Interim Reporting Updates

Financial Reporting Webinar Series

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Friday, 7 June 2024

With us today

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01 Amendments to IFRSs effective on 1.1.2024

Standards and amendments effective from 1 January 2024

Amendments to IFRS Standards:

- IAS 1 *Classification of Liabilities As Current or Non-Current*
- IFRS 16 *Lease Liability in a Sale and Leaseback*
- IAS 7 and IFRS 7 *Supplier Finance Arrangements*

January 2024

IFRS 18 Presentation and Disclosure in Financial Statements
(IAS 1 replacement)

IFRS 19 Subsidiaries without Public Accountability

Other amendments:

- IAS 21 *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*
- IFRS 9 and IFRS 7 *Classification and Measurement of Financial Instruments*

Beyond 2024

IAS 1 - current/non-current classification

Substance and existence

The right to defer settlement for at least 12 months after the reporting date must have substance and exist at the reporting date.

The requirement for the right to be ‘unconditional’ has been removed.

Loan arrangements subject to covenants

Only covenants with which the entity must comply on or before the reporting date affect classification of a liability at the reporting date.

A significant change from the previous requirements, which required testing of future covenants based on current balance sheet.

Expectations

Classification unaffected by expectations about whether an entity will exercise its right to defer settlement or settle early.

Disclosure required if management expects to settle it earlier than 12 months from the reporting date.

Settlement

Settlement of a liability includes the transfer to the counterparty of cash, equity instruments, and other assets or services.

Impacts, for example, classification of convertible debt

Loan arrangements subject to covenants - classification

An entity classifies a liability as non-current if it has the right to defer settlement of the liability for at least 12 months after the reporting date.

This right may be subject to the entity complying with conditions (covenants) specified in a loan arrangement.

Covenants with which an entity must comply after the reporting date (i.e. future covenants)

Do not affect current or non-current classification of liabilities

Covenants with which an entity must comply on or before the reporting date

Affect current or non-current classification of liabilities

Term loans subject to covenant tests

Fact pattern

- Five-year term loan, fully drawn down
- Loan includes a covenant requiring working capital (WC) ratio of 1.2 on 30 June 2024 and 1.5 on 30 June 2025
- Loan becomes repayable on demand if ratio is not met on specified covenant testing dates
- The WC ratio at 30 June 2024 is 1.3 and the company expects the ratio to be 1.4 at 30 June 2025

Question

How should the term loan be classified at 31 December 2024?

A: Current
B: Non-current

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Question

How should the term loan be classified at 31 December 2024?

A: Current

B: Non-current

New disclosures will apply

Modifying the fact pattern to revolving loan facilities

Fact pattern

- Five-year facility, fully drawn down as one-year loan
- Ability to roll over the loan is conditional on compliance with a covenant requiring working capital (WC) ratio of 1.2 on 30 June 2024 and 1.5 on 30 June 2025
- The WC ratio at 30 June 2024 is 1.3 and the company expects the ratio to be 1.4 at 30 June 2025

Question

How should the loan facility be classified at 31 December 2024?

A: Current
B: Non-current

Modifying the fact pattern to revolving loan facilities

Fact pattern

- Five-year facility, fully drawn down as one-year loan
- Ability to roll over the loan is conditional on compliance with a covenant requiring working capital (WC) ratio of 1.2 on 30 June 2024 and 1.5 on 30 June 2025
- The WC ratio at 30 June 2024 is 1.3 and the company expects the ratio to be 1.4 at 30 June 2025

Question

How should the loan facility be classified at 31 December 2024?

A: Current

B: Non-current

New disclosures will apply

Previously non-current convertible instruments may become current

Liabilities that can be settled in an entity's own shares **at any time** (e.g. convertible instruments)

Conversion option is an **equity instrument** under HKAS 32

Timing of share settlement does not affect the classification of the host liability

Conversion option is **not an equity instrument** under HKAS 32

Timing of share settlement affects the classification of the host liability

Change in practice!

Illustrative disclosure – amendments to IAS 1

4. Change in accounting policy[a]

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2023. The policy for recognising and measuring income taxes in the interim period is consistent with that applied in the previous interim period and is described in Note 11.

