Navigating the changes to International Financial Reporting Standards

A briefing for preparers of IFRS financial statements

2025 Edition

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.

Contents

‘The publication now covers 31 March 2024, 30 June 2024, 30 September 2024, 31 December 2024 and 31 March 2025 financial year ends.’

Introduction

This publication is designed to give preparers and reviewers 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 2025 edition
The 2025 edition of this publication has been updated for changes to International Financial Reporting Standards (IFRS) that have been published between 1 January 2024 and 31 December 2024.

The publication will help you complete annual financial statements for 31 March 2024, 30 June 2024, 30 September 2024, 31 December 2024 and 31 March 2025 year ends.

Contents
The effective dates table on the next page lists all the changes covered in the publication and their effective dates.

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 ability to be able to fully comply with all the requirements).

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 38 to 41 and, should you require further assistance, please get in touch with the IFRS contact in your local Grant Thornton office.

Grant Thornton International Ltd
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Effective dates of new Standards

Based on Standards issued at 31 December 2024

Standard	Title of Standard or Interpretation	Effective for reporting periods beginning on or after	Early Application?	31 Mar 2024 year end	30 Jun 2024 year end	30 Sep 2024 year end	31 Dec 2024 year end	31 Mar 2025 year end
IFRS 17	Insurance Contracts	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IFRS 17	Amendments to IFRS 17 Insurance Contracts	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IAS 8	Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IAS 1	Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IAS 12	International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IFRS for SMEs	International Tax Reform – Pillar Two Model Rules (Amendments to the IFRS for SMEs Standard)	1 January 2023	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in mandatory effect	Already in mandatory effect
IAS 1	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2024	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IAS 1	Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IFRS 16	Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IAS 7 and IFRS 7	Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IAS 21	Lack of Exchangeability (Amendments to IAS 21)	1 January 2025	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	1 January 2026	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
Various Standards	Annual Improvements to IFRS Accounting Standards – Volume 11	1 January 2026	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7)	1 January 2026	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 19	Subsidiaries without Public Accountability: Disclosures	1 January 2027	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective

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

Effective from 1 January 2023

The Standards and Amendments discussed on pages 6 to 15 are effective for reporting periods beginning on or after 1 January 2023.

The Standard and Amendments are:

- IFRS 17 '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)
- Deferred Tax Relating to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)
- International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)
- International Tax Reform – Pillar Two Model Rules (Amendments to the IFRS for SMEs Standard)

IFRS 17 'Insurance Contracts'

In May 2017, after more than 20 years in development, the International Accounting Standards Board (IASB) published IFRS 17 'Insurance Contracts'. This lengthy completion period reflects 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 'Financial Instruments' 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. It is not an industry-specific standard. It applies to any reporting entity that issues insurance contracts, so great care is needed to ensure the requirements set out in IFRS 17 are not overlooked.

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 any contract liability covered by consideration during the reporting period.

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 or loss earned from providing insurance coverage
- the financial result, which captures:
  - investment income from managing financial assets
  - insurance finance expenses arising from insurance obligations – this includes 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 reinsurance 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 generally accepted accounting principles (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 'Presentation of Financial Statements' 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.

Impact of IFRS 17 on non-insurance entities

IFRS 17 does not constitute industry-specific guidance. Instead, it specifies principles which should be applied to contracts that meet the definition of an insurance contract in IFRS 17, irrespective of the legal and regulatory status of their issuer.

Non-insurers therefore need to be alert to the possibility that contracts they have issued (or may issue in the future) might now fall within the scope of the new Standard. This may result in significant changes to the accounting.

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 was to address these concerns and help entities to more easily transition and implement the Standard. These amendments are also effective for reporting periods beginning on or after 1 January 2023.

'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 1 January 2021 to annual reporting periods beginning on or after 1 January 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

In 2020, the IASB 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 until 1 January 2023.

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

During 2021, the IASB then 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 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, specifically as it relates to non-insurance entities, please refer to our detailed publication entitled 'Insights into IFRS 17 – Impact on non-insurance entities'. This publication sets out the key factors that non-insurance entities will need to consider when applying IFRS 17 for the first time. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **https://www.grantthornton.global/en/insights/articles/ifrs-17-insights/ifrs-17---impact-on-non-insurance-entities/**

Commercial significance

Some Number of entities affected

IFRS 17 is a Standard about insurance contracts issued by any reporting entity. It is not a Standard drafted specifically 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.

High Impact on affected entities

IFRS 17 fundamentally changes the accounting for insurance contracts. It has 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 apply 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.'

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

Many Number of entities affected

The amendments affect all entities with leases accounted for under IFRS 16 'Leases' and any decommissioning obligations.

Low 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.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021 the IASB issued amendments to IAS 8 to clarify how reporting entities should distinguish changes in accounting policies from changes in accounting estimates.

The amendments
The amendments include a definition of 'accounting estimates' as well as other amendments to IAS 8 that will help entities distinguish changes in accounting policies from changes in accounting estimates.

This distinction between these two types of changes is important as changes in accounting policies are normally applied retrospectively to past transactions and events, whereas changes in accounting estimates are applied prospectively to future transactions and events.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Commercial significance

Many Number of entities affected

The amendments affect all entities that could potentially have a change in accounting estimate or change in accounting policy.

Medium Impact on affected entities

These amendments could have the potential to have a significant impact if an entity has incorrectly concluded a transaction is a change in accounting estimate rather than a change in accounting policy or vice versa.

'In February 2021 the IASB issued amendments to IAS 8 to clarify how reporting entities should distinguish changes in accounting policies from changes in accounting estimates.'

Disclosure of Accounting Policies (Amendments to IAS 1 and Practice Statement 2)

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 'Making Materiality Judgements' aiming to improve accounting policy disclosures.

