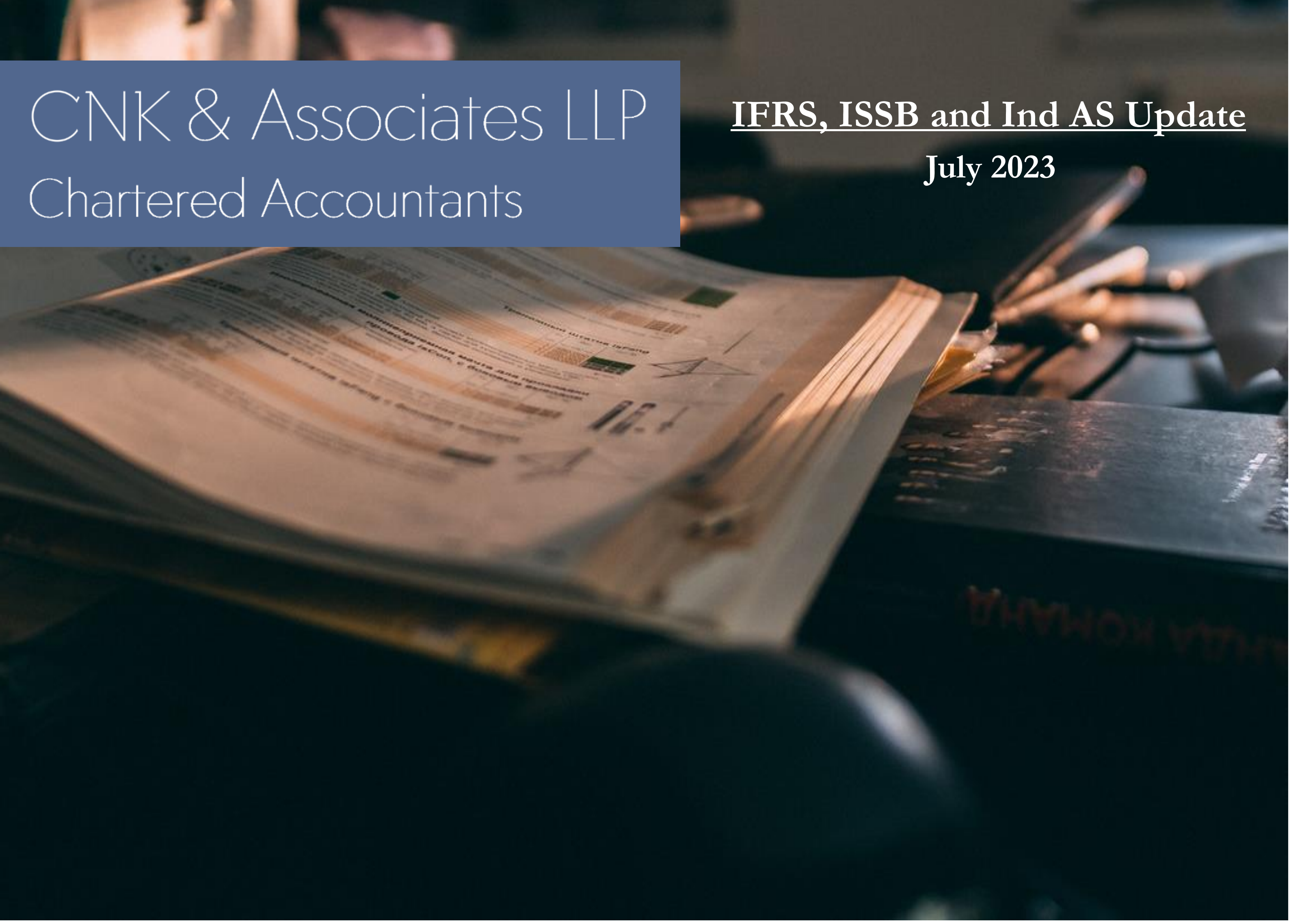
CNK & Associates LLP

Chartered Accountants

# IFRS, ISSB and Ind AS Update

July 2023



## INDEX

## Indian Accounting Standards (Ind AS)
## IFRS as applicable in India with certain carve-outs)

### Compendium of Ind AS (Year 2023-24)

Dated July 2023

In view of the dynamic nature of Ind AS, ICAI issues every year, a compilation of the version of Ind AS that are applicable as on date. This compendium of Ind AS is an endeavour of ICAI to facilitate ease of reference and ready source of comprehensive literature for all those entities that are preparing financial statements **(FSs)** under Ind AS, either mandatorily or voluntarily. This publication brings a comprehensive version of IFRS converged Ind AS encompassing all the rounds of amendments issued by MCA till date that are effective for accounting periods beginning on or after 1st April 2023.

