



Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

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IFRS Highlights

IAS 28 exposure draft: clarifying eligibility for the fair value option

In February 2026, the International Accounting Standards Board (IASB) published an [exposure draft](#) proposing narrow-scope amendments to IAS 28 – *Investments in Associates and Joint Ventures*. It aims to clarify which entities are eligible to use the fair value option for these investments.

These proposals follow the discussions at the IASB's December 2025 meeting, which culminated in the decision to clarify the concept of "similar entities" (cf. [Beyond the GAAP no. 205](#), December 2025).

The exposure draft proposes clarifying that "similar entities" include those that have a main business activity of investing in assets, as defined in paragraph 49(a) of IFRS 18. While this is not strictly an extension of the fair value option, in practice the proposed clarification is likely to increase the number of entities that can apply the option.

The IASB has deliberately set a shorter comment period of 60 days, ending on 20 April 2026, so that the amendments can come into effect at the same time as IFRS 18.

Targeted improvements to IAS 37

Readers will remember that, in November 2024, the IASB published an exposure draft proposing targeted improvements to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (cf. [Beyond the GAAP no. 193](#), November 2024).

The proposals focused particularly on the concept of a present obligation, as a criterion for recognising a provision. The exposure draft proposed redefining the concept to comprise three conditions that must all be met, and that would be specified more clearly in the text of the standard:

- an "obligation" condition – the entity has an obligation;
- a "transfer" condition – the nature of the obligation requires the entity to transfer an economic resource; and

- a "past-event" condition – the entity's obligation is a present obligation resulting from a past event.

The "transfer" condition was introduced in order to clarify the difference between provisions and executory contracts, bringing the definition into line with the current Conceptual Framework.

Readers will remember that executory contracts are contracts that comprise reciprocal obligations for two parties (e.g. a sale contract), under which both parties have fulfilled their obligations to an equal extent. They do not give rise to recognition of a provision unless they are onerous.

The "past-event" condition was introduced as a separate condition to change the timing of some provisions, which under the current rules are only recognised when the final condition giving rise to an obligation is met. Under the new rules, some of these provisions would be recognised earlier, and progressively over time. Typical examples would be:

- taxes calculated on revenue, where the obligation to pay depends on a subsequent event, such as exceeding a specific revenue threshold, or the entity remaining in existence at the start of the following financial period;
- commitments entered into at a given date to achieve a specified reduction in greenhouse gas emissions by a future target date.

At its February 2026 meeting, the IASB continued its redeliberations on these proposed amendments, focusing on two topics in particular:

- the "past-event" condition and how it applies specifically to levies;
- the "transfer condition" applied more broadly (i.e. not specifically to levies).

The "past-event" condition and how it applies to levies

The IASB tentatively decided to supplement the "past-event" condition with the following requirements specifically for levies:

- specifying that the economic benefit or action that meets the past-event condition for a levy is

the economic benefit or activity the government is seeking to levy; and

- adding a constraining presumption – namely, that the economic benefit or activity the government is seeking to levy will be one of those required by the levy legislation for the levy to be payable.

The “transfer condition” applied broadly

The IASB tentatively decided to:

- keep the proposal to add a transfer condition;
- further explain the difference between an obligation to transfer an economic resource and an obligation to exchange economic resources;
- further develop examples given in the application guidance to clarify:
 - why asset decommissioning and environmental rehabilitation obligations meet the transfer condition; and
 - the relationship between the transfer condition and the measurement requirements in the standard;
- clarify the implications of the transfer condition for levies by:
 - defining the term “levy” as limited to non-reciprocal charges; and
 - specifying that a levy obligation will by definition meet the transfer condition.

Next steps

Further redeliberations on other aspects of the exposure draft will need to take place before the IASB can decide on the project direction.

Amortised Cost Measurement project

At its February meeting, the IASB discussed the concept of modification of financial instruments (assets or liabilities), as part of the Amortised Cost Measurement project that it began in 2024 (cf. [Beyond the GAAP no. 191](#), September 2024). Its two aims in the discussion were to:

- clarify the definition of “modification”
- better explain the relationship between the modification of a financial instrument and its derecognition.

