Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

Contents

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The drafting of the present issue was completed on 5 December 2024

Editorial

As 2024 year-end closing approaches, Beyond the GAAP presents our traditional overview of the texts published by the IASB, taking account of their endorsement process at European level. We have identified those texts that are mandatory, as well as those that are optional at this year-end.

This issue also includes the main news items for the month, including the IASB's publication of an exposure draft that proposes amendments to various aspects of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* on the recognition and measurement of provisions (which would lead to the withdrawal of IFRIC 21 – *Levies*), as well as various publications from the IFRS Foundation and European Commission on sustainability topics.

IFRS Highlights

IASB publishes proposed targeted improvements to IAS 37

In November 2024, the International Accounting Standards Board (IASB) published an exposure draft (available here) of targeted improvements to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets.* It covers the following topics:

- the present obligation recognition criterion;
- the costs to include when measuring a provision; and
- the discount rate requirements (when the effect of the time value of money is material).

The present obligation recognition criterion

The amendments aim to:

- clarify some of the requirements of the standard, which have led to questions being submitted to the IFRS Interpretations Committee (IFRS IC) – particularly as regards the accounting treatment of climate-related commitments (see Beyond the GAAP no. 187, 2024); and
- change the timing of recognition of some provisions, particularly for levies (with the anticipated effect that some provisions would be recognised earlier and progressively, instead of at a later point in time).

The IASB is proposing to amend both the definition of a liability in IAS 37 and the present obligation recognition criterion, to align them with the definition of a liability and the concepts in the *Conceptual Framework.*

These amendments would result in the withdrawal of two interpretations:

- IFRIC 6 – *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*; and
- IFRIC 21 – *Levies.*

Several new illustrative examples will be added in the *Guidance on implementing IAS 37* to cover the topics that are currently addressed in these interpretations, as well as some questions recently addressed by the IFRS IC. Finally, the complete implementation guidance will be updated in line with the new amendments.

Costs to include when measuring a provision

The IASB is proposing to clarify that an entity should use the same assessment of costs for measuring a provision as IAS 37 already requires it to use when determining whether a contract is onerous (for example: a contract with a customer as defined in IFRS 15 – *Revenue from Contracts with Customers*).

Mirroring the amendments published in May 2020 on identifying onerous contracts (see Beyond the GAAP no. 144, 2020), the costs necessary to settle an obligation would be defined as the costs that relate directly to that obligation, including both:

- the incremental costs of settling the obligation; and
- an allocation of other costs that relate directly to settling obligations of that type.

Discount rate

The IASB is proposing to specify that when an entity discounts a provision, it should use a risk-free rate, i.e. one that excludes non-performance risk.

However, the IASB does not specify how an entity should determine an appropriate risk-free rate, acknowledging that various approaches could be appropriate. Instead, an entity would be required to disclose the discount rates used and describe the approach used to determine them.

Next steps

At this stage of the project, no effective date has been set for the amendments.

The comment period runs until 12 March 2025.

Reappointments to IFRS IC

At the end of November 2024, the Trustees of the IFRS Foundation reappointed two of the 14 members of the IFRS IC.

Yanli Liu and Brian O'Donovan will continue to sit on the IFRS IC until 30 June 2028 and 30 June 2026 respectively.

The press release is available here.

Report on progress towards climate related disclosures

In November 2024, the IFRS Foundation has issued a report setting out global Progress on Corporate climate-related disclosures, either mandated or voluntary. The report, which follows on from previous Task-Force on Climate-Related Financial Disclosures (TCFD) progress reports, highlights significant momentum with such disclosures.

The report notes that:

- over 1,000 companies make reference to the International Sustainability Standards Board's (ISSB) standards (i.e. the IFRS Sustainability Disclosure Standards) in their reports; and
- 30 jurisdictions are making progress towards adoption of the ISSB standards.

In a separate analysis, the IFRS Foundation identifies broad consistency of adoption in the 30 jurisdictions, including that most jurisdictions require disclosure of Scope 3 GHG emissions, industry-specific disclosures and reporting of material information about risks and opportunities related to sustainability matters.

