## Contents





The drafting of the present issue was completed on 6 October 2025.

## Editorial

**This month, the International Accounting Standards Board (IASB) has discussed a number of projects: targeted amendments to IAS 37, the equity method, FICE (Financial Instruments with Characteristics of Equity), the statement of cash flows, and amortised cost measurement. It should also be noted that the new standard on the presentation of financial statements (IFRS 18), though not yet mandatory, is already under discussion: the IFRS Interpretations Committee (IFRS IC) has been asked to rule on the classification of exchange differences on intra-group loans and borrowings.**

Meanwhile, efforts to revise Set 1 of the European Sustainability Reporting Standards (ESRS) are continuing. This month, the Sustainability Reporting Board (SRB) presented its roadmap for submitting technical advice to the European Commission at the end of November, and an interim report was published detailing the lessons learned from the outreach events conducted by EFRAG throughout September.

# IFRS Highlights

### Targeted improvements to IAS 37

Readers will recall that in November 2024, the International Accounting Standards Board (IASB) published an exposure draft (see Beyond the GAAP no. 193 – 2024) setting out a number of targeted improvements to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets.*

These proposed improvements cover 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).

At its September 2025 meeting, the IASB returned to this project and tentatively decided:

- to retain the proposal to require an entity to discount a provision at a rate that reflects the time value of money – represented by a risk-free rate – with no adjustment for the effect of non-performance risk;
- to add no application guidance as to how an entity determines an appropriate risk-free discount rate;
- to clarify in IAS 37 that the best estimate of the expenditure required to settle an obligation is not reduced to reflect the effect of non-performance risk; and
- to add no requirements on the use of real or nominal discount rates in measuring a provision.

During this meeting, the IASB also discussed the interaction with IFRS 3 – *Business combinations.* The IASB tentatively decided to add to IFRS 3 an exception to the principle of initial measurement at the acquisition date fair value. This exception would apply to provisions (other than contingent liabilities) within the scope of IAS 37, such that when recognising a business combination, the acquirer would measure the provisions at the acquisition date in accordance with the measurement requirements in IAS 37, instead of at their acquisition date fair values.

Finally, the IASB tentatively decided that an entity should disclose:

- the discount rate(s) used in measuring a provision; and
- the approach used to determine the rate(s).

### Equity method

At its September 2025 meeting, the IASB began to redeliberate the proposals in the exposure draft published last year on the equity method of accounting under IAS 28 – *Investments in Associates and Joint Ventures* (see the study in Beyond the GAAP no. 192 – 2024).

In particular, the IASB considered whether to address application questions that respondents to the exposure draft had suggested should be added to the project scope.

Concerning the scope of the project, the IASB has tentatively decided:

- to add the application question 'How does an investor recognise acquisition-related costs when applying the equity method?';
- not to add an application question on obtaining significant influence over an associate that does not constitute a business;
- not to add an application question on qualifying criteria for using the fair value through profit or loss option (IAS 28 paragraphs 18–19), offered to an investor in an associate or joint venture that is a venture capital organisation, mutual fund, unit trust or a similar entity including investment-linked insurance funds, but to consider whether the wording could be clarified; and
- to explore the possibility of providing relief in respect of the accounting treatment when purchasing an additional interest in an associate. At this stage, the exposure draft proposes that an investor should:
    - measure the additional interest at the fair value of the consideration transferred;
    - determine, at the acquisition date, the fair value of the associate's identifiable assets and liabilities, and recognise its additional share of the remeasured net assets, and
    - thus calculate the goodwill (as the difference between the two).

## FICE project

At its September 2025 meeting, the IASB continued its discussions on the exposure draft *Financial Instruments with Characteristics of Equity* (FICE) and reached a number of tentative decisions concerning:

- the reclassification of financial liabilities and equity instruments; and
- the effect of shareholder decision-making rights on the classification.

### Reclassification of financial instruments as debt or equity

The IASB tentatively decided to retain the provisions set out in the exposure draft, subject to some targeted refinements in order to:

- clarify that the reclassification requirements would apply to changes in the substance of a contractual arrangement that do not create or extinguish contractual rights or obligations, nor modify the contractual terms;
- clarify that 'circumstances external to the contractual arrangement' refer to events that arise after a financial instrument is initially classified, are significant to the entity's operations, demonstrable to external parties and generally expected to occur infrequently; and
- require an entity to reclassify a financial instrument containing an obligation to deliver its own equity instruments from financial liability to equity when the substance of the contractual arrangement changes because a contractual term stops being effective.