The amendments
The amendments to IAS 1 require reporting entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

These amendments were issued as a result of feedback received indicating that reporting entities needed more guidance when determining what accounting policy information should be disclosed.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Commercial significance

Many Number of entities affected

The amendments affect all reporting entities when disclosing their accounting policies.

Medium Impact on affected entities

These amendments impact what accounting policies are disclosed which could affect investors' decisions.

'In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 'Making Materiality Judgements' aiming to improve accounting policy disclosures.'

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

In May 2023, the IASB issued amendments to IAS 12 to give entities temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments introduce both a temporary exception and some targeted disclosure requirements.

The OECD published its Pillar Two Model Rules in December 2021 to ensure that large multinational companies (ie groups with revenue of EUR750 million or more in two of the last four years) would be subject to a minimum 15% tax rate. The reform is expected to apply in most jurisdictions for accounting periods starting on or after 1 January 2024.

However, while the reaction from jurisdictions around the world to implement the changes has been positive, there have been major stakeholder concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of these rules. Therefore, the IASB has acted quickly to address these concerns and provide direction on what they expect entities to disclose.

The amendments

The amendments:

- provide a temporary recognition exception to accounting for deferred taxes arising from the implementation of the international tax reform (Pillar Two Model Rules). The aim of this exception is to provide some consistency in applying IAS 12 when preparing financial statements as the rules are phased in.
- additional disclosure requirements – these are targeted at a reporting entity's exposure to income taxes arising from the OECD reforms in periods in which the Pillar Two Model legislation is enacted or substantively enacted but not yet in effect. The aim of these disclosures is to help investors with their understanding of the reporting entity's exposure to these tax reforms, particularly before any domestic offshore legislation takes effect. The amendments provide guidance on how this information could be disclosed to meet the above objective.

Effective date and transition

Entities are able to benefit from the temporary exception immediately as soon as the amendments are published but in providing this exemption they are required to provide the disclosures to investors for annual reporting periods beginning on or after 1 January 2023.

Commercial significance

Some Number of entities affected

The Pillar Two Rules only apply to large multinational companies which operate in low-tax jurisdictions.

Medium Impact on affected entities

The amendments will provide a significant saving to reporting entities in terms of the time, cost and effort that will be required to assess the accounting implications associated with the tax consequences arising from the implementation of the Pillar Two Model Rules.

International Tax Reform – Pillar Two Model Rules (Amendments to the IFRS for SMEs)

In September 2023, the IASB amended the IFRS for SMEs for the Pillar Two Model Rules. The amendments are based on the amendments to IAS 12 issued in May 2023, and address the impacts of the introduction of the OECD Pillar Two Model Rules. The amendments introduce a temporary exception and targeted disclosure requirements.

Following similar amendments to IAS 12, issued in May 2023, the IASB has issued these 'out-of-cycle' amendments to the IFRS for SMEs to provide direction on what they expect entities to disclose.

The amendments

The amendments:

- introduce a temporary recognition exception for entities applying the IFRS for SMEs from recognising deferred tax assets and liabilities arising from Pillar Two Model Rules, and from the related disclosures on deferred tax assets and liabilities that would otherwise be required.
- provide clarification on the disclosures required by entities applying the IFRS for SMEs. This includes disclosing the current tax expense/income arising from Pillar Two Model Rules, and a statement that it has applied the exemption from recognising deferred tax balances relating to Pillar Two Model Rules.

Effective date and transition

Entities can benefit from this temporary exception immediately and are required to provide the disclosures set out in the amendments for reporting periods beginning on or after 1 January 2023.

Commercial significance

Few Number of entities affected

The Pillar Two Rules only apply to large multinational companies, the majority of which will apply full IFRS Accounting Standards in their financial reporting.

Medium Impact on affected entities

The amendments will provide a significant saving to reporting entities scoped into the rules in terms of the time, cost and effort that will be required to assess the accounting implications associated with the tax consequences arising from the implementation of the Pillar Two Model Rules.

'The amendments are based on the amendments to IAS 12 issued in May 2023, and address the impacts of the introduction of the Organisation for Economic Co-operation and Development's (OECD) Pillar Two Model Rules.'

Effective from 1 January 2024

The Amendments discussed on pages 17 to 20 are effective for reporting periods beginning on or after 1 January 2024.

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:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

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 its previously issued guidance and rectify the above issue.

The amendments

The amendments elaborate on guidance set out 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, the IASB decided to give entities more time to implement any classification changes that may result from the above amendments. As such, in October 2022, the IASB changed the effective date of the amendments and they are now effective from 1 January 2024.

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

Many — Number of entities affected

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

Medium — 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.

Non-current Liabilities with Covenants (Amendments to IAS 1)

In November 2022, the IASB issued some amendments to IAS 1 that aim to improve disclosures about long-term debt with covenants.

IAS 1 requires an entity to classify debt as current if it is unable to avoid settling the debt within 12 months after the reporting date. However, the entity may need to comply with covenants during that same period, which may question whether the debt should be classified as non-current. For example, a long-term debt may become current if the entity fails to comply with the covenants during the 12-month period after the reporting date.

The amendments
The amendments set out in 'Non-current Liabilities with Covenants (Amendments to IAS 1)' state that at the reporting date, the entity does not consider covenants that will need to be complied with in the future when considering the classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements.

The IASB wants these amendments to enable investors to understand the risk that such debt could become repayable early and therefore improving the information being provided on the long-term debt.

The amendments are applicable for reporting periods beginning on or after 1 January 2024, with early application permitted. If the amendments are applied in an earlier period, this should be disclosed. The effective date coincides with that of the amendments to IAS 1 previously issued in 2020 'Classification of Liabilities as Current or Non-current'. Refer to page 17 for details of these amendments.