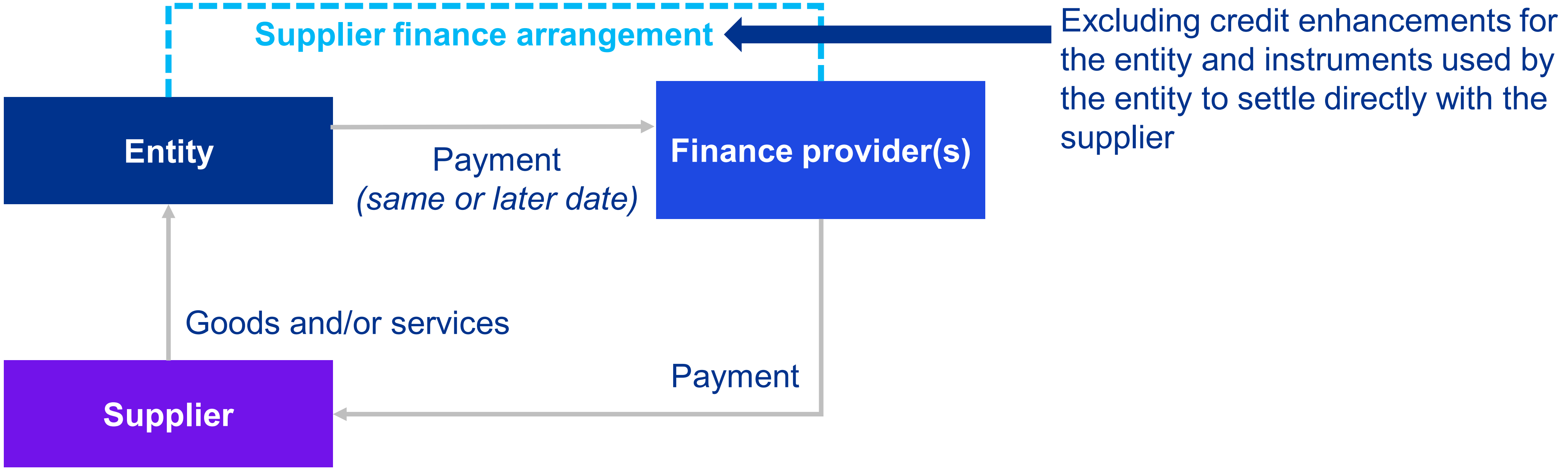
The Group has adopted *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants – Amendments to IAS 1*, as issued in 2020 and 2022. The amendments apply retrospectively for annual reporting periods beginning on or after 1 January 2024. They clarify certain requirements for determining whether a liability should be classified as current or non-current and require new disclosures for non-current liabilities that are subject to covenants within 12 months after the reporting period. This resulted in a change in the accounting policy for classification of liabilities that can be settled in a group entity's own shares (e.g. convertible notes issued by the Group). Previously, the Group ignored all counterparty conversion options when classifying the related liabilities as current or non-current. Under the revised policy, when a liability includes a counterparty conversion option that may be settled by a transfer of a group entity's own shares, the Group takes into account the conversion option in classifying the host liability as current or non-current except when it is classified as an equity component of a compound instrument. The Group's other liabilities were not impacted by the amendments.

Despite the change in policy, there is no retrospective impact on the comparative statement of financial position, as the Group had no outstanding convertible notes as at 31 December 2023. However, the Group issued new convertible notes during the six months ended 30 June 2024, some of which (series B) have conversion options that are classified as liabilities. As such, these convertible notes are impacted by the revised policy. The related liabilities are classified as current at 30 June 2024 because the conversion option can be exercised by the note holders within 12 months after the reporting period (in this case at any time). See Note 18(B).

The change in accounting policy will also be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2024.

