a choice of accounting policy.

The original Conceptual Framework was issued in 1989 and was updated on several occasions, the last being in 2010. The 2010 version included two revised chapters on the objective of financial reporting and the qualitative characteristics of useful financial information but, for example, did not contain a chapter on the reporting entity or guidance on measurement or reporting financial performance. In addition to lacking guidance in certain areas, some existing guidance was not as clear as desired or was outdated.

A public consultation on the IASB's workplan in 2012 therefore highlighted the need for a revision of the 2010 Conceptual Framework and in an effort to make the Conceptual Framework a complete and overarching set of concepts, the project was added to the IASB's agenda. Before issuing a revised Conceptual Framework in 2018, the IASB sought input by publishing a Discussion Paper in 2013 and an Exposure Draft in 2015.

## Main issues addressed by the revised Conceptual Framework

The revised Conceptual Framework now sets out a more complete set of concepts in eight chapters:

- 1 The objective of general purpose financial reporting
- 2 The qualitative characteristics of useful financial information
- 3 Financial statements and the reporting entity
- 4 The elements of financial statements
- 5 Recognition and derecognition
- 6 Measurement
- 7 Presentation and disclosure
- 8 Concepts of capital and capital maintenance.

The guidance on measurement, financial performance, derecognition, and the reporting entity is new to the Conceptual Framework. In addition, some of the existing guidance was updated. For example, the IASB has reintroduced the concept of prudence to support a faithful representation and clarified that measurement uncertainty can impact a faithful representation.

The revised Conceptual Framework also updates some existing concepts like the definitions of assets and liabilities. Although both definitions worked well in the past, the revised definitions now focus more on describing an asset as an economic resource and a liability as an obligation to transfer an economic resource rather than describing both in terms of a flow of benefits.

### Consequential amendments and effects on preparers

Alongside the revised Conceptual Framework, the IASB has published 'Amendments to References to the Conceptual Framework in IFRS Standards'. This publication updates nearly all of the references to previous versions with references to the 2018 Conceptual Framework. The IASB is confident that the updated references will have no impact on preparers of financial statements and reminds them that the Conceptual Framework is not a Standard and does not change or override requirements of any existing Standards.

However, some references have not been updated or allow preparers to continue applying the 2010 Conceptual Framework. To avoid unintended consequences, preparers are required to apply the definitions of assets and liabilities from the 2010 Conceptual Framework when accounting for business combinations under IFRS 3 'Business Combinations'. The IASB plans to explore in due course how those references can be updated without having any effects on preparers of financial statements.

### Effective date and transition

The Conceptual Framework is not a Standard and will not change or override any existing Standards. It is primarily a tool for the IASB to help them develop Standards based on consistent concepts. Over the last few years, the IASB has already started applying some of the new or revised concepts when developing or revising Standards.

However, entities that develop accounting policies using the Conceptual Framework, or that are in any other way affected by the amendments to IFRS Standards, will have to apply the changes from 1 January 2020.

### Commercial significance



Number of entities affected

The Conceptual Framework applies to all entities using IFRS.



Impact on affected entities

As noted above, as the Conceptual Framework is primarily a tool for the IASB in developing Standards, entities will not see a significant direct impact. However, entities that need to develop accounting policies using the Conceptual Framework will see an impact.



For more information on the revised Conceptual Framework, please refer to our Special Edition of IFRS News 'A revised Conceptual Framework for Financial Reporting'. You can access your copy at [www.grantthornton.global/en/insights/articles/ifrs-conceptual-framework-for-financial-reporting/](http://www.grantthornton.global/en/insights/articles/ifrs-conceptual-framework-for-financial-reporting/)

**'The guidance on measurement, financial performance, derecognition, and the reporting entity is new to the Conceptual Framework.'**

# Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued 'Definition of a Business' making amendments to IFRS 3.

The amendments are a response to feedback received from the post-implementation review of IFRS 3. They clarify the definition of a business, with the aim of helping entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.

The amendments:

- clarify the minimum attributes that the acquired assets and activities must have to be considered a business
- remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs
- narrow the definition of a business and the definition of outputs
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

## New definition of a business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

## What are the minimum requirements to meet the definition of a business?

The amendments acknowledge that despite most businesses having outputs, outputs are not necessary for an integrated set of assets and activities to qualify as a business. In order to meet the definition of a business the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs.

## Is the acquired process substantive?

The amendments add guidance and illustrative examples to assist entities in assessing whether a substantive process has been acquired. The guidance explains those entities that do not have outputs are new entities that have not yet generated revenue. If the acquired set of activities and assets is generating revenue at the acquisition date it is considered to have outputs.

For activities and assets that do not have outputs at the acquisition date, the acquired process is substantive if:

- it is critical to being able to develop or convert an acquired input into an output
- the inputs acquired include both:
  - an organised workforce that has the skills, knowledge or experience to perform the process
  - other inputs the organised workforce could develop or convert into outputs (eg. technology, in-process research and development projects, real estate and mineral interests).

For activities and assets that have outputs at the acquisition date, the acquired process is substantive if:

- it is necessary to being able to continue to produce outputs, and the acquired inputs include an organised workforce with the necessary skills, knowledge or experience to perform the process
- it significantly contributes to being able to continue producing outputs and is deemed to be unique or scarce or it cannot be replaced without significant cost, effort or delay in producing outputs.