Commercial significance

Many Number of entities affected

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

Medium 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.

'IAS 1 requires entities to classify debt as current if the entity is unable to avoid settling the debt within 12 months after the reporting date.'

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

In September 2022, the IASB issued amendments to IFRS 16, adding requirements for accounting for a sale and leaseback after the date of the transaction.

The amendments
The IASB has now issued additional guidance in IFRS 16 on accounting for sale and leaseback transactions. Previously IFRS 16 only included guidance on how to account for sale and leaseback transactions at the date of the transaction itself. However, the Standard did not specify any subsequent accounting when reporting on the sale and lease back transaction after that date.

As a result, without further requirements, when the payments include variable lease payments there is a risk that a modification or change in the leaseback term could result in the seller-lessee recognising a gain on the right of use they retained even though no transaction or event would have occurred to give rise to that gain.

Consequently, the IASB decided to include subsequent measurement requirements for sale and leaseback transactions to IFRS 16.

The amendments are applicable for reporting periods beginning on or after 1 January 2024, with early application permitted. If the amendments are applied in an earlier period, this should be disclosed.

Commercial significance

Some Number of entities affected

The amendments affect entities accounting for a sale and leaseback transaction.

Low Impact on affected entities

These amendments would only impact the subsequent accounting for a sale and leaseback transaction. While these amounts could be material, in most cases it is unlikely to have a significant impact.

‘In September 2022, the IASB issued amendments to IFRS 16, adding requirements for accounting for a sale and leaseback after the date of the transaction.’

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

In May 2023, the IASB amended IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures' through the increase of disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments
The amendments require additional disclosures that complement the existing disclosures in these two Standards. They require entities to disclose:

- the terms and conditions of the arrangement
- the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities are included on the statement of financial position
- ranges of payment due dates
- liquidity risk information.

These additional disclosure requirements address investors wanting more visibility around supplier finance arrangements, which in some jurisdictions around the world are better known as reverse factoring arrangements.

Effective date and transition
The amendments to IAS 7 and IFRS 7 are effective for reporting periods commencing on or after 1 January 2024.

Commercial significance

Some Number of entities affected

The amendments apply to all entities that engage in supplier financing arrangements.

Medium Impact on affected entities

The amendments will require new disclosures to be prepared with more detailed information provided on their supplier finance arrangements. Depending on the complexity or volume of such arrangements this may result in significantly more disclosures.

'In May 2023, the IASB amended IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures' through the increase of disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.'

Effective from 1 January 2025

The Amendment discussed on page 22 is effective for reporting periods beginning on or after 1 January 2025.

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:

- Lack of Exchangeability (Amendment to IAS 21)

Lack of Exchangeability (Amendments to IAS 21)

In August 2023, the IASB amended IAS 21 'The Effects of Changes in Foreign Exchange Rates' to clarify the approach that should be taken by preparers of financial statements when they are reporting foreign currency transactions, translating foreign operations or presenting financial statements in a different currency, and there is a long-term lack of exchangeability between the relevant currencies.

The amendments

The amendments include both updates to guidance to assist preparers in correctly accounting for foreign currency items and increases the level of disclosure required to help users understand the impact of a lack of exchangeability on the financial statements. The amendments:

- introduce a definition of whether a currency is exchangeable, and the process by which an entity should assess this exchangeability. This includes application guidance included in a new Appendix A
- provide guidance on how an entity should estimate a spot exchange rate in cases where a currency is not exchangeable
- require additional disclosures in cases where an entity has estimated a spot exchange rate due to a lack of exchangeability, including the nature and financial impact of the lack of exchangeability, and details of the spot exchange rate used and the estimation process.

The additional disclosure requirements provide useful information about the additional level of estimation uncertainty, and risks arising for the entity due to the lack of exchangeability.

Effective date and transition

The amendments to IAS 21 are effective for reporting periods on or after 1 January 2025, with earlier application permitted.

Commercial significance

Few Number of entities affected

These amendments only affect entities that are required to report foreign currency transactions where there is a long-term lack of exchangeability between currencies.

Medium Impact on affected entities

Affected entities may be required to adjust the carrying value of any monetary items that have been translated from a foreign currency which is not exchangeable, and will be required to provide additional disclosures on how the new spot rate has been determined.

'In August 2023, the IASB amended IAS 21 'The Effects of Changes in Foreign Exchange Rates' to clarify the approach that should be taken by preparers of financial statements.'

Effective from 1 January 2026

The Amendments discussed on pages 24 to 29 are effective for reporting periods beginning on or after 1 January 2026.

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:

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)
- Annual Improvements to IFRS Accounting Standards – Volume 11
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7)

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

In May 2024, the IASB amended IFRS 9 and IFRS 7, following a post-implementation review (PIR) of IFRS 9.

The IASB's PIR of the classification and measurement requirements in IFRS 9 and the related requirements in IFRS 7 concluded that overall, the requirements set out in these two Standards can be applied consistently and they also provide useful information to users of the financial statements. However, the PIR process did reveal some areas that could be improved and they included:

- accounting for the settlement of a financial asset or liability using an electronic payment system, and
- applying the requirements for assessing contractual cash flow characteristics to financial assets with features related to environmental, social, and governance (ESG) matters.

To address these matters and to improve clarity and understanding, the IASB issued amendments to the classification and measurement of financial instruments to promote consistency.

The amendments

Derecognition of financial instruments when an electronic payment system is used

New guidance has been added to IFRS 9 to specifically address when a financial liability should be derecognised when it is settled by electronic payment. Previously, an entity was required to wait until the settlement date of the transaction to discharge the liability, but the new guidance allows for the liability to be discharged before the settlement date if:

- the payment cannot be withdrawn, stopped or cancelled
- the entity no longer has the practical ability to access the cash, and
- settlement risk associated with the electronic payment system is insignificant.

