



# A brief of key changes to International Financial Reporting Standards in 2021

October 2021

This newsletter is designed to give preparers of IFRS financial statements a high-level awareness of recent changes to International Financial Reporting Standards with effective date from **1 January 2021**.

# Effective from 1 January 2021

The following Standards is effective for accounting periods beginning on or after 1 January 2021. It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern.

## Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)



In September 2020, the IASB published Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), finalising its response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to assist reporting entities to provide investors with useful information about the effects of the reform on their financial statements.

Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in future reporting periods. This has resulted in the IASB needing to address potential financial reporting implications after the reform of an interest rate benchmark. The IASB has completed this project in two stages, the first one focussing on providing relief for hedging relationships which was finalised in September 2019 by publishing Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). This second set of amendments focus on issues arising post replacement, ie, when the existing interest rate benchmark is actually replaced with alternative benchmark rates.

# Effective from 1 January 2021 (cont.)

## The amendments

The main amendments can be summarized as follows:

Issue	Proposal
Highly probable requirement and prospective assessments of hedge effectiveness	<p>Where an entity currently designates IBOR cash flows, the replacement of IBORs with new interest rate benchmarks raises questions over whether it will be possible to make the assertion that those cash flows will still occur in a hedge of highly probable future cash flows, and whether the hedging relationship meets the requirements to be viewed as effective on a prospective basis?</p> <p>The IASB therefore has provided exceptions for determining whether a forecast transaction is highly probable or whether it's no longer expected to occur. Specifically, the amendments state that an entity should apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.</p> <p>It also includes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity assumes that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether:</p> <ul style="list-style-type: none"><li>• there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9</li><li>• or the hedge is expected to be highly effective in achieving offsetting by applying IAS 39.</li></ul>
Designating a component of an item as the hedged item	<p>The changes amend the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that are not contractually specified and that are affected by interest rate benchmark reform.</p> <p>Specifically, it states that an entity applies the requirement (that the designated risk component or designated portion is separately identifiable) only at the inception of the hedging relationship.</p> <p>There is one exception to this, and that is when an entity frequently resets a hedging relationship because both the hedging instruments and the hedged item frequently change, the entity applies the requirement only when it initially designates a hedged item in that hedging relationship.</p>

# Effective from 1 January 2021 (cont.)

## Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

They should be applied retrospectively, and restatement of prior periods is not required, however entities can restate prior periods, if it is possible without the use of hindsight.

## Commercial significance

**Few number of entity affected** - The amendments affect entities with hedging relationships directly affected by IBORs.

**Medium impact on affected entities** - These amendments provide urgent relief from the effects of IBOR on hedge accounting. Using these amendments, we believe it should be possible for most reporting entities to transition from IBOR benchmarks to alternative benchmarks without hedge discontinuation which would be a useful outcome for users of financial statements.



# Effective from 1 January 2022

In May 2020 the IASB issued a collection of narrow scope amendments to IFRS Standards. The collection includes amendments to three Standards as well as Annual Improvements to IFRS Standards, which addresses non-urgent (but necessary) minor amendments to four standards.



References to the Conceptual Framework (Amendments to IFRS 3)



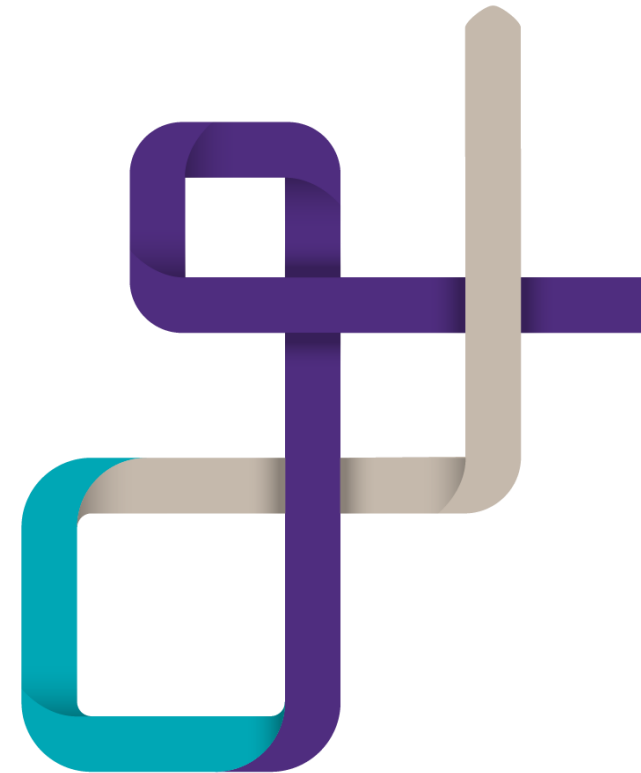
Proceeds before Intended Use (Amendments to IAS 16)



Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)



Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)



# Effective from 1 January 2022 (cont.)

## The amendments

Standard affected	Subject	IASB's summary of amendment
<b>IFRS 3 'Business Combinations'</b>	References to the Conceptual Framework	Adds a new exception to the recognition principle in order to make sure that the accounting remains unchanged.
<b>IAS 16 'Property, Plant and Equipment'</b>	Proceeds before Intended Use	Prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.
<b>IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'</b>	Onerous Contracts – Cost of Fulfilling a Contract	Specifies which costs an entity includes when assessing whether a contract will be loss-making.



# Effective from 1 January 2022 (cont.)

## Annual Improvements to IFRS Standards 2018-2020 Cycle

Standard affected	Subject	IASB's summary of amendment
<b>IFRS 1 'First time Adoption of International Financial Reporting Standards'</b>	Subsidiary as a First-time Adopter	Simplifies the application of IFRS 1 by a subsidiary that becomes a first time adopter after its parent in relation to the measurement of cumulative translation differences.
<b>IFRS 9 'Financial Instruments'</b>	Fees in the '10 per cent' Test for De-recognition of Financial Liabilities	Clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
<b>Illustrative Examples Accompanying IFRS 16 'Leases'</b>	Lease Incentives	Removes potential for confusion regarding lease incentives.
<b>IAS 41 'Agriculture'</b>	Taxation in Fair Value Measurements	Removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

## Commercial significance

**Few number of entity affected** - The amendments make changes to relatively narrow areas within IFRS.

**Low impact on affected entities** - The amendments and the IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRS. By their nature then, their commercial significance can be expected to be low. Overall the changes are uncontroversial.



# Effective date of new standards

(based on Standards issued at 31 December 2020)

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early Adoption	Fiscal year 31 Dec 2020	Fiscal year 31 Dec 2021
<b>IFRS 16</b>	Leases	1 January 2019	Yes	Already in mandatory effect	Already in mandatory effect
<b>IFRS 9</b>	Prepayment features with negative compensation (Amendments to IFRS 9)	1 January 2019	Yes		
<b>IFRS 28</b>	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019	Yes		
<b>IFRS 23</b>	Uncertainty over Income Tax Treatments	1 January 2019	Yes		
<b>IAS 12, IAS 23, IFRS 3, IFRS 11</b>	Annual Improvements to IFRS 2015-2017 Cycle	1 January 2019	Yes		
<b>IAS 19</b>	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019	Yes		
<b>Various</b>	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	Yes	Effective for the first time	
<b>IFRS 3</b>	Definition of a Business (Amendments to IFRS 3)	1 January 2020	Yes		
<b>IAS 1 and IAS 8</b>	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020	Yes		
<b>IFRS 9, IAS 39 and IFRS 7</b>	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020	Yes		

# Effective date of new standards (cont.)

(based on Standards issued at 31 December 2020)

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early Adoption	Fiscal year 31 Dec 2020	Fiscal year 31 Dec 2021
<b>IFRS 16</b>	COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 June 2020	Yes	Not yet effective	Effective for the first time
<b>Various</b>	Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021	Yes		
<b>IFRS 3</b>	References to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	Yes		Not yet effective
<b>IAS 16</b>	Proceeds before intended use (Amendments to IAS 16)	1 January 2022	Yes		
<b>IAS 37</b>	Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	Yes		
<b>IFRS 1, IFRS 9, IFRS 16, IAS 41</b>	Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)	1 January 2022	Yes		
<b>IFRS 17</b>	Insurance Contracts	1 January 2023	Yes		
<b>IFRS 4</b>	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023	Yes		
<b>IAS 1</b>	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023	Yes		



## Our full publication on “Navigating the changes to International Financial Reporting Standards – 2021 Edition”

This newsletter highlights key changes in IFRS with effective dates on 1 January 2021 and 2022.

For full information of changes in IFRS applicable for fiscal year ends 31 March 2020, 30 June 2020, 30 September 2020, 31 December 2020 and 31 December 2021 and information on IFRS changes from 1 January 2023, please read our full report in English at the following link:

[View the publication here](#)

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