Clarifying the concept of modification of a financial instrument

Analysis of the feedback received from the Post-implementation Review (PiR) of IFRS 9 and the 2025 consultations showed the need to¹:

- standardise terminology for modifications of financial assets (currently “modification of contractual cash flows” – IFRS 9 5.4.3) and modifications of financial liabilities (currently “modification of the terms” – IFRS 9 3.3.2);
- exclude from the scope modifications of cash flows resulting from clauses incorporated in the contract from the outset (e.g. those resulting from triggering of covenants), which are covered by the rules on changes in estimates (IFRS 9 B5.4.6);
- take account of the fact that a modification of the contractual terms (e.g. adding a guarantee or waiving a covenant) does not necessarily imply a modification of the cash flows, so would not necessarily be classified as a “modification” in accounting terms;
- not simply reproduce the approach used in the August 2020 amendments to IFRS 9 relating to interest rate benchmark reform, which focused on the substance rather than the form of the change.

In this context, the IASB tentatively decided to clarify that a modification of a financial asset or a financial liability constitutes a change in contractual terms that changes the nature, timing, amounts or uncertainty of contractual cash flows.

Relationship between modification and derecognition of a financial instrument

Analysis of the feedback received from the PiR of IFRS 9 and the consultations carried out in 2025 showed broad diversity in practice, and consequently a need to:

- for financial assets: define what constitutes a “substantial” modification resulting in derecognition, as opposed to a modification that is not substantial, which is treated similarly to a change in estimates (IFRS 9 5.4.3), with the

modification gain or loss recognised in profit or loss;

- for financial liabilities: clarify to what extent a qualitative approach may be used, in addition to the quantitative “10 per cent test” (IFRS 9 B3.3.6), to determine whether a modification of a financial liability is substantial and should result in derecognition.

In this context, the IASB tentatively decided to:

- clarify that a substantial modification of a financial asset (or part of a financial asset) results in derecognition of the asset and recognition of a new financial asset. This clarification could, for example, be incorporated into the section of the standard that deals with derecognition of financial assets (IFRS 9 3.2)¹;
- propose a principles-based approach to assessing whether a modification of a financial asset or a financial liability is substantial and results in derecognition.

This could be a sequential approach¹, with first a qualitative assessment of the modification based on the economic substance of the changes affecting contractual cash flows. If this is not determinative, a quantitative assessment would then be carried out.

A qualitative assessment could, for example, take account of a change in currency, counterparty, or failure to meet the SPPI test (solely payments of principal and interest). For loans specifically, it could also take account of the purpose of the modification, e.g. whether its goal is to maximise collection of cash flows during a period of financial difficulty for the lender, or to maintain a customer relationship by renegotiating terms to bring the loan back into line with the market.

The quantitative assessment could extend the “10 per cent test” to financial assets, specifying that any write-off should be accounted for first. A version of this approach could be used for specific types of instrument, such as renewable credit facilities.

These decisions suggest that the new approach could impact entities that currently use a purely quantitative assessment to determine whether modifications of financial liabilities are substantial.

¹ Further details taken from the staff agenda paper.

Post-Implementation Review of IFRS 9 – *Hedge Accounting* begins

At its February meeting, the IASB examined the objectives, activities and timeline for the preparatory phase of the PiR of IFRS 9 – *Hedge Accounting*. It has not yet reached any decisions.

The PiR will focus particularly on assessing whether the hedge accounting model in IFRS 9 faithfully reflects risk management activities, as well as looking at the costs and benefits for preparers and users of financial statements. The IASB will also look at questions about application that have been raised since the implementation of IFRS 9, although this will not necessarily lead to any changes to the standard.

A Request for Information is expected to be published in the second half of 2026, with a 120-day comment period.

ISSB's project on enhancing the SASB standards: update following the recent exposure draft public consultation

The recent responses to the International Sustainability Standards Board's (ISSB) public consultation on the exposure draft *Proposed Amendments to the SASB Standards* were discussed at the February Board's meeting (see ISSB's update available [here](#)). Forvis Mazars' response to this public consultation can be found [here](#).

Stakeholders used the consultation as an opportunity to provide their thoughts on a number of key matters such as (i) the ISSB's strategic direction as set out in its 2024-2026 work plan and (ii) perceived confusion regarding the role and status of the SASB's standards in relation to the ISSB's standards. Stakeholders acknowledged accordingly that the ISSB should strengthen how the SASB's standards can be used in the context of implementing IFRS S1 and IFRS S2.

The ratification of a prospective exposure draft, which would set out proposed amendments to the remaining three of the 12 SASB's standards the ISSB has prioritised for enhancement, was also agreed. This exposure draft should possibly cover amendments to the IFRS S2 industry-based guidance to maintain alignment with the climate-related content in the SASB Standards.

It is expected to be published in March 2026 for a 120-day comment period.

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