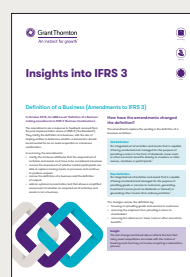
## How have the amendments changed the definition?

The amendments replace the wording in the definition of a business from:

- 'providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants' to
- 'providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.'

This narrows the definition by focussing on goods or services rather than returns.





For more information please refer to our article ‘Insights into IFRS 3 – Definition of a Business’, where we further explain these changes including the optional concentration test and how it is calculated. We also include some practical examples. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to [www.grantthornton.global/en/insights/articles/ifrs-3---definition-of-a-business/](http://www.grantthornton.global/en/insights/articles/ifrs-3---definition-of-a-business/). On our global website the section on business combinations is being progressively updated. Refer to page 33 on details of our Insights into IFRS 3 series.

Accounting topic	Business combination	Asset purchase
<b>Recognition of identifiable assets and liabilities</b>	<ul style="list-style-type: none"> <li>measured at fair value</li> </ul>	<ul style="list-style-type: none"> <li>total cost is allocated to individual items based on relative fair values</li> </ul>
<b>Goodwill or gain on bargain purchase</b>	<ul style="list-style-type: none"> <li>recognised as an asset (goodwill) or as income (gain on bargain purchase)</li> </ul>	<ul style="list-style-type: none"> <li>not recognised</li> </ul>
<b>Transaction costs</b>	<ul style="list-style-type: none"> <li>expensed when incurred</li> </ul>	<ul style="list-style-type: none"> <li>typically capitalised</li> </ul>
<b>Deferred tax on initial temporary differences</b>	<ul style="list-style-type: none"> <li>recognised as assets and liabilities</li> </ul>	<ul style="list-style-type: none"> <li>not recognised unless specific circumstances apply</li> </ul>

### What is the optional concentration test?

The amendments introduce an optional test (the concentration test) that allows the acquirer to carry out a simple assessment to determine whether the set of activities and assets acquired is not a business. If the test is successful, then the set of activities and assets acquired is not a business and no further assessment is required. If the test is not met or the entity does not carry out the test, then the entity needs to assess whether or not the acquired set of assets and activities meets the definition of a business in the normal way.

The test is met if substantially all of the fair value of the gross assets acquired is concentrated in one or a group of similar identifiable assets. Gross assets exclude cash and cash equivalents, deferred tax assets and goodwill from the effects of deferred tax liabilities. The amendments also provide guidance on what a single identifiable asset or a group of similar identifiable assets would be.

### Transition

The changes are to be applied prospectively to business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Entities can apply them earlier if they disclose this fact.

### Asset purchase versus business combination

It is important to distinguish business combinations from asset purchases because the IFRS requirements are very different. Some of the key differences are summarised in the table above.

### Commercial significance



Number of entities affected

The amendments could impact all business combinations and purchases where it is unclear whether an asset or a business has been acquired.



Impact on affected entities

The impact could be significant if the outcome as to whether there is a business changes.

**‘The amendments are a response to feedback received from the post-implementation review of IFRS 3.’**

# Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued 'Definition of Material' making amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The amendments are a response to findings that some entities experienced difficulties using the previous definition when judging whether information was material for inclusion in the financial statements. In fact, up to now, the wording of the definition of material in the 'Conceptual Framework for Financial Reporting' differed from the wording used in IAS 1 and IAS 8. The existence of more than one definition of material was potentially confusing, leading to questions over whether the definitions had different meanings or should be applied differently.

## The old definition

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

## The new definition

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

## Grant Thornton International Ltd insight - 'obscuring'

Including 'obscuring' in the definition of material addresses concerns that the former definition could be perceived by stakeholders as focusing only on information that cannot be omitted (material information) and not also on why it may be unhelpful to include immaterial information. However, this does not mean that entities are prohibited from disclosing immaterial information.

The amendments give a number of examples of circumstances that may result in material information being obscured.

## Grant Thornton International Ltd insight - 'reasonably be'

This wording reflects wording broadly previously used in IAS 1 and helps to address concerns raised by some parties that the threshold 'could influence' in the existing definition of material is too low and might be applied too broadly.

### Grant Thornton International Ltd insight – ‘primary users’

The amendments note many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed.

The amendments are designed to rectify this problem and make it easier for companies to define materiality judgements. They do this by:

- including in the definition guidance that until now has featured elsewhere in IFRS
- improving the explanations that accompany the definition
- ensuring that the definition of material is consistent across all IFRS.

### Transition

The changes are effective from 1 January 2020, but entities can decide to apply them earlier.

### Commercial significance



Number of entities affected

The concept of materiality needs to be taken into consideration by almost every entity preparing IFRS based financial statements.



Impact on affected entities

The amendments are intended to make the definition easier to understand and are not intended to alter the concept of materiality in IFRS. As such, we do not expect the amendments to change significantly how materiality judgements are made in practice or to significantly affect entities' financial statements. We do however expect they will improve the understanding of what is expected in this important area.

**‘The amendments note many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need.’**

# Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In October 2019, the IASB published 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)', in response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to provide relief for hedging relationships.

Many interbank offered rates (IBORs) will be replaced by new benchmark Risk-Free Rates (RFRs) in the next 12 to

24 months. One of the biggest issues presented by the replacement of IBORs is the potential effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets, and it's this subject that is addressed by the IASB's amendments.