Regarding TCFD alignment, the report highlights that although 82% of company reports includes information aligned with at least one of the 11 TCFD recommendations, only 3% of those companies fully comply with the TCFD recommended disclosures.

Guidance on identifying material information regarding sustainability risks and opportunities

Also in November, the IFRS Foundation has published educational material to assist companies in identifying and disclosing information about sustainability-related risks and opportunities that is material to investor's needs.

Sustainability-related risks and opportunities and the disclosure of material information is intended to help preparers to understand the concept of sustainability-related risks and opportunities as described in IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information*, including how these risks and opportunities can arise from a company's impacts and dependencies, and advise them on disclosing material information.

ISSB update

The November 2024 ISSB update describes how the ISSB continues to advance its technical work plan, including:

- providing supporting materials to help with implementation of IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 – *Climate-related Disclosures*, and
- projects related to research (i) on biodiversity, ecosystems & ecosystem services, human capital and on (ii) enhancing the SASB standards.

The ISSB also agreed criteria that will be applied when considering potential amendments to IFRS S1 or IFRS S2 in response to implementation feedback.

Updates on jurisdictional adoption of sustainability reporting

Jurisdictional consultations recently took place on the adoption of a regulatory framework for sustainability reporting based on the ISSB standards:

- in Thailand: the Securities and Exchange Commission (SEC) held a hearing on 19 November 2024 following a decision in September 2024 where it agreed in principle to require companies to adopt IFRS S1 and IFRS 2, with a phased introduction. The SEC has published a hearing document (Principles on guidelines for enhancing sustainability disclosures in line with ISSB Standards) and looked for comments and responses until December 19, 2024;
- in Indonesia: consultation closed on 28 November 2024 regarding a proposed Sustainability Disclosure Standard Roadmap based on IFRS S1 and IFRS S2.

IBC support for adoption of ISSB Standards

In a recent statement, the International Business Council (IBC) Executive Committee of the World Economic Forum have expressed support for the adoption of the ISSB standards to provide consistent and comparable sustainability information.

The statement:

- welcomes progress in establishing a global baseline, supporting cross border capital flow to sustainable businesses and reducing reporting complexity;
- urges local jurisdictional regulators and standard setters to adopt ISSB standards as the basis for meeting local requirements, adding local requirements as necessary; and
- highlights that greater alignment on sector-specific sustainability reporting standards issued by the ISSB, EFRAG and GRI is essential.

European Highlights

EC adopts amendments to IAS 21 – *Lack of Exchangeability*

On 12 November 2024, the European Commission (EC) adopted the amendments to IAS 21 – *The Effects of Changes in Foreign Exchange Rates* on lack of exchangeability of a currency.

Readers will remember that these amendments, published by the IASB in August 2023, clarify when a currency is exchangeable and how to determine the exchange rate when it is not (see Beyond the GAAP no. 179, 2023).

The amendments are mandatory for annual reporting periods beginning on or after 1 January 2025 (early application is permitted).

The endorsement regulation, published in the Official Journal of the European Union (OJEU) on 13 November 2024, is available here in all EU languages.

EC publishes final version of FAQs on implementing CSRD

The final version of the FAQs on the implementation of the Corporate Sustainability Reporting Directive (CSRD) was also published by the EC in the OJEU on 13 November 2024. No changes have been made to the Draft Commission Notice published on 7 August 2024 (see Beyond the GAAP no. 190, 2024).

The document is available here in all EU languages.

EC publishes final version of FAQs on disclosures to be provided by financial undertakings under the Taxonomy Regulation

On 8 November 2024, the final version of the FAQs on the interpretation and implementation by financial undertakings of the Article 8 Delegated Act, which covers disclosures to be provided under the Taxonomy Regulation, was published in the OJEU by the EC (see Beyond the GAAP no. 183, 2023-2024, for more details on the draft version).

The document is available here in all EU languages.

Readers will remember that ESMA encouraged financial undertakings to consider these FAQs in its recommendations for 2024 financial reporting (see Beyond the GAAP no. 192, October 2024).