Classification of financial assets

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

IFRS 9 has always required an entity to consider the characteristics of its contractual cash flows to appropriately classify a financial asset. The amendments provide some additional guidance to help an entity assess whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement. Given the importance of this determination, new guidance has been provided, including examples of contractual cash flows that are solely payments of principal and interest on the principal outstanding, to ascertain whether or not the arrangements would be consistent with a basic lending arrangement.

IFRS 9 also describes certain situations where financial assets may have contractual cash flows that are described as principal and interest, but the payments made do not actually represent a basic lending arrangement. This may be the case if a financial asset has non-recourse features. The amendments to IFRS 9 provide a clearer definition of a non-recourse feature, which is now outlined as a financial asset where the entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.

Contractually linked instruments

IFRS 9 has also been updated to provide additional guidance to clarify the characteristics of contractually linked instruments as well as the definition of the underlying pool used to assess whether a transaction contains contractually linked instruments. The amendments also specify that transactions that contain multiple debt instruments are not automatically contracts with multiple contractually linked instruments, and so they must be carefully assessed before a final determination is made.

Amendments made to the disclosures of financial instruments

Investments in equity instruments designated at fair value through other comprehensive income

The amendments to IFRS 7 add new required disclosures for any investments in equity instruments designated at fair value through other comprehensive income. These include disclosures of the fair value gain or loss presented in other comprehensive income for the period, showing separately the fair value gain or loss related to investments derecognised or held, as well as the transfer of cumulative gain or loss within equity related to derecognised investments.

Contractual terms that could change the amount of contractual cash flow based on contingent events

IFRS 7 has been amended to require additional new disclosures for each class of financial asset measured at amortised cost or fair value through other comprehensive income, as well as financial liabilities measured at amortised cost. When there are contractual terms that could change the contractual cash flows based on the outcome of a contingent event not directly related to basic lending risk, an entity must now disclose certain information surrounding the related contingent event as well as possible changes to cash flows and the gross carrying value and amortised cost of the related financial asset or liability. These new disclosures are also now reflected in IFRS 19.

Effective date and transition

The amendments are effective from annual reporting periods beginning on or after 1 January 2026. Early adoption of these Standards are permitted, with a choice to either apply all amendments at the same time and disclose that fact or to apply only the amendments to the Application Guidance sections for the earlier period and disclose that fact.

An entity is required to apply these amendments retrospectively. However, an entity is not required to restate prior periods to reflect the application of the amendments unless it can clearly demonstrate that hindsight has not been used to make those changes.

Commercial significance

Many Number of entities affected

Specific elements of the amendments may not be relevant to all entities, however given the range of issues being addressed, many entities will need to consider the updated guidance on these matters.

Medium Impact on affected entities

The amendments to IFRS 9 largely provide clarification of existing requirements, rather than new requirements. Given this, the impacts are likely to be lower except in situations where existing treatment by preparers is now more clearly incorrect. The amendments to IFRS 7 will require additional disclosures which preparers should be aware of.

Annual Improvements to IFRS Accounting Standards – Volume 11

In July 2024, the IASB published 'Annual Improvements to IFRS Accounting Standards – Volume 11'. The publication is a collection of amendments to IFRS Accounting Standards discussed by the IASB during the current project cycle for annual improvements. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRS Accounting Standards that will not be included as part of any other project.

A summary of the issues addressed is set out below:

Annual Improvements to IFRS Accounting Standards

Standard affected	Subject	Summary of the changes
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	Hedge accounting by a first-time adopter	Amends paragraphs B5–B6 of IFRS 1: • to improve consistency with the requirements in IFRS 9, and • to add cross-references to improve the understandability of IFRS 1.
IFRS 7 'Financial Instruments: Disclosures'	Gain or loss on derecognition	Amends paragraph B38 of IFRS 7: • to replace an obsolete reference to paragraph 27A of IFRS 7 with a reference to paragraphs 72–73 of IFRS 13 'Fair Value Measurement', and • to replace the phrase 'inputs that were not based on observable market data' with 'unobservable inputs' to make the wording consistent with the wording in paragraph 72 of IFRS 13.
Guidance on implementing IFRS 7 'Financial Instruments: Disclosures'	Disclosure of deferred difference between fair value and transaction price	Amends paragraph IG14 to make its wording consistent with the requirements in paragraph 28 of IFRS 7 and with the wording and concepts in IFRS 9 and IFRS 13.
	Introduction and credit risk disclosures	Improves previously issued guidance by: • amending paragraph IG1 to clarify that the guidance does not necessarily illustrate all the requirements in the referenced paragraphs of IFRS 7, and • amending paragraph IG20B to simplify the explanation of the aspects of the requirements that are not illustrated.

'The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRS Accounting Standards that will not be included as part of any other project.'

Annual Improvements to IFRS Accounting Standards

Standard affected	Subject	Summary of the changes
IFRS 9 'Financial Instruments'	Derecognition of lease liabilities	Amends paragraph 2.1(b)(ii) of IFRS 9 to add a cross-reference to paragraph 3.3.3 of IFRS 9 to clarify that when a lease liability has been extinguished in accordance with IFRS 9, the lessee is required to apply paragraph 3.3.3 and recognise any resulting gain or loss in profit or loss.
	Transaction price	Amends paragraph 5.1.3 of IFRS 9 to replace 'their transaction price (as defined in IFRS 15)' with 'the amount determined by applying IFRS 15' due to an inconsistency between 5.1.3 and the requirements in IFRS 15. As a result, IFRS 9 Appendix A was also amended to remove the term.
IFRS 10 'Consolidated Financial Statements'	Determination of a 'de facto agent'	Amends paragraph B74 of IFRS 10 'Consolidated Financial Statements' to use less conclusive language and to clarify that the relationship described in paragraph B74 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de facto agent.
IAS 7 'Statement of Cash Flows'	Cost method	Amends paragraph 37 of IAS 7 to replace the term 'cost method' with 'at cost'.