## The amendments

The main amendments can be summarised as follows:

## Matters addressed by the amendments

### Issue

**Highly probable requirement and prospective assessments of hedge effectiveness**

### Proposal

Where an entity currently designates IBOR cash flows, the replacement of IBORs with new interest rate benchmarks raises questions over whether it will be possible to make the assertion that those cash flows will still occur in a hedge of highly probable future cash flows, and whether the hedging relationship meets the requirements to be viewed as effective on a prospective basis.

The IASB therefore has provided exceptions for determining whether a forecast transaction is highly probable or whether it's no longer expected to occur. Specifically, the amendments state that an entity should apply those requirements assuming the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

They also include exceptions to the hedge accounting requirements in IFRS 9 'Financial Instruments' and IAS 39 'Financial Instruments: Recognition and Measurement' so that an entity assumes the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether:

- there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9, or
- the hedge is expected to be highly effective in achieving offsetting by applying IAS 39.

### Designating a component of an item as the hedged item

The changes amend the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform.

Specifically, they state an entity applies the requirement (that the designated risk component or designated portion is separately identifiable) only at the inception of the hedging relationship.

There is one exception to this and that is when an entity frequently resets a hedging relationship because both the hedging instruments and the hedged item frequently change. In this situation the entity applies the requirement only when it initially designates a hedged item in that hedging relationship.

Without these amendments, the uncertainty surrounding the replacement of IBORs and the form this will take, could result in entities having to discontinue hedge accounting solely because of the reform's effect on their ability to make forward-looking assessments.

Disclosures about the extent to which an entity's hedging relationships are affected by the amendments are also required.

The IASB has stated the exceptions above are mandatory for all hedging relationships directly affected by the interest rate benchmark reform. It also confirmed the exceptions apply for a limited period. Specifically, an entity prospectively ceases to apply the amendments at the earlier of:

- when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows, and
- when the hedging relationship is discontinued, or when a forecast transaction is no longer expected to occur, the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

The IASB has not provided an end to the application of the proposed exception relating to the separate identification requirement outlined above.

The amendments are not intended to provide relief if a hedging relationship no longer meets the requirements of hedge accounting for any other reasons than those included in the amendments.

### Effective date and transition

In acknowledgement of the speed with which interest rate benchmark reform is progressing, the amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. They should be applied retrospectively, with early application permitted.

### Commercial significance



Number of entities affected

The amendments affect entities with hedging relationships directly affected by IBORs.



Impact on affected entities

These amendments provide urgent relief from the effects of IBOR on hedge accounting. However, they address only the hedge accounting issues arising when IBORs are replaced with alternative risk free rates (RFR) so are known as the pre-replacement issues.

Refer to page 16 for Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

# Effective from 1 June 2020

The Amendment mentioned on pages 13 to 14 is effective for accounting periods beginning on or after 1 June 2020.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Amendment is:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)

# COVID-19-Related Rent Concessions (Amendment to IFRS 16)

In May 2020, the IASB published an amendment 'COVID-19-Related Rent Concessions (Amendment to IFRS 16)' (the amendment). The amendment adds a practical expedient to IFRS 16 'Leases' which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no changes for lessors in this amendment.

The COVID-19 pandemic has created an additional burden on entities all over the world. As a result, lessors are still providing lessees with rent concessions. These can be in the form of rent holidays or rent reductions for an agreed timeframe (possibly followed by increased rentals in future periods). In some jurisdictions, governments are making rent concessions a requirement, in others, they are merely encouraging them. However, they will have major impact for lessees, in particular, the retail and hospitality industries where in many cases they have been forced to temporarily close their premises as a direct result of the pandemic.

IFRS 16 contains specific requirements when accounting for changes to lease payments and rent concessions are in the scope of these requirements. Lessees are required to assess whether rent concessions are lease modifications, and if they are, there is specific accounting to be applied. However, applying these requirements to potentially a significant number of leases could be difficult, particularly from a practical perspective. Entities already have significant pressures upon them as a result of this pandemic and what is set out in IFRS 16 to account for lease modifications will add to the burden.

## The practical expedient

The practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession received is a lease modification. The lessee is permitted to account for the rent concession as if the change is not a lease modification.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no accounting concessions that apply to lessors. All of the following conditions in relation to the lessee expedient need to be met:

- the rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided
- the rent concession is for relief for payments that were originally due on or before 30 June 2021. So payments included are those required to be reduced on or before 30 June 2021, but subsequent rental increases of amounts deferred can go beyond 30 June 2021, and
- there are no other substantive changes to the other terms and conditions of the lease.

### Disclosure

If applying the practical expedient, the amendments require the entity to disclose:

- it has applied the practical expedient to all its rent concessions, or if only some of them, a description of the nature of the contract it has applied the practical expedient to, and
- the amount in profit or loss for the reporting period that reflects the change in lease payments arising from rent concessions (as a result of applying the practical expedient).

### Effective date

The amendment is applicable for reporting periods beginning on or after 1 June 2020. Earlier application will be permitted, including for financial statements not yet authorised for issue at 28 May 2020 (the date the amendment was issued).

### Commercial significance



Number of entities affected

The amendments affect all lessees provided with a rent concession in relation to COVID-19.



Impact on affected entities

These amendments could have a significant impact on relief in applying the lease modification guidance in IFRS 16 for a COVID-19-related rent concession.