### Effect of shareholder decision-making rights on classification

The IASB tentatively decided to:

- proceed with the multi-factor approach set out in the exposure draft for assessing whether shareholder decisions are treated as entity decisions; and
- clarify that an entity must apply judgement when considering these proposed factors (e.g. when determining the weight of each factor, given that no single factor is individually decisive).

We will return in more detail to these proposals in a future edition.

## Statement of cash flows

Following on from previous discussions (see Beyond the GAAP no. 201 – 2025), the IASB, during its September 2025 meeting, considered how to improve the disaggregation of cash flow information in the financial statements. Four main topics were discussed:

- the disaggregation of changes in working capital to ease the reconciliation with balance sheet items;

- the disaggregation of disclosures relating to dividends received and paid (including dividends received from associates and joint ventures and those paid to non-controlling interests);
- improving the consistency of the presentation of cash flows from discontinued operations; and
- the disaggregation of capital expenditure (CAPEX).

In this context, the IASB examined the opportunity to apply the requirements of IFRS 18 – *Presentation and Disclosure in Financial Statements* regarding the aggregation and disaggregation of information.

These deliberations have led the IASB to consider developing new requirements aimed at:

- strengthening the link between the statement of cash flows and other parts of the financial statements, in particular through more granular disaggregation of items (working capital, dividends paid/received, etc.) and explicit cross-references in the notes; and
- improving the consistency of the presentation of cash flows from discontinued operations.

## Amortised Cost Measurement

At its September 2025 meeting, the IASB continued its deliberations of issues arising in the Amortised Cost Measurement project. The meeting tackled two topics:

- determining the effective interest rate (EIR) at initial recognition; and
- accounting for subsequent changes to cash flows on the instrument.

### Determining the EIR at initial recognition of an instrument

The IASB examined the issue of determining the effective interest rate (EIR) at initial recognition of financial instruments with specific contractual features (such as ESG-linked targets or changes in operational performance indicators).

The staff analysis concludes that IFRS 9 – *Financial Instruments* is sufficiently clear: all contractual terms and conditions must be considered, except in rare cases when it is not possible to reliably estimate cash flows. In practice, feedback received by the IASB indicates that entities, by analogy with the provisions of IAS 37.39-40 and IFRIC 23.11, use either a weighted probability method or a most likely outcome method, and use judgement to determine the most appropriate method based on specific facts and circumstances.

Consequently, the IASB has tentatively decided to take no further action on this matter.

### Impact of changes to estimated cash flows over the life of an instrument

The IASB also discussed paragraphs B5.4.5 and B5.4.6 of IFRS 9 relating to changes in estimated cash flows over the life of the instrument.

Readers will recall that the application of paragraph B5.4.5 generally leads to a re-estimation of the EIR without changing the carrying amount, whereas paragraph B5.4.6 leads to a change in this amount against the income statement and leaves the EIR unchanged (the ‘catch-up’ approach).

The staff explored three approaches to clarify the scope of paragraphs B5.4.5 and B5.4.6. These consisted of applying paragraph B5.4.5:

- solely to changes in market variables (such as the benchmark interest rate or inflation rate);
- to any market changes, including borrower-specific components (credit spread), allowing the contractual rate to be aligned with the market rate; or
- to any changes in a contractual interest rate that result from contractually specified variables, including non-market changes (e.g. ESG clauses or predetermined credit spread adjustments).

No decisions have been taken at this stage. The IASB will continue its deliberations in the coming months to assess the operational impacts and relevance of the information produced when applying each of these methods.

## IFRS IC consultation on the classification of foreign exchange differences from intragroup loans and borrowings under IFRS 18

Paragraph B65 of IFRS 18, effective from 1 January 2027, states that foreign exchange differences must be included in the same category (operating, investment or financing) as the income and expenses from the items that gave rise to these differences.

