ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY

2021 IFRS ACCOUNTS

IFRS FACTSHEET

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2021 IFRS Accounts
This factsheet highlights new and modified requirements for preparers of IFRS accounts. The factsheet deals primarily with new IFRS requirements with mandatory application for annual periods beginning on or after 1 January 2021.

Key regulations for this factsheet
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

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Section 1
Introduction

Changes to IFRSs mandatory for 2021 and beyond

There are no major new or amended standards coming into effect for accounting periods beginning in 2021. Nevertheless, 2021 year-end reporting will still need thorough planning because of the current uncertainties and developments arising from the ongoing effects of the COVID-19 pandemic, Brexit, IBOR reform and the increased importance of climate-related accounting effects as well as disclosure.

Changed circumstances may require entities to review assumptions about the future, apply new accounting policies or revise existing ones (for example accounting for government grants and/or revenue recognition). See the faculty's guide *Planning for the 2020/21 reporting season - Practical help for preparers*.

Although not effective until 2023, the new standard on insurance contracts, IFRS 17, will affect more than solely insurers. The impact of this new standard should be considered carefully sooner rather than later.

Accounting periods beginning before 1 January 2021

Preparers of accounts for accounting periods beginning before 1 January 2021 should refer to the factsheet *2020 IFRS Accounts*.

Other changes to the requirements for annual reports

This factsheet does not cover narrative reporting requirements or other regulatory changes. There are no major regulatory changes affecting UK entities other than those arising as a direct consequence of Brexit. More information on regulatory requirements affecting financial reporting can be found in the faculty's factsheet *UK Regulation for Company Accounts*.

Section 2

Links to regulations

Using the links and margin notes in this document

The margin notes in this factsheet identify relevant sections of standards and other regulations – these sections cannot be considered in isolation when applying them in practice.

You might find it useful to download relevant section(s) of the standard(s) so that you can refer to them when using this document.

Practical tip: finding the up to date regulations

The table provides links to regulations freely available via legislation.gov.uk which, unlike some other sources of company law text, is not updated immediately for recent amendments. When relevant, details of amending legislation are included in the margin notes to this factsheet.

Make sure that you use the right version of the regulations or standards

Standards and regulations are often updated and amended, and may have transitional provisions. It is important to use the right version, and to make sure that it applies to the relevant time period. The standards below are linked to the faculty's standards tracker which shows when standards were amended, and when amendments come into effect. Links are then provided to the version of the standard relevant to specific time periods. To use the links in the standards tracker it is strongly recommended that you are first logged into the Financial Reporting Faculty, and also logged into eIFRS.

Regulations and guidance
IFRS 3 *Business Combinations*
IFRS 4 *Insurance Contracts*
IFRS 7 *Financial Instruments: Disclosure*
IFRS 9 *Financial Instruments*
IFRS 16 *Leases*
IFRS 17 *Insurance Contracts*
IAS 1 *Presentation of Financial Statements*
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
IAS 12 *Income Taxes*
IAS 16 *Property, Plant and Equipment*
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
IAS 39 *Financial Instruments: Recognition and Measurement*
IAS 41 *Agriculture*
IFRS Practice Statement 2 *Making Materiality Judgements*
UKEB Adoption Status Report
EFRAG Endorsement Status Report
European Union (Withdrawal Agreement) Act 2020
The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685)
The Accounts and Reports (Amendment) (EU Exit) Regulations 2019 (SI 2019/145)

Section 3

COVID-19, Brexit and climate change

Introduction

In 2021 the issues faced by many businesses in the previous year continue to evolve.

At the time of writing, restrictions imposed as a result of the COVID-19 pandemic are gradually easing in the UK, but the impact of the pandemic is likely to be felt for some time and the future remains uncertain for many. The UK left the EU on 31 January 2020 but entered a transition period which ended on 31 December 2020. As we enter this post-Brexit era, trading relationships have changed and negotiations continue with some entities having to adapt the way they conduct their business. Climate-related effects are increasingly being seen as the most important issue of our time.

When looking at the annual report and accounts as a whole, the impacts of these developments may well be pervasive. The focus of this factsheet is to consider the effect on IFRS accounts rather than the additional information that might be included in the 'front half' of the annual report eg, for a UK company this might include a strategic report.

Users of accounts will be looking for information on how directors have assessed the implications of these events for their business and how they have responded. Regulators have repeatedly emphasised the need for disclosures to be transparent, complete and entity-specific if they are to be useful.

Going concern

Although businesses now have more experience of trading during a pandemic and post-Brexit, they still need to explain any material uncertainties that cast doubt on an entity's ability to continue as a going concern. Resources on how to conduct a going concern review and the implications for the accounts, and particularly the necessary disclosures, can be found at icaew.com/goingconcern.

Judgements and uncertainty

Directors will need to review all areas of the accounts that are subject to judgement and estimation uncertainty. Forecasting will play an important role, in particular when conducting impairment and going concern reviews, and the level of uncertainty may require a wider range of scenarios and assumptions to be used. Any material judgements and uncertainties must be disclosed in accordance with IAS 1 *Presentation of Financial Statements* and disclosure of sensitivities will often also be important.

Further faculty factsheets
More information on impairment reviews is available in the faculty's factsheet *Applying IAS 36 Impairment of Assets*.

Practical tip: previous assumptions about the future may no longer be valid

When preparing forecasts it's important to review the validity of the assumptions being used to ensure that they reflect current predictions, not only in respect of COVID-19 and Brexit but also the effects of climate change. A business not immediately affected by climate change still needs to consider its potential impact more broadly when considering, for example, future demand for its products, disruption to supply chains and increased costs.