**‘The amendment adds a practical expedient to the Standard which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications.’**



# Effective from 1 January 2021

The Amendment mentioned on pages 16 to 17 is effective for accounting periods beginning on or after 1 January 2021.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Amendment is:

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

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

In September 2020, the IASB published Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), finalising its response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to assist reporting entities to provide investors with useful information about the effects of the reform on their financial statements.

Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in future reporting periods. This has resulted in the IASB needing to address potential financial reporting implications after the reform of an interest rate

benchmark. The IASB has completed this project in two stages, the first one focussing on providing relief for hedging relationships which was finalised in September 2019 by publishing Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) – refer to page 10 for the details on these amendments. This second set of amendments focus on issues arising post replacement, ie, when the existing interest rate benchmark is actually replaced with alternative benchmark rates.

## The amendments

The main amendments in this second stage can be summarised as follows:

## Matters addressed by the amendments

Issue	Proposal
Changes to contractual cash flows	The IASB have added a practical expedient that will mean entities will not need to derecognise the carrying amount of financial assets or financial liabilities for changes required by the reform. Instead reporting entities are required to account for the modification by updating the effective interest rate to reflect the change to the alternative benchmark rate.
Hedge accounting requirements	If hedging still meets other hedge accounting requirements, entities will not need to discontinue hedge accounting purely because of changes as a result of the reform. Hedging documentation and relationships should be updated to reflect modifications to the hedge item, and entities can continue hedge accounting if the new hedging relationship meets all the criteria.
Disclosures	Reporting entities will be required to make additional disclosures about new risks arising from the IBOR reform and how they manage those risks. There are also disclosure requirements for transitioning from IBORs to alternative benchmark rates.

### Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. They should be applied retrospectively, and restatement of prior periods is not required, however entities can restate prior periods, if it is possible without the use of hindsight.

### Commercial significance



Number of entities affected

The amendments affect entities with hedging relationships directly affected by IBORs.



Impact on affected entities

These amendments provide relief from the effects of IBOR on hedge accounting. Using these amendments, will enable reporting entities to transition from IBOR benchmarks to alternative benchmarks without hedge discontinuation which would be a useful outcome for users of financial statements.

**‘This second set of amendments focus on issues arising post replacement, ie, when the existing interest rate benchmark is actually replaced with alternative benchmark rates.’**

# Effective from 1 April 2021

The Amendment mentioned on page 19 is effective for accounting periods beginning on or after 1 April 2021.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Amendment is:

- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

# Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

In April 2021 the IASB issued 'Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)', an extension to the practical expedient period in the amendments to IFRS 16 made last year. This extension is for one year, so the application period now extends until 30 June 2022.

## The amendment

In May 2020, the IASB published an amendment 'COVID-19-Related Rent Concessions (amendment to IFRS 16)' (the amendment). The amendment added a practical expedient to the Standard which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. Refer to pages 13 and 14 for more details on these amendments.

In light of the impact the COVID-19 pandemic has had on business activity across the world, and response from feedback received from stakeholders, the IASB decided to extend this relief for one year to provide relief for recent concessions in relation to COVID-19 that reduce payments up until 30 June 2022.

The amendment is effective for annual reporting periods beginning on or after 1 April 2021.

## Commercial significance



Number of entities affected

The amendment affects all lessees provided with a rent concession in relation to COVID-19 that extend beyond June 2021.



Impact on affected entities

This amendment could have a significant impact for lessees when applying the lease modification guidance in IFRS 16 for a COVID-19 rent-related concession.

**'In light of the impact the COVID-19 pandemic has had on business activity across the world, and response from feedback received from stakeholders, the IASB decided to extend this relief for one year to provide relief for recent concessions in relation to COVID-19 that reduce payments up until 30 June 2022.'**

# Effective from 1 January 2022

The Amendments mentioned on pages 21 to 22 are effective for accounting periods beginning on or after 1 January 2022.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Amendments are:

- References to the Conceptual Framework (Amendments to IFRS 3)
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)

As the above represent relatively minor amendments that were all issued at the same time, they have been combined in this publication.

# Narrow Scope Amendments to IFRS Standards

In May 2020 the IASB issued a collection of narrow scope amendments to IFRS Standards. The collection includes amendments to three Standards as well as Annual Improvements to IFRS Standards, which addresses non-urgent (but necessary) minor amendments to four standards.

## The amendments

The Amendments issued are as follows:

- References to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 cycle

## Publications issued

Standard affected	Subject	IASB's summary of amendment
IFRS 3 'Business Combinations'	References to the Conceptual Framework	Adds a new exception to the recognition principle in order to make sure that the accounting remains unchanged.
IAS 16 'Property, Plant and Equipment'	Proceeds before Intended Use	Prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.
IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Onerous Contracts – Cost of Fulfilling a Contract	Specifies which costs an entity includes when assessing whether a contract will be loss-making.

‘The collection includes amendments to three Standards as well as Annual Improvements to IFRS Standards, which addresses non-urgent (but necessary) minor amendments to four standards.’

## Annual Improvements to IFRS Standards 2018-2020 Cycle

Standard affected	Subject	IASB's summary of amendment
IFRS 1 'First time Adoption of International Financial Reporting Standards'	Subsidiary as a First-time Adopter	Simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.
IFRS 9 'Financial Instruments'	Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	Clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
Illustrative Examples Accompanying IFRS 16 'Leases'	Lease Incentives	Removes potential for confusion regarding lease incentives.
IAS 41 'Agriculture'	Taxation in Fair Value Measurements	Removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

### Commercial significance



The amendments make changes to relatively narrow areas within IFRS.