In transactions between a parent company and a subsidiary with different functional currencies, exchange differences may arise. Upon consolidation, in accordance with IFRS 10 – *Consolidated Financial Statements* and IAS 21 – *The Effects of Changes in Foreign Exchange Rates*, these transactions are eliminated, but the exchange difference remains in the consolidated statement of profit or loss.

The IFRS IC was asked to determine which category these residual exchange differences should be allocated to in the case of intra-group loans and borrowings.

The meeting on 16 September 2025 discussed two views:

- classify these exchange differences in the operating category as the default category under IFRS 18, since the income and expenses that gave rise to them have been eliminated on consolidation; and
- classify the exchange difference in the same category in which the income and expenses from the intragroup loan would have been classified before their elimination on consolidation, or, if doing so would involve undue cost or effort, in the operating category.

Seven IFRS IC members concluded that the first view was the only reasonable interpretation of paragraph B65 of IFRS 18.

The other seven IFRS IC members concluded that both views were reasonable interpretations of paragraph B65 of IFRS 18.

The IFRS IC tentatively decided not to add these questions to the IASB work plan.

The period for feedback on this tentative decision is open until 25 November 2025 (available here).

## ISSB moves forward on targeted GHG disclosure amendments

On 25 September 2025, the International Sustainability Standards Board (ISSB) advanced its work on targeted amendments to IFRS S2 –*Climate-related disclosures*, aiming to address practical challenges in reporting greenhouse gas (GHG) emissions (see Beyond the GAAP no. 198 – 2025).

These amendments include several key changes designed to clarify requirements and increase flexibility for reporting entities, such as:

- relief confirmed for disclosing Scope 3 Category 15 emissions beyond financed emissions;
- retention of the Global Industry Classification Standard (GICS) for disaggregating financed emissions, with a more flexible approach allowing entities to select a relevant classification system and justify their choice; and
- extension of jurisdictional relief from using the Greenhouse Gas Protocol (GHG Protocol) and the applicability of that relief for the use of Global warming potential (GWP).

Regarding the due process, all 12 ISSB members present unanimously confirmed that no further public consultation would be required. The amendments are therefore expected to be published by the end of 2025, with an effective date of 1 January 2027.

## ISSB standards Jurisdictional adoption – consultation

Thailand – The country's Securities and Exchange Commission (SEC) has launched a public consultation on draft regulations aimed at aligning listed companies' sustainability disclosure requirements with IFRS S1 and IFRS S2 standards. The consultation period is open until 22 October 2025.

## Hans-Ulrich Engel appointed as Trustee of IFRS Foundation

On 12 September 2025, the IFRS Foundation announced that Hans-Ulrich Engel had been appointed as a Trustee with immediate effect until the end of 2028.

He succeeds Erhard Schipporeit, who has decided to step down.

The press release is available here.

# European Highlights

## EU endorsement of IFRS 18: only one more step

On 20 September 2025, the European Union's Accounting Regulatory Committee (ARC) voted by written procedure to endorse IFRS 18.

In consequence, EFRAG has updated its endorsement status report on IFRS Accounting Standards at the European level (accessible here). The text is now likely to be endorsed in the first quarter of 2026, a year ahead of its mandatory application date which the IASB has set for financial years beginning on or after 1 January 2027.

Provided that the EU adheres to this endorsement schedule, early application would be possible as soon as the 2026 accounting period.

## EFRAG work on the revision of ESRS Set 1: next steps

On 16 September 2025, EFRAG's Sustainability Reporting Board (SRB) presented its roadmap for the revision of Set 1 of the European Sustainability Reporting Standards (ESRS) with a view to submitting its technical opinion to the European Commission in late November.

This roadmap depends on two main steps:

- first, the collection and analysis of stakeholders feedback obtained via (i) outreach events, (ii) the public consultation launched on 31 July 2025 (see Beyond the GAAP no. 201 – 2025) and concluded on 29 September 2025, and (iii) field tests carried out on limited number of topics, such as the 'gross versus net' approach in relation with the double materiality assessment; and
- second, the drafting of the final version of the revised standards.

The first version of the revised standards, published on 31 July 2025 in the form of exposure drafts, will serve as the basis for the final version, which is expected to be submitted to the European Commission between 28 and 30 November 2025. EFRAG will now work to take account of the extensive feedback received from stakeholders. The basis for conclusions of the revised standards and the cost-benefit analysis are expected to be published in December 2025.