[Illustrative disclosures - Guide to condensed interim financial statements (kpmg.com)](kpmg.com)

IAS 7 and IFRS 7 – Supplier finance arrangements



Source: https://kpmg.com/xx/en/home/insights/2021/12/supplier-finance-arrangements-exposure-draft-ias7-ifrs7.html?web=1

IAS 7 and IFRS 7 – Supplier finance arrangements

Also consider the IFRIC agenda decision in December 2020

Disclosure requirements:

- Terms and conditions of the arrangements
- Carrying amounts and associated line items of the financial liabilities that are part of the arrangements
- Carrying amounts and associated line items of the financial liabilities for which suppliers have already received payment from finance providers
- Range of payment due dates for both financial liabilities within and outside the arrangements
- Type and effect of non-cash changes in the carrying amounts of the financial liabilities
- Availability of the arrangements
- Concentration risk with finance providers

	End of reporting period 31.12.20X4
Carrying amount of financial liabilities	
Presented in trade and other payables[4]:	2,000
– of which suppliers have received payment from finance provider	1,500
Range of payment due dates[5]	
Liabilities that are part of the arrangements	XX-XY days after invoice date
Comparable trade payables that are *not* part of the arrangements	YY-YX days after invoice date

Source: https://kpmg.com/xx/en/home/insights/2021/12/supplier-finance-arrangements-exposure-draft-ias7-ifrs7.html?web=1

02 Latest IFRIC agenda decisions

Climate-related commitments- when to recognise a liability

Two tests must be met to recognise a liability in relation to a net-zero commitment

Test 1

Constructive obligation

Do you have a constructive obligation?

+

Test 2

Recognition criteria

Are the criteria to recognise a liability met?

=

Liability

Recognise a liability only when both tests are met

Test 1 – Do you have a constructive obligation?

At each reporting date, a company considers whether its public statement on climate-related commitments is sufficiently specific to create a constructive obligation.

Judgement involved. Based on specific facts and circumstances

Has a company made a public statement about its climate-related commitments?

No

Yes

Has the public statement created a valid expectation?

Consider …

Nature of the statement	Method of communication	Specificity and status of plans
Timing of actions to fulfil commitment	Publicly available evidence of progress	