Effective date

The amendments are effective from annual reporting periods beginning on or after 1 January 2026, with early application permitted.

Commercial significance

Few Number of entities affected

The amendments make changes to relatively narrow areas within IFRS Accounting Standards where diversity of practice previously existed.

Low Impact on affected entities

The amendments address necessary, but non-urgent, minor updates. Therefore, by their nature the commercial significance can be expected to be low.

Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7)

In December 2024 the IASB issued amendments to IFRS 9 and IFRS 7 to address issues with accounting for contracts associated that involve renewable energy. The amendments are also reflected in IFRS 19 'Subsidiaries without Public Accountability: Disclosures'.

Contracts that reference nature-dependent electricity production, also known as power purchase agreements (PPAs), are contracts to buy and take delivery of electricity that is produced from nature-dependent sources. As generation of renewable energy has increased, so has the number of PPAs.

The IFRS Interpretations Committee (IFRIC) received requests for clarification on how IFRS 9 should be applied to these contracts, and following stakeholder feedback the IASB decided to add a narrow-scope standard-setting project to its work plan to address these issues.

The amendments

The changes made to IFRS 9

The amendments made to IFRS 9 include detail on which PPA contracts can be used in hedge accounting, and the specific conditions allowed in such hedge relationships.

The amendments specifically target the use of PPAs as designated hedging instruments in qualifying hedge relationships. The amendments specify that for such a hedging relationship, the hedged item may be designated as a variable nominal amount of forecast electricity transactions, which is aligned with the variable amount of electricity that is expected to be delivered under a PPA designated as the hedging instrument.

In the application guidance, the amendments set out that some PPA contracts will expose entities to volume risk, the risk that they may have to buy electricity during a window in which they cannot use the electricity, or sell electricity that they cannot use within a specified period of time. The amendments clarify that these features are not necessarily inconsistent with a contract held in accordance with the entity's expected usage requirements. The entity needs to determine in these situations whether or not they are still a net purchaser of electricity, and in making this determination they need to consider all reasonable and supportable information about past, present and future electricity transactions.

All of the existing hedge accounting requirements included in IFRS 9 still apply.

'Contracts that reference nature-dependent electricity production, also known as power purchase agreements (PPAs), are contracts to buy and take delivery of electricity that is produced from nature-dependent sources.'

The changes made to IFRS 7

The amendments made to IFRS 7 introduce some new disclosure requirements for contracts referencing nature-dependent electricity as defined in the amendments to IFRS 9.

For such contracts, an entity is now required to disclose the following:

- Information about contractual features that expose the entity to variability in the underlying amount of electricity, and the risk that the entity may be required to purchase electricity when they are unable to use it
- Information about unrecognised commitments from such contracts at the reporting date including estimated future cash flows and a qualitative assessment of whether a contract may become onerous, and
- Qualitative and quantitative information about the effects of these contracts on the entity's financial performance for the reporting period. This includes information on the costs of purchasing electricity under the contract and how much was unused, the proceeds from the sale of unused electricity and the cost of any purchases of electricity made to offset sales of unused electricity.

IFRS 19 is also amended to include these same requirements. There will be no relief for entities applying IFRS 19 that are parties to these types of contracts.

Effective date and transition

The amendments are effective for periods starting on or after 1 January 2026, with early application permitted. The amendments to IFRS 7 must be applied at the same time as the amendments to IFRS 9.

The requirements related to identifying in-scope PPAs must be applied retrospectively in accordance with IAS 8 using facts and circumstances at the date of initial application of the amendments. The amendments related to designated hedging relationships should be applied prospectively to new hedging relationships designated on or after the date of initial application.

Commercial significance

Few

Number of entities affected

The scope of these amendments is narrow and will primarily be relevant for larger entities with well-developed finance and risk teams who are already familiar with the hedge accounting requirements of IFRS 9.

Low

Impact on affected entities

The amendments will provide additional guidance on how entities can use PPAs in hedge accounting. This will have some impact but is unlikely to significantly change entities' current risk management and accounting strategies.

Effective from 1 January 2027

The Standards discussed on pages 31 to 37 are effective for reporting periods beginning on or after 1 January 2027.

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

- IFRS 18 ‘Presentation and Disclosure in Financial Statements’
- IFRS 19 ‘Subsidiaries without Public Accountability: Disclosures’

IFRS 18 ‘Presentation and Disclosures in Financial Statements’

In April 2024, the IASB published its first new standard since 2017. The new standard, IFRS 18 ‘Presentation and Disclosure in Financial Statements’ replaces IAS 1 and will impact every reporting entity that currently uses IFRS Accounting Standards.

The release of the Standard is the final stage of the Primary Financial Statements project, which came about due to the lack of detailed requirements in IAS 1 for the following areas:

- the classification of income and expenses in the statement of profit or loss
- the presentation of subtotals in the statement of profit or loss, and
- the aggregation and disaggregation of information presented in the primary financial statements or disclosed in the notes.

This led to diversity in practice as entities defined their own subtotals and performance measures, which made comparison of financial performance between entities difficult for investors.

Scope

IFRS 18 will need to be applied by every entity that prepared financial statements in accordance with IFRS Accounting Standards.

