Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

Contents

The drafting of the present issue was completed on 5 February 2025.

Editorial

As companies subject to the reporting requirements of the Corporate Sustainability Reporting Directive (CSRD) in 2025 prepare to publish their first sustainability statements in accordance with ESRS, the European Commission has published the ‘Competitiveness Compass’ for the EU, its roadmap for the next five years. The Compass aims among other things to reduce the regulatory and administrative burden for companies. This ‘unprecedented simplification effort’ should affect the CSRD, the Taxonomy Regulation and the Corporate Sustainability Due Diligence Directive (CSDDD). The related ‘Omnibus proposal’ should be known on 26 February 2025.

On the financial reporting front, the statement of cash flows will be a key topic going forward for the International Accounting Standards Board (IASB). The international standard-setter has started discussions on the statement of cash flows and related matters project, which was launched following the third public consultation on its work plan for 2022-2026, with a particular focus on the impact of the new IFRS 18 *Presentation and Disclosure in Financial Statements* standard.

IFRS Highlights

IASB starts discussions on Statement of Cash Flows project

Following the third public consultation on its work plan for 2022-2026, the IASB decided to launch a research project on the statement of cash flows and related matters.

Various issues relating to application of IAS 7 – *Statement of Cash Flows* were raised in the consultation, primarily relating to the presentation of the statement of cash flows.

The IASB met in September 2024 and discussed a preliminary list of topics proposed by the staff, including:

- the classification of cash flows – particularly following the recent publication of IFRS 18 (see Beyond the GAAP no. 187, 2024), since the categories of income and expenses in IFRS 18 are not currently aligned with the categories of cash flows under IAS 7 (in terms of either definitions or classification);
- disaggregation of information about cash flows – also discussed in the context of the new requirements for aggregating and disaggregating information under IFRS 18;
- the definition of cash and cash equivalents;
- the effects of non-cash transactions, particularly in the context of reconciliation to the statement of financial position;
- information on cash flows from operating activities;
- information about commonly used cash flow measures; and
- the statement of cash flows for financial institutions.

Classification of Cash Flows related to Variation Margin Calls on ‘Collateralised-to-market’ Contracts (IAS 7)

The IASB approved, at the January 2025 meeting, the decision taken in November 2024 by the IFRS Interpretations Committee (IFRS IC) on the application of IAS 7 to the classification of cash flows related to variation margin calls on ‘collateralised-to-market’ contracts in the statement of cash flows.

The request submitted to the IFRS IC related to how an entity should present, in the statement of cash flows, the cash flows related to variation margin call payments made on contracts to purchase or sell commodities at a predetermined price.

The fact pattern specified that:

- The contracts, which have a maturity of up to three years, are entered into by entities trading commodities on regulated markets with the following purposes and measurement approaches:
  - Own use: receipt of physical commodities in accordance with the entity's requirements, accounted for as an executory contract outside the scope of IFRS 9 *Financial Instruments*;
  - Hedging: net cash settlement under cash flow hedge accounting (CFH) of exposure to fluctuations in commodity prices; and
  - Trading: short-term profit objective involving measurement at fair value through profit or loss (FVPL).
- For settlement via a central counterparty (CCP), each contract is novated by the CCP and clearing members guarantee these contracts towards the CCP. The novation creates contracts between each of the original counterparties and the clearing members, which in turn hold contracts subject to the same conditions with the CCP.
- The contracts are 'collateralised-to-market' (CTM), involving daily margin calls between the parties that reflect fluctuations in the fair value of the contract, but do not constitute partial settlement of the fair value of the contract (unlike 'settled-to-market' / STM contracts).
- At maturity, the contract is settled in cash or physically between the entity and the clearing member. The amount of the cash collateral accumulated over the life of the contract is reimbursed, where appropriate by offsetting against payment of the fair value of the contract if the contract is settled in cash.

The issue was whether classifying these margin calls as financing cash flows complied with IAS 7. Such a classification would mean that, on settlement of the contract, the entity would present the cash flows from reimbursement of the cash collateral as financing cash flows, and the cash flows representing payment of the fair value of the contract, when the contract is settled in cash, as operating cash flows.

After noting that the request submitted concerns only a limited number of entities, the IFRS IC decided not to add a standard-setting project to its work plan.

IFRS Foundation (re-)appoints Trustees

On 9 January 2025, the IFRS Foundation announced the appointment of Sheila Alrowaily, Shixin Chen and Assietou Diouf, who bring expertise and experience in the Middle East, Asia and Africa respectively.

The IFRS Foundation also announced the re-appointment of Jorge Familiar and Keiko Tashiro.

The Trustees are (re-)appointed for a three-year term, with immediate effect.

The press release is available here.

IFRS Foundation publishes guide to 'climate-first' approach

On 30 January 2025, the IFRS Foundation published a guide to help companies with practical implementation of the 'climate-first' approach proposed by the International Sustainability Standards Board (ISSB).

Readers will remember that this approach is based on a transition relief permitted by IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* in the first year of application, which allows companies applying the IFRS Sustainability Disclosure Standards to only report on climate-related risks and opportunities in accordance with IFRS S2 – *Climate-related Disclosures*, therefore only applying the general requirements of IFRS S1 that relate to this topic.

European Highlights

EC publishes a 'Competitiveness Compass' for the EU including simplification of sustainability reporting requirements

On 29 January 2025, the European Commission (EC) presented the EU 'Competitiveness Compass', its roadmap for the next five years.

It builds on the recommendations of the Draghi report, which was commissioned in autumn 2023 by EC President Ursula von der Leyen and published in September 2024.

Implementation of the roadmap will begin on 26 February 2025 with the presentation by the EC of the 'Omnibus proposal', which aims to simplify an initial package of European legislation in order to reduce the regulatory and administrative burden for companies.

The proposal is expected to affect sustainability reporting legislation, i.e. the Corporate Sustainability Reporting Directive (CSRD) and the Taxonomy Regulation, as well as the Corporate Sustainability Due Diligence Directive (CSDDD), which has not yet been transposed into all national European laws.

The EC says that the 'unprecedented simplification effort' provided for in this Compass should reduce the reporting burden for companies by around 25%, and 35% for SMEs.

Transition plans: EU Platform on Sustainable Finance publishes recommendations

On 23 January 2025, the Platform on Sustainable Finance published a report comprising a series of recommendations for the EC on corporate transition plans.

By publishing this report, the Platform hopes to improve the effectiveness of the current European legislative framework for helping companies to structure their transition plans in ways that are robust, measurable and useful to financial market participants, without increasing the reporting burden for companies.

In line with the EC's approach announced recently (see previous article in this newsletter), the report aims to operationalise the existing framework and identify targeted actions that will make it easier for companies and asset managers to use transition plans.

In this context, readers are reminded that EFRAG is currently in the process of preparing implementation guidance on transition plans ('IG 4') (see Beyond the GAAP no. 192, 2024) and a draft version is expected to be published in April 2025 for a two-month consultation. The draft has not yet been approved by EFRAG's Sustainability Reporting Board.

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