No

No liability or contingent liability

Yes

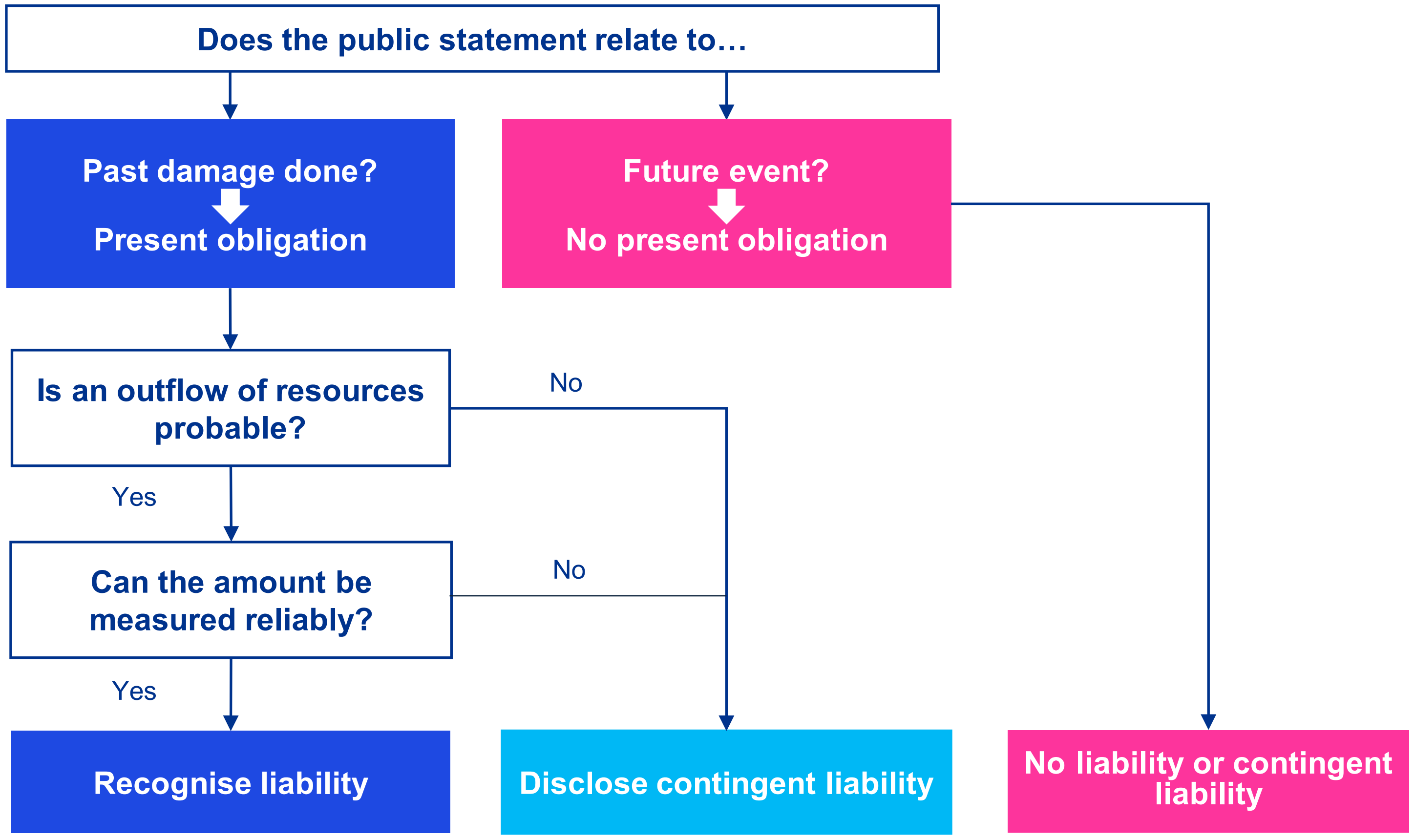
There is a constructive obligation

Go to Test 2

Test 2 – Are the criteria to recognise a liability met?

A company that has a constructive obligation recognises a liability only when all of the following criteria are met.

- There is a present obligation as a result of a past event (i.e. ‘damage done’).
- It is probable that an outflow of cash or other resources will be required to settle it.
- The company can reliably estimate the related amount.



03 Amendments to the classification and measurement requirements in IFRS 9 *Financial Instruments*

Amendments to the classification and measurement of financial instruments:SPPI assessment for financial assets

Effective date:
Annual reporting periods beginning on or after 1 Jan 2026; early application is permitted

Elements of interest in basic lending arrangements

- Consider what the lender is compensated for

Contingent features that change the timing and amount of contractual cash flows

- Whether the contractual cash flows, both before and after the contingent event, meet SPPI
- Whether the nature of the contingent event is related directly to a change in basic lending risks or costs
- If not …
- Whether the contractual cash flows are not significantly different from those of an identical financial asset without contingency

Assets with non- or limited recourse features

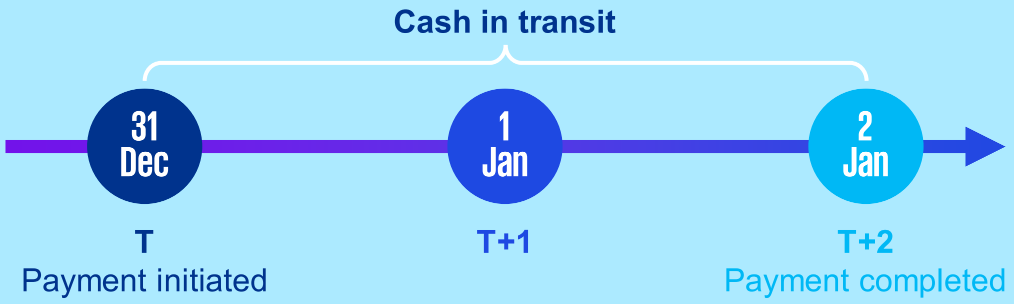
- Characteristics clarified: right to cash flows is limited to those arising from specified assets
- ‘Look through’ to the link between the underlying assets and the contractual cash flows

Contractually linked instruments

- Characteristics clarified: waterfall payment structure creates concentration of credit risk
- The underlying pool can have financial instruments outside the scope of IFRS 9

Effective date:
Annual reporting periods beginning on or after 1 Jan 2026; early application is permitted

Amendments to the classification and measurement of financial instruments: Electronic cash transfer



General requirements

Derecognise a financial liability on the settlement date (i.e. T+2) unless:

01 the optional exception for derecognition of financial liabilities is applied.