The key changes in the new Standard

Overall, the majority of changes made in IFRS 18 impact the statement of profit or loss and notes to the financial statements, but there are also limited changes to specific requirements that are set out in IAS 7 ‘Statement of Cash Flows’. Only minimal changes were made to the disclosures required for the statement presenting comprehensive income, the statement of changes in equity and the statement of financial position. While much has been carried forward from IAS 1, there are some key changes that reporting entities need to be aware of.

Changes to presentation requirements in the statement of profit or loss

The main change introduced by IFRS 18 is to the way in which reporting entities will structure their statement of profit or loss. Firstly, the Standard introduces two new defined subtotals:

- Operating profit, and
- Profit before financing and income taxes.

These new required subtotals are intended to increase comparability by ensuring that information presented for investors is consistent across different entities. Additionally, the Standard requires an entity to classify all income and expenses into one of the following five categories:

- Operating
- Investing
- Financing
- Income taxes, and
- Discontinued operations.

‘IFRS 18 will need to be applied by every entity that prepared financial statements in accordance with IFRS Accounting Standards.’

The investing category includes income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries, cash and cash equivalents, and any other assets (such as cash and cash equivalents) that generate returns separately from the entity's other resources.

The financing category distinguishes between transactions that are solely for the purpose of raising finance, and those that are not. Income and expenses from all liabilities that result solely from the raising of finance are included in this category, along with some elements of interest income or expense recognised by applying other IFRS Accounting Standards. This category, together with the subtotal for profit before financing and income taxes enables investors to assess the reporting entity's performance before the effects of its financing arrangements.

The income taxes and discontinued operations categories include income and expenses resulting from the application of IAS 12 and any related foreign exchange differences, and IFRS 5 'Non-current assets held for sale and discontinued operations' respectively.

Finally, the operating category includes all other items of income and expense that are not allocated to one of the other four categories. It is a default category, so it is important to note this category will include income and expenses from an entity's main business activities, regardless of whether the income or expenses are volatile or unusual. The operating profit subtotal provides not only a measure of past performance, but also a starting point for forecasting an entity's future cash flows.

Foreign exchange differences

IFRS 18 requires foreign exchange differences to be classified in the same category of the statement of profit or loss as the income and expenses from items that gave rise to the foreign exchange differences. This means, for example, that foreign exchange differences on bank loans would be classified in the financing category. However, if classifying foreign exchange differences this way would involve undue cost or effort, an entity is permitted to classify them in the operating category. Careful attention should be given to the specific requirements included in this Standard for classifying income and expenses from hybrid contracts and fair value gains and losses on derivatives.

Entities with specified main business activities

When a reporting entity has assessed it invests in assets as its main business activity, income and expenses are split between the investing category and operating category, depending on how the underlying assets are accounted for. For all assets accounted for using the equity method, income and expenses are included in the investing category, and for all other assets income and expenses are included in the operating category.

When a reporting entity has assessed it provides financing to customers as its main business activity, it must now classify income and expenses from liabilities relating to providing such finance in the operating category.

For reporting entities such as investment firms, financial institutions and insurers, many of their main business activities will fall into the investing or financing categories. Items of income and expenses for these activities will therefore need to be included in the operating category, and the assessment of which components should be included in each category may be challenging. Careful consideration of the requirements set out in the Standard is recommended.

The assessment of an entity's main business activities is therefore going to be a key judgement which may significantly impact the geography of where items appear in the statement of profit or loss. This is likely to prove particularly challenging for mixed groups and groups of reporting entities which provide multiple services.

New requirements to be included in the notes to the financial statements

The Standard also introduces new disclosures, in addition to those carried forward from IAS 1, to supplement the primary financial statements. They are:

- Management-defined performance measures, and
- Specified expenses by nature.

Management-defined performance measures

In order to address the significant diversity in practice currently seen when it comes to so-called ‘alternative performance measures’ and any non-GAAP performance measures, IFRS 18 introduces the concept of a ‘management-defined performance measure’ (MPM).

MPMs are subtotals of income and expenses other than those listed by IFRS 18 or specifically required by another IFRS, that an entity uses:

- in public communications outside financial statements, and/or
- to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole.

Alongside any MPMs that are disclosed, a reporting entity will also be required to disclose information including:

- a reconciliation between the MPM and the most directly comparable IFRS 18 subtotal, total or subtotal required by another IFRS
- a description of how the MPM communicates management’s view and how it is calculated
- an explanation of changes to the MPMs disclosed or to how any of the measures are calculated, and
- a statement indicating that measures used reflect management’s view of the financial performance of the entity as a whole and indicates that the measure may not always be directly comparable to any measures sharing similar labels and descriptions provided by other reporting entities.

These disclosures will be required for any measure that meets the definition of a MPM and when applicable and they must be included in a single note in the reporting entity’s financial statements. An important point to note is MPMs that are disclosed within a set a financial statements will subject to audit in the same way as the disclosure of any earnings per share amount is.

‘IFRS 18 introduces the concept of a ‘management-defined performance measure’ (MPM)’

Updated guidance for the aggregation and disaggregation of information

The Standard provides specific guidance to ensure that aggregation and disaggregation in the financial statements is consistent and provides investors with the information they need for analysis. The basic principles set out in IFRS 18 require entities to:

- aggregate or disaggregate items based on whether they share similar characteristics or have different characteristics
- ensure that the method of grouping items does not obscure material information or reduce understanding, and
- apply aggregation or disaggregation based on characteristics in both the primary financial statements and the notes to the financial statements.

Changes to how expenses in the operating category are presented

Consistent with IAS 1, IFRS 18 requires an entity to present in a structured and meaningful way its operating expenses based either on their nature or their function. This means some entities might decide to classify some expenses by nature and other expenses by function. The Standard requires entities that present expenses classified by function to also disclose the amount of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories included in each line in the operating category of the statement of profit or loss.