EC publishes new draft FAQs on disclosures to be provided by non-financial undertakings under the Taxonomy Regulation

On 29 November 2024, the EC published a new set of draft FAQs relating to non-financial undertakings (available here). The FAQs address frequently asked questions on (i) assessing the eligibility of activities for the six environmental objectives covered by the Taxonomy; (ii) the technical screening criteria associated with these activities; and (iii) preparing and publishing the related disclosures required by the Article 8 Delegated Act. These FAQs will not be definitive until they are published in the OJEU.

The EC also states that this new set of FAQs is intended to (i) assist preparers with meeting their regulatory obligations in a cost-effective way , and (ii) ensure comparability of disclosures.

The document is broken down into several sections:

- section I: general questions (questions 1 to 9);
- section II: questions related to the objective of climate change mitigation in the Climate Delegated Act (questions 10 to 68);
- section III: questions related to the objective of climate change adaptation in the Climate Delegated Act (questions 69 to 73);
- section IV: questions related to the objective of sustainable use and protection of water and marine resources in the Environmental Delegated Act (questions 74 to 76);
- section V: questions related to the objective of transition to a circular economy in the Environmental Delegated Act (questions 77 to 113);
- section VI: questions related to the objective of pollution prevention and control in the Environmental Delegated Act (questions 114 to 119);
- section VII: questions related to the objective of protection and restoration of biodiversity and ecosystems in the Environmental Delegated Act (questions 120 to 126);
- section VIII: questions related to the generic DNSH (Do No Significant Harm) criteria applicable to (i) the climate change adaptation objective; (ii) the pollution prevention and control objective; and (iii) the protection and restoration of biodiversity and ecosystems objective (questions 127 to 143); and
- section IX: questions related to the Taxonomy disclosures required under the Article 8 Delegated Act (questions 144 to 155).

This new set of draft FAQs from the EC complements the existing FAQs for non-financial undertakings on: (i) implementing the disclosure requirements in the Article 8 Delegated Act (see Beyond the GAAP no. 170, 2022 and Beyond the GAAP no. 181, 2023); (ii) considering the minimum safeguards (see FAQ published in June 2023 and available here); and (iii) implementing the requirements of the Climate Delegated Act (see Beyond the GAAP no. 181, 2023). However, it is the first guidance published by the EC on implementing the Environmental Delegated Act, to assist undertakings with their assessment of eligibility for and alignment with the last four environmental objectives.

EFRAG approves voluntary sustainability reporting standard for SMEs

On 13 November 2024, the Sustainability Reporting Board (SRB) of EFRAG (the European Financial Reporting Advisory Group) approved the voluntary sustainability reporting standard for non-listed SMEs and micro-undertakings (hereafter the 'VSME standard').

This marks the culmination of EFRAG's work, with the final text taking into account feedback from stakeholders received via the public consultation that began in January 2024 (see Beyond the GAAP no. 184, 2024). EFRAG has made quite considerable changes to the standard along the way, which now comprises two modules: the Basic Module (comprising 11 sections of disclosure requirements) and the Comprehensive Module (comprising 7 additional sections). It should also be noted that no materiality assessment is required.

Readers will remember that the VSME standard is not a requirement under the CSRD so will not be adopted as a Delegated Act by the EC in the same way as the ESRS. However, the EC will consult on this text in 2025 and the final version will be ultimately published in the OJEU as a ‘Communication’.

Regarding the ESRS standard for listed SMEs that fall within the scope of the CSRD, EFRAG has deferred its vote on the technical advice which was scheduled to be submitted to the EC by the end of the year, pending clarifications on the decisions to be taken on this directive (cf. the work under way on a project of ‘omnibus’ directive that would bring together the CSRD, the Taxonomy Regulation and the Corporate Sustainability Due Diligence Directive).

EFRAG and CPD strengthen interoperability between their sustainability reporting frameworks

On 12 November 2024, at COP 29, EFRAG and the Carbon Disclosure Project (CDP) announced that they had achieved a high level of interoperability between their respective sustainability reporting frameworks, i.e. ESRS E1 *Climate Change* for EFRAG and the CDP questionnaire, which is used by companies to disclose their environmental impacts.