The amendments and the IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRS. By their nature then, their commercial significance can be expected to be low. Overall the changes are uncontroversial.



# Effective from 1 January 2023

The Standard and Amendments discussed on pages 24 to 30 are effective for accounting periods beginning on or after 1 January 2023.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standard and Amendments are:

- Insurance Contracts, including:
  - Amendments to IFRS 17
  - Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)
  - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

# IFRS 17 Insurance Contracts

In May 2017, after more than 20 years in development, the IASB published IFRS 17 'Insurance Contracts'. This lengthy completion period reflecting a number of factors including:

- very diverse local practices for insurance accounting
- a huge range of jurisdiction-specific products, tax implications and regulations that had to be captured by a uniform measurement model
- the need for alignment with other Standards that have been recently published by the IASB, such as IFRS 9 and IFRS 15 'Revenue from Contracts with Customers', and to some degree the work of other standard setters.

The new Standard replaces IFRS 4 'Insurance Contracts' which was published in 2004. IFRS 4 was designed to be an interim Standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that entities continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar entities.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. We briefly discuss some of the areas covered by the new Standard below:

## Scope

IFRS 17 applies to all insurance contracts that an entity issues (including those for reinsurance); reinsurance contracts it holds; and investment contracts with a discretionary participation feature, provided the entity also issues insurance contracts.

IFRS 17 defines an insurance contract as one under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

This definition is similar to that in IFRS 4. In addition, IFRS 17 provides guidance on how to assess the significance of insurance risk based on the possibility of a loss on a present value basis (rather than nominal), and how to evaluate changes in the level of insurance risk.

## Measurement

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

- the fulfilment cash flows – the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows, and
- the contractual service margin – the expected profit for providing future insurance coverage (ie unearned profit).

The measurement of the fulfilment cash flows reflects the current value of any interest rate guarantees and financial options included in the insurance contracts.

To better reflect changes in insurance obligations and risks, IFRS 17 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information. This means that insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

Current discount rates are also required to be used. These will reflect the characteristics of the cash flows arising from the insurance contract liabilities, a change from the previous situation where many entities used discount rates based on the expected return on assets backing the insurance contract liabilities.

Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

## Insurance performance

IFRS 17 requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts:

- the insurance service result, which depicts the profit earned from providing insurance coverage
- the financial result, which captures:
  - investment income from managing financial assets
  - insurance finance expenses from insurance obligations – the effects of discount rates and other financial variables on the value of insurance obligations.

When applying IFRS 17, changes in the estimates of the expected premiums and payments that relate to future insurance coverage will adjust the expected profit – ie the contractual service margin for a group of insurance contracts will be increased or decreased by the effect of those changes.

The effect of such changes in estimates will then be recognised in profit or loss over the remaining coverage period as the contractual service margin is earned by providing insurance coverage.

## Onerous contracts

To make differences in profitability among insurance contracts visible, IFRS 17 requires an entity to distinguish groups of contracts expected to be loss-making from other contracts.

Companies should first identify portfolios of insurance contracts that are subject to similar risks and managed together. Once an entity has identified portfolios of contracts, it divides each portfolio into groups considering differences in the expected profitability of the contracts.

If the amounts that the insurer expects to pay out on a contract in the form of claims, benefits and expenses exceed the amounts that the insurer expects to collect from premiums, either at the inception of the contracts or subsequently, the contracts are loss making and the difference will be recognised immediately in profit or loss.

## Reinsurance contracts

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts.

## Presentation

### Statement of financial position

The statement of financial position should present in separate captions the assets and liabilities arising under insurance contracts issued and reinsurance contracts held.

In contrast to practices existing under various local GAAPs, entities should adopt a grossed-up presentation where contracts, which are assets, are not netted off against contracts, which are liabilities and vice versa. IFRS 17 does not mandate a layout for the statement of financial position. The reporting entities should follow the general requirements of IAS 1 but need to ensure that certain captions are presented as a minimum on the face of the statement.

### Statement of financial performance – measurement of revenue and expenses

IFRS 17 does not mandate a layout for the statement of financial performance. Reporting entities should follow the principles and requirements of IAS 1 and the measurement rules of IFRS 17, which require that revenue and incurred expenses presented in profit or loss exclude any investment components.

### Measurement of insurance contract revenue

Revenue recognition is an area where IFRS 17 principles represent a significant change from practices previously followed in various local GAAPs. Previously revenue was often reported by reference to premium cash received or receivable.

Under IFRS 17, revenue represents the total change in the liability for remaining coverage that relates to coverage and services during the period for which the entity expects to receive consideration.

### Supporting materials issued by the IASB

Following publication of IFRS 17, the IASB has announced various initiatives to support entities with the adoption of the Standard, including a dedicated implementation support page for IFRS 17.

The IASB also established a Transition Resource Group which considered questions from stakeholders about the new accounting requirements. Further details about what that group considered can be found on the IASB website.

### Disclosure

The objective of the disclosure requirements of IFRS 17 is to disclose information which allows the users of financial statements to assess the effect that contracts within the scope of the Standard have on the entity's financial position, financial performance and cash flows. Entities should provide quantitative and qualitative information about amounts recognised in the financial statements, significant judgements (and changes thereof), and the nature and extent of risks arising from contracts within the scope of the Standard.