Exception for derecognition of financial liabilities

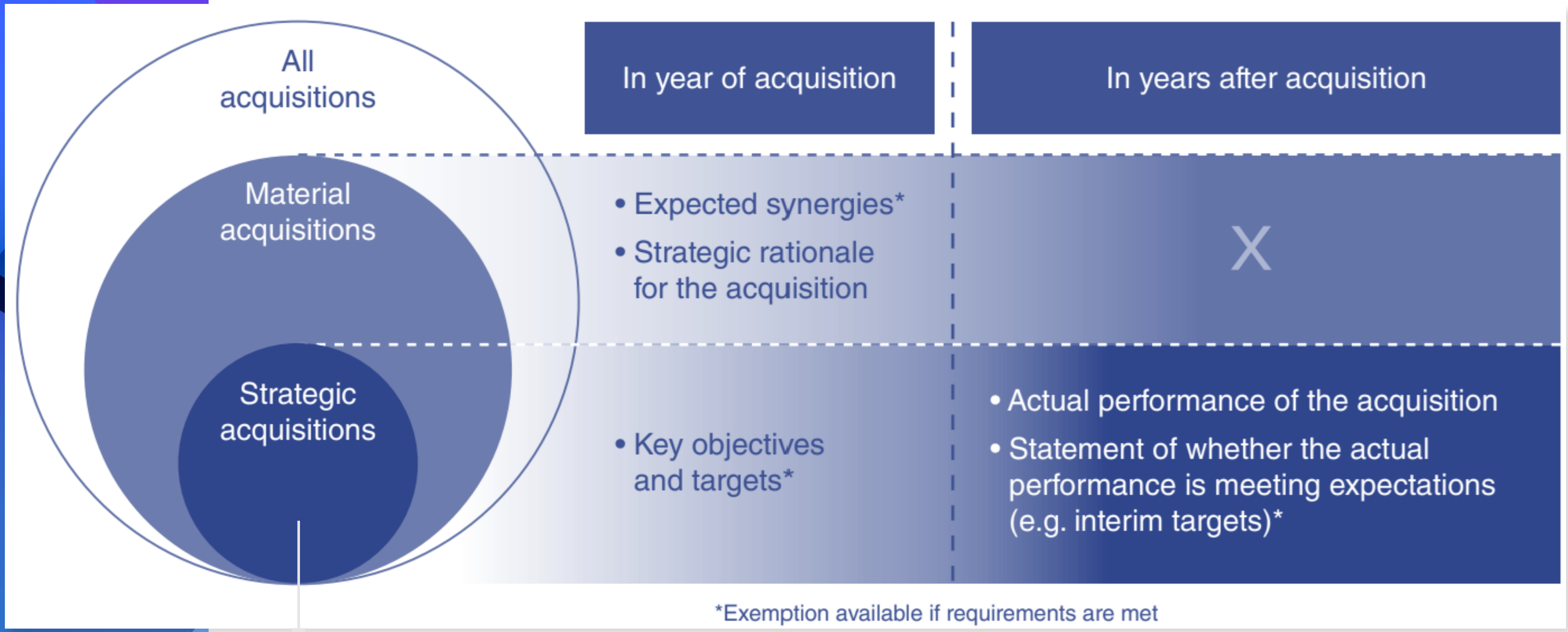
Election for each payment system to derecognise financial liabilities before the entity is released from its obligation, available only if:

01 the entity has no practical ability to withdraw, stop or cancel the payment instruction;

02 the entity has no practical ability to access cash to be used for settlement due to the payment instruction; and

03 the settlement risk associated with the payment system is insignificant.

Exposure draft of business combinations – disclosures, goodwill and impairment



Quantitative thresholds	Qualitative thresholds
Revenue, **operating profit** or **assets (including goodwill)** of acquired business constitutes at least 10% of the acquirer's comparative amounts	Business combination results in entity entering a **new major line of business or geographical area of operation**

Source: Emerging Economics Group meeting (IASB, May 2024)

Resources

Interim illustrative disclosures

Classifying liabilities as current or non-current

Classification of financial assets

Settlement by electronic payments

Net zero commitments

Webinar dates and topics for 2024

- 11 March – IASB Developments
- 22 April – Sustainability Reporting Developments
- 7 June – Interim Reporting Updates
- 2 August – TBC
- 11 October – TBC
- 5 December – Year-end Updates

For more details and access to our webinar series:

https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html

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