Consequential changes made to other standards

Consequential changes have been made to IAS 7 and this Standard now requires entities to use the operating profit total as defined in IFRS 18 as the starting point for reporting cash flows from operating activities when using the indirect method. In addition, the interest and dividend presentation alternatives that previously existed have also been removed to simplify practice and reduce diversity in preparation.

Elsewhere, IAS 33 'Earnings per Share' (EPS) requirements have been amended to permit an entity to disclose additional EPS information over and above reporting basic and diluted EPS amounts. However, additional amounts can only be included in the EPS calculation if the numerator is either a total or subtotal identified in IFRS 18 or an MPM. IAS 34 'Interim Financial Reporting' has also been updated to require disclosure of information about MPMs in interim financial statements and guidance is now provided on how subtotals should be dealt with in interim financial statements.

Effective date of IFRS 18

The Standard is effective from annual reporting periods beginning on or after 1 January 2027, allowing reporting entities and their auditors time to properly prepare for the transition to IFRS 18. Early adoption of the Standard is permitted. It is important to note, IFRS 18 must be applied retrospectively, so restatement of all comparative information is required when the Standard is adopted.


Grant Thornton
Get ready for IFRS 18
The new financial statements presentation and disclosure standard

For more information on the Standard, please refer to our publication 'Get ready for IFRS 18'. This publication provides a high-level overview of all of the new requirements of IFRS 18, along with some practical insights into the potential challenges that entities will face when applying this new Standard. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **https://www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-18/**

Commercial significance

Many Number of entities affected

Every entity that prepares financial statements in accordance with IFRS Accounting Standards will need to understand and apply IFRS 18.

High Impact on affected entities

Although on the surface some of these new requirements may seem straightforward, there may be some significant challenges to change existing record keeping and accounting systems and processes, as well as changes to the presentation of the financial statements. Entities should therefore not underestimate the challenges of adopting this Standard, and begin their transition journey sooner rather than later given the need to provide comparatives prepared on the same basis as those being presented in any reporting period commencing on or after 1 January 2027.

'The Standard is effective from annual reporting periods beginning on or after 1 January 2027, allowing reporting entities and their auditors time to properly prepare for the transition to IFRS 18.'

IFRS 19 ‘Subsidiaries without Public Accountability: Disclosures’

In May 2024, the IASB released IFRS 19 ‘Subsidiaries without Public Accountability: Disclosures’. The new Standard creates a reduced set of disclosures that certain in-scope entities can elect to apply instead of the disclosure requirements set out in other IFRS Accounting Standards. IFRS 19 will work alongside other standards, with eligible subsidiaries applying the measurement, recognition and presentation requirements set out in other IFRS Accounting Standards and the revised disclosures outlined in IFRS 19.

The release of this Standard is the final stage of the ‘Disclosure Initiative – Targeted Standards-level Review of Disclosures’ project, which came about due to subsidiaries struggling to meet the requirements for reporting information to their parent entity to be used in consolidated financial statements. When reporting to a parent that applies full IFRS Accounting Standards, subsidiaries must apply the recognition and measurement requirements in IFRS Accounting Standards. This creates difficult circumstances for entities that qualify to apply IFRS for Small and Medium-Sized Entities (SMEs) for their standalone reporting. IFRS for SMEs has fewer disclosure requirements than full application of IFRS; however, the recognition and measurement requirements differ to those of full IFRS Accounting Standards. As a result, some subsidiaries choose not to take advantage of the reduced disclosures for IFRS for SMEs as it results in additional accounting to align information reported to the parent entity with full IFRS recognition and measurement principles.

This new Standard aims to create a more attractive option for subsidiaries without public accountability. Eligible entities will now be able to elect to apply IFRS 19, which has the same recognition, measurement, and presentation principles as full IFRS Accounting Standards, but allows for specific reduced disclosures in most topic areas.

Scope

In order to apply IFRS 19, an entity must meet all of the following criteria at the end of its reporting period:

- is a subsidiary
- does not have public accountability, and
- has a parent that produces consolidated financial statements available for public use that comply with full application of IFRS Accounting Standards.

For purposes of applying IFRS 19, an entity has public accountability if:

- it has debt or equity instruments that are traded on a public market or is in the process of issuing such instruments, or
- holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary business activities.

Disclosure requirements

IFRS 19 includes reduced disclosures for almost all existing IFRS Accounting Standards, the details of which are specific to each impacted standard. To apply IFRS 19, entities will first apply the recognition, measurement, and presentation requirements in each applicable IFRS. The entity will then not apply the disclosure requirements in the applicable IFRS Accounting Standards but will instead refer to IFRS 19 for required disclosures.

Standards with no reduced disclosures

The IASB assessed each individual standard to determine whether to reduce disclosures and how best to do so while still meeting the fair presentation requirements and investor needs. The following Standards do not have reduced disclosure requirements under IFRS 19 and the disclosures set out in each Standard still apply:

- IAS 33 ‘Earnings per Share’
- IFRS 8 ‘Operating Segments’
- IFRS 17 ‘Insurance Contracts’

Subsidiaries that are eligible to apply IFRS 19 are not required to apply IAS 33 or IFRS 8 but may do so voluntarily. If either are applied, the full disclosures required by IAS 33 or IFRS 8 will apply.

Maintenance of IFRS 19

Due to the nature of IFRS 19, it will need to be amended whenever there are any new or amended disclosure requirements in other IFRS Accounting Standards. To ensure that IFRS 19 is always up to date, any proposed amendments to IFRS 19 will be included in an exposure draft for the corresponding new or amended IFRS.