Reporting entities are required to follow IAS 1's requirements on materiality and aggregation when deciding what aggregation bases are appropriate for disclosure. The type of contract, geographical area or reportable segment as defined in IFRS 8 'Operating Segments' are all examples suggested but not mandated by the Standard.

### Effective date and transition

IFRS 17 has a revised effective date of 1 January 2023 but may be applied earlier provided the entity applies IFRS 9 and IFRS 15 at or before the date of initial application of the Standard (and subject to any considerations imposed by local legislation). The effective date was revised in June 2020 as part of a series of amendments to IFRS 17 – see below for more details.

### Amendments to IFRS 17

After concerns raised by stakeholders, in June 2020 the IASB issued 'Amendments to IFRS 17 (the Amendments)'. The aim of the amendments is to address these concerns and help entities to more easily transition and implement the Standard.

**'IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.'**

Area of change	Description
Effective date of IFRS 17 and the IFRS 9 temporary exemption	The amendments defer the effective date of IFRS 17 by two years from annual reporting periods beginning on or after 2021 to annual reporting periods beginning on or after 2023. The amendments also extend the temporary exemption (included in IFRS 4) from IFRS 9 by two years so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2023.
Scope exclusions	The amendments add additional scope exclusions for credit card contracts that provide insurance coverage, and also an optional scope exclusion for loan contracts that transfer high insurance risk.
Expected recovery of insurance acquisition cash flows	The amendments include guidance on the recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination.
Contractual service margin attributable to investment-return service and investment-related service	The amendments clarify the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
Applicability of the risk mitigation option	The amendments extend the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
Interim financial statements	The amendments clarify the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
Reinsurance contracts held — recovery of losses on underlying insurance contracts	The amendments require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held.
Presentation in the statement of financial position	The amendments require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities rather than groups of insurance.
Transitional modifications and reliefs	The amendments add extra transitional reliefs for business combinations, the date of application of the risk mitigation option and the use of the fair value transition approach.
Minor amendments	The amendments add minor changes where the drafting of the Standard did not achieve the IASB's intended outcome.

### Extension of the temporary exemption from applying IFRS 9 to IFRS 4

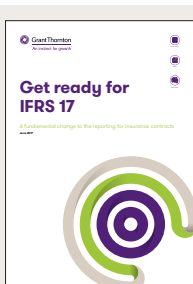
The IASB has also issued further amendments to the existing insurance Standard IFRS 4, 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' so that entities can still apply IFRS 9 alongside IFRS 17.

### Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)

During 2021, the IASB issued another narrow-scope amendment to IFRS 17 which is applicable on transition to the new Standard. However, it does not impact any other requirements of IFRS 17.

IFRS 17 and IFRS 9 'Financial Instruments' have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time.

The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It will do this by providing insurers with an option for the presentation of comparative information about financial assets.



For more information on the Standard that was originally issued, please refer to our detailed publication entitled 'Get Ready for IFRS 17 – a fundamental change to the reporting for insurance contracts'. This guide is designed to get you ready for this major new Standard. It explains IFRS 17's key features and provides insights into their application

and impact. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to [www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2017/get-ready-for-ifs-17--a-fundamental-change-to-the-reporting-for-insurance-contracts.pdf](http://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2017/get-ready-for-ifs-17--a-fundamental-change-to-the-reporting-for-insurance-contracts.pdf).

### Commercial significance



Number of entities affected

IFRS 17 is a Standard about insurance contracts, not a Standard for the insurance industry. While insurance companies will be most affected, its effect will also be felt beyond the entities authorised to carry out regulated insurance activities in a jurisdiction.



Impact on affected entities

IFRS 17 fundamentally changes the accounting for insurance contracts. It will have a substantial impact on the financial statements of those with insurance contracts. Presently there is a huge diversity in the way insurance contracts are accounted for, IFRS 17 is set to harmonise these accounting practices and will transform data, people, technology solutions and investor relations. Implementation costs are likely to be high as entities get to grips with the new Standard.

**'To better reflect changes in insurance obligations and risks, IFRS 17 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information.'**

# Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020 the IASB published 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' which clarify the Standard's guidance on whether a liability should be classified as either current or non-current.

IAS 1 requires an entity that has an unconditional right to delay settlement of a liability for at least 12 months from the end of the reporting period, then it can be classified as non-current, if not it is classified as current. Some preparers have found this statement confusing and consequently similar liabilities have been classified differently, making comparisons by investors difficult.

The IASB therefore issued amendments to IAS 1 to clarify this guidance and rectify the above issue.

## The amendments

The amendments clarify the guidance in IAS 1 by:

- clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability
- adding guidance about lending conditions and how these can impact classification
- including requirements for liabilities that can be settled using an entity's own instruments.

## Effective date and transition

The amendments were initially effective from accounting periods beginning on or after 1 January 2022. However, as a result of the COVID-19 pandemic, the IASB decided to give entities more time to implement any classification changes that may result from the above amendments. As such in July 2020 changed the effective date of the amendments and they are now effective from 1 January 2023.

The amendments should be applied retrospectively, with entities being allowed to apply them to an earlier period, as long as they disclose that they have done so.

## Commercial significance



Number of entities affected

The amendments affect entities with borrowing arrangements so therefore the impact could be widespread.



Impact on affected entities

These amendments could have a significant impact on an entity's presentation of their borrowings which in turn could impact important financial ratios.

# Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021 the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (Amendments to IAS 12).

## The amendments

In specific circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. There had been some diversity in practice as to whether the exemption applied to transactions such as leases and decommissioning obligations. These are transactions where entities recognise both an asset and a liability.

The amendments require an entity to recognise deferred tax on certain transactions (eg leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The amendments clarify that the initial recognition exemption set out in IAS 12 'Income Taxes' does not apply and entities are required to recognise deferred tax on these transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

## Commercial significance



Number of entities affected

The amendments affect all entities with leases accounted for under IFRS 16.



Impact on affected entities

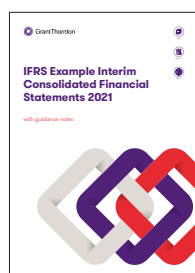
The impact is on initial recognition of these transactions with the aim to reduce diversity in practice. In many instances it will not have a major impact.



# Grant Thornton's IFRS Publications

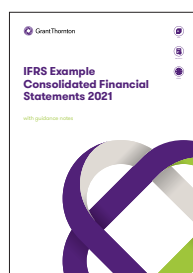
As well as the publications mentioned within the body of this publication, we also have a number of other publications including:

## Example Interim Consolidated Financial Statements 2021



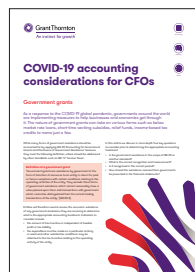
This publication illustrates the interim consolidated financial statements of a company that is an existing preparer of IFRS and produces half-yearly interim reports in accordance with IAS 34 'Interim Financial Reporting' at 30 June 2021. You can access this publication at [www.grantthornton.global/en/insights/articles/ifrs-example-interim-consolidated-financial-statements-2021/](https://www.grantthornton.global/en/insights/articles/ifrs-example-interim-consolidated-financial-statements-2021/).

## Reporting under IFRS – Example consolidated financial statements 2021



A set of illustrative consolidated financial statements for existing preparers of IFRS. The latest version of this publication has been reviewed and updated to reflect changes in IFRS that are effective for annual periods ending 31 December 2021. You can access this publication at <https://www.grantthornton.global/en/insights/articles/ifrs-example-consolidated-financial-statements-2021/>.

## Navigating IFRS in light of COVID-19

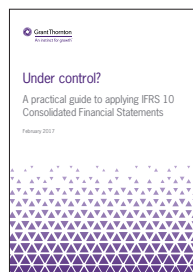


Our series of COVID-19 articles focusses on areas entities need to consider from a financial reporting perspective. Our series of articles aim to help you consider the financial reporting consequences of COVID-19 and includes Telling the COVID-19 story, a publication which describes and illustrates how entities can better tell their COVID-19 story using four key tools we

believe can help explain the impact of COVID-19.

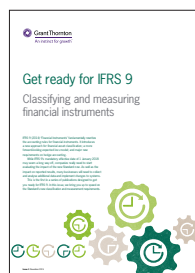
You can access these publications at <https://www.grantthornton.global/en/insights/supporting-you-to-navigate-the-impact-of-covid-19/ifrs-covid-19-hub/>.

## Under control? A practical guide to applying IFRS 10 consolidated financial statements



This publication aims to assist management in understanding the requirements of IFRS 10 'Consolidated Financial Statements' on control and consolidation as well as identifying and addressing the key practical application issues and judgements. You can access this publication at [www.grantthornton.global/en/insights/articles/under-control-applying-ifrs-10/](https://www.grantthornton.global/en/insights/articles/under-control-applying-ifrs-10/).

## Get ready for IFRS 9: Classifying and measuring financial instruments



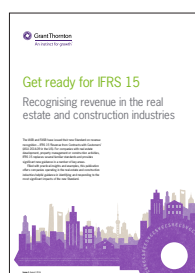
'Get ready for IFRS 9: Classifying and measuring financial Instruments' is the first in a series of publications designed to get you ready for IFRS 9. In this issue we bring you up to speed on the Standard's classification and measurement requirements. You can access this publication at [www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9/](https://www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9/).

## Get ready for IFRS 9: Impairment



'Get ready for IFRS 9: Impairment' is the second in a series of publications designed to get you ready for IFRS 9. In this issue we bring you up to speed on the Standard's impairment requirements. You can access this publication at [www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9-issue-2/](https://www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9-issue-2/).

## Get ready for IFRS 15 – Recognising revenue in the real estate and construction industries



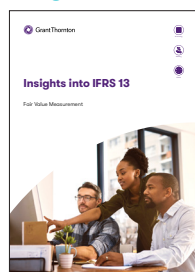
‘Get ready for IFRS 15 – Recognising revenue in the real estate and construction industries’ is our more detailed look at the issues facing companies in this sector as they prepare themselves for IFRS 15. You can access this publication at [www.grantthornton.global/en/insights/articles/get-ready-for-ifs-15-rec/](http://www.grantthornton.global/en/insights/articles/get-ready-for-ifs-15-rec/).

## Insights into IFRIC 23



IFRIC 23 specifies how entities should reflect uncertainty in accounting for income taxes. Our ‘Insights into IFRIC 23’ article provides an overview of the interpretation and some practical guidance for when applying it. You can access this publication at [www.grantthornton.global/en/insights/articles/insights-into-ific-23/](http://www.grantthornton.global/en/insights/articles/insights-into-ific-23/).

