

Beyond the GAAP

Forvis Mazars' monthly newsletter on financial and sustainability reporting

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The drafting of the present issue was completed on 8 October 2026.

Editorial

At its September meeting, the IASB completed its redeliberations on the revision of IAS 28 and made further progress on its statement of cash flows and amortised cost measurement projects.

IFRS Highlights

Revision of IAS 28: final stage

In September, the IASB completed its redeliberations on the equity method project and decided to begin the process of finalising the revised version of IAS 28 *Investments in Associates and Joint Ventures*

The revised version of IAS 28 is expected to be published in the first half of 2027, with an effective date of 1 January 2029 and early application permitted.

Statement of cash flows project

At its September meeting, the IASB made tentative decisions on two aspects of its project to improve the statement of cash flows: the classification of cash flows relating to business combinations and the reconciliation between the statement prepared using the indirect method and the statement of financial position.

The IASB tentatively decided to propose an amendment to IAS 7 to clarify the classification of certain acquisition-related payments. Payments of deferred and contingent consideration arising from a business combination would be classified as investing activities, while the repayment of pre-existing debt of the acquired entity would be classified as financing activities and transaction costs relating to the acquisition as operating activities.

The IASB is also considering introducing into IAS 7 a disclosure objective requiring entities to provide information about certain non-cash changes in assets and liabilities, to enable users to better understand the relationship between changes in those items presented in the statement of cash flows when it is prepared using the indirect method and the corresponding amounts presented in the statement of financial position. In particular, an entity would be required to present in a table changes arising from foreign exchange differences, obtaining or losing control of subsidiaries or other businesses, and reclassifications in the statement of financial position.

The IASB will continue to consider the project at future meetings. An overview of the project and of the tentative decisions made before the September 2026 meeting is provided in the appendices to the **cover paper** prepared by the staff.

Amortised Cost Measurement project

Following on from the April and June 2026 meetings (see **Beyond the GAAP no. 209** and **211** of April and June 2026), the IASB continued its work on the 'Amortised Cost Measurement' project at its September meeting. On this occasion, three topics were discussed:

- the application of the 10% test to certain financial instruments;
- the determination of the effective interest rate (EIR) of a modified financial instrument when the modification does not result in derecognition;
- the definition of, and accounting for, costs or fees relating to the modification of a financial instrument in the absence of derecognition.

Application of the 10% test

The IASB considered the questions raised by stakeholders concerning the application of the 10% test in paragraph B3.3.6 of IFRS 9 to financial instruments that have options or contingent terms, as well as to revolving credit facilities.

The IASB tentatively decided to clarify that an entity applying the 10% test to a financial asset or financial liability:

- considers all the contractual terms of the financial instrument;

- determines the contractual cash flows of a financial instrument that have an option or a contingent term by assuming that the option is exercised, or that the contingent event occurs, on the earliest possible contractual date. The probability or estimated timing of the option being exercised, or the contingent event occurring, has no effect on determining those cash flows.

According to the IASB staff, the expected benefits of this change would be:

- to ensure consistency with the objective of the 10% test, which is to determine whether changes to contractual terms, rather than entity-specific estimates, are likely to affect the instrument's cash flows;
- to enhance comparability between entities;
- to simplify the operational application of the approach, as it does not require cash flow estimates or the exercise of judgement.

The IASB also tentatively decided to apply the 10% test to a revolving credit facility as a whole, based on the contractual cash flows relating to the maximum credit capacity available over the remaining term of the facility.

According to the IASB staff, the expected benefits of this change would be to:

- retain a quantitative criterion in addition to the qualitative assessment, in accordance with the general approach tentatively adopted by the IASB;
- make the 10% criterion applicable to revolving credit facilities when they are undrawn or only partly drawn;
- better reflect the economic substance of the contracts by basing the assessment on the total credit facility available rather than on the amount drawn at a given date;
- enhance comparability between drawn and undrawn financing through a common quantitative methodology for all the instruments concerned.

Determination of the effective interest rate of a modified instrument

The IASB tentatively decided to clarify that, when a modification of a financial instrument does not result in its derecognition, the entity adjusts the effective interest rate when the modification reflects changes in the time value of money or credit risk.

According to the IASB staff, the expected benefits of this change would be:

- to ensure consistency with the accounting for revisions to estimates resulting from existing contractual terms, following the decisions made by the IASB on this matter in April 2026 (see **Beyond the GAAP no. 209** of April);
- to improve the usefulness of information about interest income and expense by aligning it with cash flows;
- to reduce the operational complexity associated with maintaining the original EIR in information systems and to align with prevailing practice.

Definition of, and accounting for, costs or fees relating to the modification of a financial instrument

The IASB tentatively decided to clarify that:

- for modifications of financial assets and financial liabilities accounted for under paragraphs 5.4.3 and B3.3.6A of IFRS 9, 'costs or fees incurred' include:
  - all fees and points between the lender and the borrower that are directly attributable to the modification of the financial instrument, whether paid or received, including when those fees are incurred by one party on behalf of the other party as an agent;
  - the other components included in the definition of the effective interest rate, namely transaction costs and all other premiums or discounts directly attributable to the modification of the financial instrument;
- when a modification of a financial asset or financial liability does not result in its derecognition, the entity continues to amortise the costs or fees (not yet amortised at the modification date) over the remaining life of the modified financial instrument.

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