The European Commission is expected to endorse the revised standards in 2026, once its own due process is completed. However, this adoption remains conditional on the outcome of the ongoing legislative process, in particular on the agreement to be reached between the co-legislators (the European Parliament and the Council of the European Union) regarding the proposed 'Content' Directive (a Level 1 text) aimed at amending the CSRD (Corporate Sustainability Reporting Directive), which defines the general legal framework for sustainability reporting. The ESRS, by contrast, fall under Level 2 as technical implementation standards.

## EFRAG interim report on the revision of ESRS Set 1: initial findings from outreach events

On 29 September 2025, an interim report on the revision of Set 1 of ESRSs was presented at a joint public session of the SRB and the Sustainability Reporting Technical Expert Group (SR TEG), presenting the lessons learned from the outreach events conducted throughout September 2025 by EFRAG. Although this report is only a first step towards analysing this feedback, it provides an overview of the main concerns expressed by the various stakeholders and outlines some possible directions for revision of the draft standards ahead of EFRAG's technical advice submission to the EC.

One of the main lessons of this interim report is the need for clarification of the following key aspects:

- implementing the 'fair presentation' principle in sustainability reporting;
- practical implications of the 'undue cost or effort' approach introduced in the ESRS 1 ED;
- application of the materiality principle, particularly in terms of its scope and effects; and
- implementing the double materiality assessment (DMA), particularly in respect of:
  - materiality thresholds and their link with the undertaking's business model;
  - conditions for updating the analysis results;
  - the extent to which the value chain is taken into account;
  - the documentation expected for audit;

- the need to clarify certain terms that are ambiguous or subject to interpretation; and
- how mitigation, prevention and remediation are considered in assessing the materiality of material negative impacts (the ‘gross versus net’ approach). Many stakeholders pointed out the complexity and even inconsistency of Appendix C of the ESRS 1 exposure draft.

The interim report also highlights a number of differences of opinion among stakeholders, particularly with regard to:

- the ‘fair presentation’ principle, whose explicit inclusion in ESRS 1 – *General Principles* is welcomed by some stakeholders, while others oppose it, citing differing interpretations of the consequences of implementation and a potential increase in the reporting burden and associated costs for preparers;
- the lack of time limitation on proposed relief measures relating to metrics, supported by some stakeholders but deplored by others; and
- the reporting of anticipated financial effects. Option 1 (mandatory quantitative information with simplifications, broadly in line with ISSB standards) proposed by EFRAG is generally supported by civil society stakeholders and auditors, while option 2 (mandatory qualitative information and voluntary quantitative information) is widely supported by preparers.

The final report on feedback from the outreach events is expected on 9 October 2025.

Following this presentation, SRB Chair Patrick de Cambourg emphasised that the responses to the public consultation should enable majority positions to be identified and compromises to be reached that are likely to garner broad consensus. The interim report analysing responses to the public consultation is expected on 14 October 2025, ahead of the presentation of the final report scheduled for 12 November 2025.

# Contact us

**Inge van Sloun**
Director, Forvis Mazars, the Netherlands
inge.vansloun@forvismazars.com

**Kees Roozen**
Director, Forvis Mazars, the Netherlands
kees.roozen@forvismazars.com

**Renick van Oosterbosch**
Director, Forvis Mazars, the Netherlands
renick.vanoosterbosch@forvismazars.com

**Edouard Fossat**
Partner, Forvis Mazars, France
edouard.fossat@forvismazars.com

**Carole Masson**
Partner, Forvis Mazars, France
carole.masson@forvismazars.com

Contributors to this issue:

Colette Fiard, Vincent Gilles, Marie-Anastasia Harmand, Fanny Hervo, Nicolas Millot, Laura Niewiadomskyj and Arnaud Verchère

Forvis Mazars Group SC is an independent member of Forvis Mazars Global, a leading global professional services network. An internationally integrated partnership operating in over 100 countries and territories. Forvis Mazars Group specialises in audit, tax and advisory services. The integrated partnership draws on the expertise and cultural diversity of its teams - more than 40,000 professionals worldwide - to assist clients of all sizes at every stage in their development.
Go to forvismazars.com to find out more.