Effective date of IFRS 19

The Standard is effective from annual reporting periods beginning on or after 1 January 2027, allowing eligible reporting entities and their auditors time to assess whether electing to apply IFRS 19 would benefit them.

Early adoption of the Standard is permitted. It is important to note that if an entity applies IFRS 19 in the current period but not in the period immediately preceding, comparative prior period information is required to be provided for amounts reported in the current period financial statements.

Commercial significance

Few

Number of entities affected

Many jurisdictions around the world already have their own reduced disclosure frameworks set out in the local GAAP so we do not expect there to be a significant number of entities applying this Standard.

Medium

Impact on affected entities

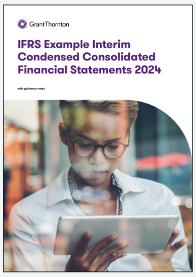
IFRS 19 still requires entities to apply the full recognition and measurement requirements of other IFRS Accounting Standards, however it does provide significant relief from the disclosure requirements of full IFRS Accounting Standards, which will be beneficial to entities applying this Standard.

'The new Standard creates a reduced set of disclosures that certain in-scope entities can elect to apply instead of the disclosure requirements set out in other IFRS Accounting Standards.'

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:

Reporting under IFRS – Example Interim Condensed Consolidated Financial Statements 2024

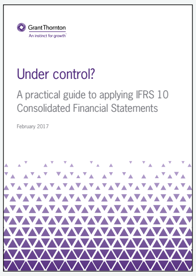


This publication illustrates the interim consolidated financial statements of a company that is an existing preparer of IFRS and produces half-yearly interim reports in accordance with IAS 34 at 30 June 2024. You can access this publication at **https://www.grantthornton.global/en/insights/articles/ifrs-example-interim-condensed-consolidated-financial-statements-2024/**.

Reporting under IFRS – Example Consolidated Financial Statements 2024

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 2024. You can access this publication at **www.grantthornton.global/en/insights/articles/ifrs-example-consolidated-financial-statements-2024/**.

Under control? A practical guide to applying IFRS 10 Consolidated Financial Statements

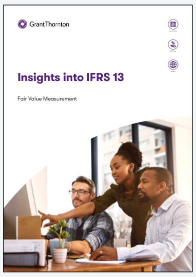


This publication aims to assist management in understanding the requirements of IFRS 10 on control and consolidation as well as identifying and addressing the key practical application issues and judgements. You can access this publication at **www.grantthornton.global/en/insights/articles/under-control-applying-ifrs-10/**.

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-ifric-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/ifrs-13/**.

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

You can access these publications at **www.grantthornton.global/en/insights/ifrs-16/**.

Insights into IAS 36


Grant Thornton

Insights into IAS 36

Overview of the Standard

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 to understand the requirements set out in IAS 36 'Impairment of Assets', 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
- Comparing recoverable amount with carrying amount
- Recognising impairment losses
- Reversing impairment losses
- Other impairment issues
- Presentation and disclosure

You can access these publications at **www.grantthornton.global/en/insights/articles/IFRS-ias-36/**.

Insights into IFRS 2


Grant Thornton

Insights into IFRS 2

What is IFRS 2?

Why use share-based payments

Share-based payments are increasingly popular, however IFRS 2 'Share-based Payment' is a Standard that remains not well understood. Our 'Insights into IFRS 2' series sets out the key considerations when applying the Standard. The key topics covered are:

- What is IFRS 2?
- Classification of share-based payment transactions and vesting conditions
- Basic principles of share-based payment arrangements with employees
- Equity-settled share-based payment arrangements with employees

Coming soon to this series:

- Group share-based payment arrangements with employees
- Modifications and cancellation of share-based payment arrangements with employees
- Cash-settled share-based payment arrangements with employees
- Employee share-based payment arrangements with settlement alternatives
- Presentation and disclosure requirements
- Share-based payments with non-employees

You can access these publications at **www.grantthornton.global/en/insights/articles/ifrs-2-insights/insights-into-ifrs-2/**.

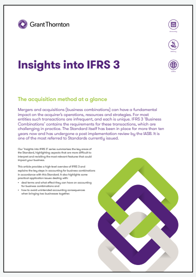
Insights into IFRS 8

Our 'Insights into IFRS 8' series considers some key implementation issues and includes interpretational guidance in certain problematic areas. We also include several examples illustrating the Standard's requirements. The key topics covered are:

- Principles in brief
- Identifying operating segments
- Aggregation of operating segments
- Reportable segments
- Segment information to be disclosed
- Entity wide disclosures
- Other application issues and Standards involving operating segments
- Disclosures for annual financial statements
- Disclosures for interim financial statements

You can access these publications at **www.grantthornton.global/en/insights/articles/ifrs-8/insights-into-ifrs-8/**.

Insights into IFRS 3



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

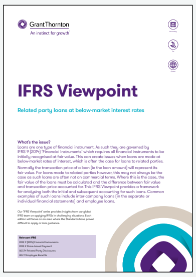
- The acquisition method at a glance
- Identifying a business combination
- Identifying the acquirer
- Identifying the acquisition date
- The definition of a business
- Reverse acquisitions explained
- Reverse acquisitions in the scope of IFRS 3
- Recognition principles
- How are the identifiable assets and liabilities measured?
- Specific recognition and measurement provisions
- Recognising and measuring non-controlling interest
- Consideration transferred
- Determining what is part of a business combination transaction

Coming soon to this series:

- Recognising and measuring goodwill or gain from a bargain purchase
- Accounting after the acquisition date
- Disclosures under IFRS 3: Understanding the requirements
- Accounting when the business combination is incomplete at the reporting date

You can access these publications at **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/**.

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

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