## National Financial Authority of India (NFRA)

### NFRA examines proposals on new standard for accounting of insurance contracts viz. Ind AS 117

PIB dated 27th April 2023

The NFRA held a meeting to examine the proposals received from the Institute of Chartered Accountants of India (ICAI), as required u/s 133 of the Companies Act, 2013, regarding a new Standard (Ind AS) for accounting of insurance contracts i.e., Ind AS 117.

Ind AS 117 is substantially converged with IFRS Standard. Ind AS 117 will enable Indian Insurance Industry to present globally comparable financial information which augurs well for enhanced investment in the sector needed for increasing the insurance penetration in the country.

## International Sustainability Standard Board (ISSB)

### ISSB issues inaugural global sustainability disclosure standards

Announcement dated 26th June 2023

The ISSB has issued its inaugural standards—IFRS S1 and IFRS S2 —ushering in a new era of sustainability-related disclosures in capital markets worldwide. The Standards will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions.

**About the Standards**

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

*IFRS S1 is effective for annual reporting periods beginning on or after 1st January 2024 with earlier application permitted as long as IFRS S2 Climate-related Disclosures is also applied.*

The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term (collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S1 prescribes how an entity prepares and reports its sustainability-related financial disclosures. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity.

IFRS S1 sets out the requirements for disclosing information about an entity's sustainability-related risks and opportunities. In particular, an entity is required to provide disclosures about:

- the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities;
- the entity's strategy for managing sustainability-related risks and opportunities;
- the processes the entity uses to identify, assess, prioritise, and monitor sustainability-related risks and opportunities; and
- the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.

IFRS S2 *Climate-related Disclosures.*

IFRS S2 is effective for annual reporting periods beginning on or after 1st January 2024 with earlier application permitted as long as IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is also applied.

The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S2 applies to:

- climate-related risks to which the entity is exposed, which are:
  - climate-related physical risks; and
  - climate-related transition risks; and
- climate-related opportunities available to the entity.

IFRS S2 sets out the requirements for disclosing information about an entity's climate-related risks and opportunities. In particular, IFRS S2 requires an entity to disclose information that enables users of general-purpose financial reports to understand:

- the governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities;
- the entity's strategy for managing climate-related risks and opportunities;
- the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

**Things you need to know about the ISSB's new standards:**

- **Global disclosure standards**
  ISSB Standards allow companies and investors to standardise on a single, global baseline of sustainability disclosures for the capital markets, with any additional jurisdictional requirements being built on top of this global baseline.
- **International support**
  The ISSB's work has received strong support from investors, companies, policy makers, market regulators and others from around the world, including the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, the G20 and the G7 Leaders.
- **Disclosure of decision-useful, material information**
  Focusing exclusively on capital markets means that ISSB Standards only require information that is material, proportionate and decision-useful to investors. Moreover, by beginning with climate, companies can phase-in their sustainability disclosures.
- **Building on and consolidating existing initiatives**
  IFRS S1 and IFRS S2 are built on and consolidate the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, Sustainability Accounting Standards Board (SASB) Standards, Climate Disclosure Standards Board

(CDSB) Framework, Integrated Reporting Framework and World Economic Forum metrics to streamline sustainability disclosures. Consolidation will help companies to benefit from the investments they've already made in sustainability disclosures while reducing the 'alphabet soup' of sustainability disclosures.