The press release is available here.

This work is part of a collaboration that began in November 2023 (see Beyond the GAAP no. 182, 2023), with a view to accelerating the market uptake of the ESRS and assisting companies with preparing their sustainability reporting. The collaboration between the two organisations will also allow companies to access ESRS-aligned environmental data via the CDP’s platform.

The commonalities identified between the two reporting systems will make it easier for companies that report under ESRS E1 to complete the CDP questionnaire. Similarly, ‘CDP disclosing’ companies will be well prepared to meet the requirements of ESRS E1. A comprehensive mapping detailing these commonalities should be published in early 2025.

EFRAG and the CDP are then planning to extend their collaboration beyond climate-related issues and identify other ESRS datapoints that could support the development of future CDP questionnaires.

Standards and interpretations applicable at 31 December 2024

As 2024 year-end closing approaches, we present our traditional overview of the texts published by the IASB, taking account of their endorsement process at European level.

Now that accounts are being finalised for 31 December 2024, Beyond the GAAP presents an overview of the IASB's most recent publications.

For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (position as at 15 November 2024, available on EFRAG's website here).

As a reminder, the following principles govern the first application of the IASB's standards and interpretations:

- The IASB's draft standards cannot be applied as they do not form part of the published standards.
- The IFRS IC's draft interpretations may be applied if the two following conditions are met:
    - the draft does not conflict with currently applicable IFRSs; and
    - the draft does not modify an existing interpretation which is currently mandatory.
- Standards published by the IASB but not yet adopted by the European Union at 31 December 2024 may be applied if the European adoption process is completed before the date when the financial statements are authorised for issue by the relevant authority (i.e. usually the board of directors).
- Interpretations published by the IASB but not yet adopted by the European Union at the date when the financial statements are authorised for issue may be applied unless they conflict with standards or interpretations currently applicable in Europe.

Remember that in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* the notes of an entity applying IFRS Accounting Standards must include the list of standards and interpretations published by the IASB but not yet effective that have not been early applied by the entity.

In addition to this list, the entity must provide an estimate of the impact of the application of those standards and interpretations.

As relates to minor amendments and interpretations, it seems relevant to limit such list to only those amendments and/or interpretations which are likely to apply to the entity's activities.

Standard	Subject	Effective date according to the IASB	Date of publication in the OJEU	Application status at 31 December 2024
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1 January 2016 Early application permitted	No endorsement (The EC has decided not to launch the endorsement process of this interim standard)	Not permitted
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) and effective date (issued on 17 December 2015)	Postponed Early application permitted	Deferred	Permitted[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback (issued on 22 September 2022)	1 January 2024 Early application permitted	21 November 2023	Mandatory
Amendments to IAS 1	Classification of Liabilities as Current or Non-current (issued on 23 January 2020) Deferral of Effective Date (issued on 15 July 2020 and on 31 October 2022) Non-current Liabilities with Covenants (issued on 31 October 2022	1 January 2024 Early application permitted	20 December 2024	Mandatory
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements (Issued on 25 May 2023)	1 January 2024 Early application permitted	16 May 2024	Mandatory

[1] If the entity had not developed an accounting policy.

Standard	Subject	Effective date according to the IASB	Date of publication in the OJEU	Application status at 31 December 2024
Amendments to IAS 21	Lack of Exchangeability (issued on 15 August 2023))	1 January 2025 Early application permitted	13 November 2024	Permitted
IFRS 18	Presentation and Disclosure in Financial Statements (issued on 9 April 2024)	1 January 2027 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
IFRS 19	Subsidiaries without Public Accountability: Disclosures (issued on 9 May 2024)	1 January 2027 Early application permitted, subject to jurisdictional endorsement	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 9 and IFRS 7	Classification and Measurement Requirements for Financial Instruments (issued on 30 May 2024)	1 January 2026 Early application permitted (apply all the amendments or only the amendments to classification)	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Annual Improvements Volume 11	Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7 (issued on 18 July 2024)	1 January 2026 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted

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