## Insights into IFRS 13



Our Insights into IFRS 13 article not only summarises the Standard, it also provides detailed commentary on various aspects of applying this Standard from the perspective of a preparer working alongside a valuation expert. You can access this publication at [www.grantthornton.global/en/insights/articles/ifs-13/](http://www.grantthornton.global/en/insights/articles/ifs-13/).

## Insights into IAS 36



The articles in our ‘Insights into IAS 36’ series have been written to assist preparers of financial statements and those charged with the governance of reporting entities understand the requirements set out in IAS 36, and revisit some areas where confusion has been seen in practice. The key topics covered are:

- Overview of the Standard
- Scope and Structure
- Undertaking an impairment review
- Identifying cash generating units
- Allocating assets to cash generating units
- Allocating goodwill to cash generating units
- Estimating the recoverable amount
- Value in use estimating future cash flows
- Value in use – applying the appropriate discount rate

## Insights into IFRS 16



Our Insights into IFRS 16 series looks at key areas of the new Standard and aims to provide assistance in preparing for IFRS 16. The key areas covered in the series are:

- Understanding the discount rate
- Interim periods
- Definition of a lease
- Lease term
- Transition choices
- Sale and leaseback accounting
- Lease payments
- Presentation and disclosure
- Lease incentives

Coming soon to this series:

- Comparing recoverable amount with carrying amount
- Recognising impairment losses
- Reversing impairment losses
- Other impairment issues
- Presentation and disclosure
- IAS 36 FAQs

You can access these publications at [www.grantthornton.global/en/insights/ifs-16/](http://www.grantthornton.global/en/insights/ifs-16/).

You can access these publications at [www.grantthornton.global/en/insights/articles/IFRS-ias-36/](http://www.grantthornton.global/en/insights/articles/IFRS-ias-36/).

## Insights into IFRS 3



Our 'Insights into IFRS 3' series summarises the key areas of the Standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could impact your business. The key topics covered are:

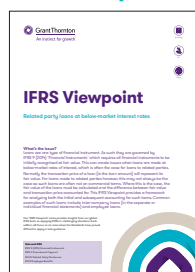
- The acquisition method at a glance
  - Identifying a business combination
  - Identifying the acquirer
- Identifying the acquisition date
  - The definition of a business
  - Reverse acquisitions explained
  - Reverse acquisitions in the scope of IFRS 3

Coming soon to this series:

- Recognition principles
- How are the identifiable assets and liabilities measured?
- Specific recognition and measurement provisions
- Recognising and measuring non-controlling interest
- Consideration transferred
- Adjustments for transactions not part of a business combination

You can access these publications at [www.grantthornton.global/en/insights/articles/ifrs-3-insights/insights-into-ifrs-3/](http://www.grantthornton.global/en/insights/articles/ifrs-3-insights/insights-into-ifrs-3/).

## IFRS Viewpoints



We have released a series of publications providing insights on applying IFRS in challenging situations. Each edition focuses on an area where the Standards have proved difficult to apply or lack guidance.

**Related party loans at below-market interest rates** – This IFRS Viewpoint released provides a framework for accounting for loans made by an entity to a related party that are at below-market levels of interest.

**Inventory discounts and rebates** – This issue addresses how a purchaser accounts for discounts and rebates when buying inventory. Accounting for these discounts and rebates will vary depending on the type of arrangement.

**Common control business combinations** – This issue addresses how to account for a common control business combination.

**Reverse acquisitions outside the scope of IFRS 3** – This issue considers how to account for a reverse acquisition outside the scope of IFRS 3.

**Preparing financial statements when the going concern basis is not appropriate** – This issue provides guidance on the issues encountered when an entity determines that it is not appropriate to prepare its financial statements on a going concern basis.

**Accounting for cryptocurrencies – the basics** – This issue explores the acceptable methods of accounting for holdings in cryptocurrencies while touching upon other issues that may be encountered in this area.

**Accounting for crypto assets – mining and validation issues** – This issue seeks to explore the accounting issues that arise for miners and validators in mining and maintaining the blockchain in accordance with existing IFRS.

**Accounting for client money** – This issue provides guidance on client money – arrangements in which a reporting entity holds funds on behalf of clients.

**Configuration or customisation costs in a cloud computing arrangement** – This issue discusses the IFRIC's agenda decision addressing how a customer should account for costs of configuring or customising a supplier's application software in a Cloud Computing or Software as a Service (SaaS) arrangement.

You can access these publications at [www.grantthornton.global/en/insights/viewpoint/ifrs-viewpoints-hub/](http://www.grantthornton.global/en/insights/viewpoint/ifrs-viewpoints-hub/).

If you would like to discuss any of these publications, please speak to your usual Grant Thornton contact or visit [www.grantthornton.global/locations](http://www.grantthornton.global/locations) to find your local member firm.

## Contact

### Fergus Condon

Partner, Financial Accounting and  
Advisory Services  
E [fergus.condon@ie.gt.com](mailto:fergus.condon@ie.gt.com)  
T +353 (0)1 680 5610

### Stephen Murray

Partner, Audit and Assurance  
E [stephen.murray@ie.gt.com](mailto:stephen.murray@ie.gt.com)  
T +353 (0)1 680 5689

### Louise Kelly

Partner, Audit and Assurance  
E [louise.kelly@ie.gt.com](mailto:louise.kelly@ie.gt.com)  
T +44 (0)28 9587 1100