- **Reducing duplicative reporting**
  The baseline approach provides a way to achieve global comparability for financial markets and allow jurisdictions to further develop additional requirements if needed to meet public policy or broader stakeholder needs. This approach helps to reduce duplicative reporting for companies subject to multiple jurisdictional requirements.
- **Helping companies communicate worldwide cost-effectively**
  ISSB Standards have been designed to provide reliable information to investors; helping companies to communicate how they identify and manage the sustainability-related risks and opportunities they face over the short, medium and longer term.
- **Connections with FSs**
  The information required by the ISSB Standards is designed to be provided alongside FSs as part of the same reporting package. ISSB Standards have been developed to work with any accounting requirements, but they are built on the concepts underpinning IFRS Accounting Standards, already required for use by more than 140 jurisdictions.
- **Developed through rigorous consultation**
  ISSB Standards have been developed using the same inclusive, transparent due process used to develop IFRS Accounting Standards – with more than 1,400 responses to the ISSB's proposals. All ISSB papers, feedback and technical decision-making are available to view online.
- **Interoperability with broader sustainability reporting**
  The ISSB's partnership with the Global Reporting Initiative **(GRI)** enables the ISSB to build its requirements to be interoperable with GRI standards, helping to reduce the disclosure burden for companies using both ISSB and GRI Standards for reporting.
- **A partnership for capacity building**
  The ISSB's responsibilities do not stop at standard setting. At COP27, the ISSB announced plans for a capacity building partnership programme, helping to establish the necessary resources for high quality, consistent reporting across developed and emerging economies.

Together, these inaugural standards and the ISSB's capacity building programme will help build trust, confidence and much-needed global comparability to the sustainability disclosure landscape.

## International Financial Reporting Standards (IFRS)

### IASB amends tax accounting requirements to help companies respond to international tax reform

Announcement dated 23rd May 2023

The IASB has issued amendments to IAS 12 *Income Taxes*. The amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's **(OECD)** international tax reform.

The OECD published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. More than 135 countries and jurisdictions representing more than 90% of global GDP have agreed to the Pillar Two model rules.

The IASB has taken urgent action to respond to stakeholders' concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of the rules.

The amendments will introduce:

- **a temporary exception**—to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules. This will help to ensure consistency in the FSs while easing into the implementation of the rules; and

- **targeted disclosure requirements**—to help investors better understand a company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.

Companies can benefit from the temporary exception immediately but are required to provide the disclosures to investors for annual reporting periods beginning on or after 1st January 2023.

## IASB to issue Supplier Finance Arrangements

Announcement dated 25th May 2023

The IASB has issued disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk.

The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

The amendments supplement requirements already in IFRS Accounting Standards and require a company to disclose:

- the terms and conditions;
- the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities sit on the Balance Sheet;
- ranges of payment due dates; and
- liquidity risk information.

Supplier finance arrangements are often referred to as supply chain finance, trade payables finance or reverse factoring arrangements.

The amendments, which affect IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*, will become effective for annual reporting periods beginning on or after 1st January 2024.

## IASB consults on proposed amendments to IFRS for SMEs Accounting Standard related to international tax reform

Announcement dated 1st June 2023

The IASB has proposed amendments to the IFRS for SMEs Accounting Standard to help SMEs respond to international tax reform.

The proposed amendments to the income tax section of the Standard would provide the same relief as the amendments to IAS 12 *Income Taxes* issued in May 2023, and come in response to the OECD Pillar Two model rules.

The proposed amendments would:

- introduce a temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules;
- introduce targeted disclosure requirements in periods when Pillar Two legislation is in effect; and
- clarify that 'other events' in the disclosure objective for income tax include enacted or substantively enacted Pillar Two legislation.

## Stakeholders reminded of IFRS accounting requirements for climate-related matters in financial statements

Announcement dated 4th July 2023

The IFRS Foundation has published an updated version of its educational material developed to help companies determine how to consider climate-related matters when preparing their FSs applying IFRS Accounting Standards.

This updated version is published in light of developments including the ISSB's inaugural IFRS Sustainability Disclosure Standards. Consideration of the ISSB's Standards, together with the educational materials, may help companies better identify matters, including climate change, that affect the FSs and help companies apply IFRS Accounting Standards.

The educational material sets out examples of situations in which companies applying the IASB's Standards might need to consider the effects of climate-related matters in their FSs.

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