Events after the end of the reporting period

In an evolving situation it can be challenging to assess whether or not information which comes to light after the reporting date sheds more light on conditions which existed at the reporting date, and therefore whether adjustment or disclosure is required. This may be particularly important for some entities when assessing the timing of impacts associated with COVID-19, for example new government interventions to mitigate the economic impact of COVID-19.

Other disclosures

Entities should disclose significant judgements made in applying accounting policies that have the greatest effect on the financial statements, providing as much context as possible. Entities will need to consider whether additional items of income and expenditure arising (rather than, for example, the absence of expected income) should be separately disclosed and whether any should be disclosed as exceptional items, considering both gains and losses. As some effects of COVID-19 will be pervasive and hard to quantify, the UK's Financial Reporting Council (FRC) discourages entities from splitting discrete items on an arbitrary basis in an attempt to quantify the portion relating to COVID-19 (see *Guidance for companies on Corporate Governance and Reporting*). Instead, the FRC encourages narrative disclosure explaining the nature of the items and the uncertainties around them.

Any Alternative Performance Measures (APMs) should be appropriately labelled, clearly explained and reconciled to the closest IFRS measure, and should not be given greater prominence than IFRS measures.

Additional resources

The precise manner in which, and the extent to which, COVID-19, Brexit and climate change affect a business will depend on individual facts and circumstances. We have listed below where you can find further, more specific, guidance.

COVID-19

In response to information needs in the light of COVID-19, ICAEW and several regulators (including the FRC) have produced guidance on the accounting and corporate reporting implications of the pandemic.

Dedicated resources can be found on the webpage Impact of coronavirus on IFRS accounts.

Brexit

The implications of Brexit for IFRS as applied in the UK and other changes to UK company law are discussed in section 5 of this factsheet.

You can find out more about Brexit impacts within the resources available at icaew.com/brexit.

Climate change

The IASB's educational material *Effects of climate-related matters on financial statements* describes aspects of IFRS Standards that require companies to consider the effect of climate-related risks on recognition, measurement and disclosure in the accounts.

Reporting on the financial implications of climate-related challenges in financial statements was picked out as a key area in the FRC's 2020 Climate Thematic *Reporting – How are companies developing their reporting on climate-related challenges?* Further details of current reporting requirements and guidance, covering both the financial statements and front half of the annual report, are available on the faculty's webpage Reporting on climate change.

You can find out more about the effects of climate change on business at icaew.com/climate

Section 4

Summary of changes

New and amended standards applicable for annual periods beginning in 2021

Title	Key effects	Mandatory application date
1. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - *Interest Rate Benchmark Reform Phase 2*	Provides accounting relief when changes in the basis for determining contractual cash flows result directly from IBOR reform, and a series of exemptions from certain aspects of the hedge accounting requirements. It also provides relief for lease modifications.	Annual periods beginning on or after 1 January 2021.
2. Amendment to IFRS 16 – *Covid-19-Related Rent Concessions beyond 30 June 2021*+	Extends the time period over which the practical expedient introduced by earlier amendments is available for use to 30 June 2022.	Annual periods beginning on or after 1 April 2021.

+ UK-endorsed but not EU-endorsed at the date of publication of this factsheet (see page 6 for more detail on the impact of endorsement for EU and UK preparers).

New and amended standards applicable for annual periods beginning on 1 January 2022 and beyond

Title	Key effects	Mandatory application date
1. Annual Improvements to IFRS Standards 2018-2020 Cycle*	Minor amendments to IFRS 1, IFRS 9 and IAS 41. Amendment to Illustrative Examples accompanying IFRS 16.	Annual periods beginning on or after 1 January 2022. N/A
2. Amendments to IFRS 3 – *Reference to the Conceptual Framework**	Updates certain references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.	Annual periods beginning on or after 1 January 2022.
3. Amendments to IAS 16 – *Property, Plant and Equipment: Proceeds before Intended Use**	Requires amounts received from selling items produced while the company is preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset.	Annual periods beginning on or after 1 January 2022.
4. Amendment to IAS 37 – *Onerous Contracts: Cost of Fulfilling a Contract**	Specifies which costs to include when assessing whether a contract will be loss-making.	Annual periods beginning on or after 1 January 2022.
5. Amendment to IAS 1 – *Classification of Liabilities as Current or Non-current**+	Clarifies that the classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period.	Annual periods beginning on or after 1 January 2023.
6. Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies**+	Changes requirements from disclosing 'significant' to 'material' accounting policies and provides explanations and guidance on how to identify material accounting policies.	Annual periods beginning on or after 1 January 2023.
7. Amendments to IAS 8 – *Definition of Accounting Estimates**+	Clarifies how to distinguish changes in accounting policies from changes in accounting estimates.	Annual periods beginning on or after 1 January 2023.
8. Amendments to IAS 12 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction**+	Introduces an exception to clarify that the 'initial recognition exemption' does not apply to transactions that give rise to equal taxable and deductible timing differences.	Annual periods beginning on or after 1 January 2023.
9. IFRS 17 *Insurance Contracts**+	Establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and qualifying investment contracts with discretionary participation features issued.	Annual periods beginning on or after 1 January 2023.

* Not UK-endorsed at the date of publication of this factsheet.
+ Not EU-endorsed at the date of publication of this factsheet.
See page 6 for more detail on the impact of endorsement for UK and EU preparers.

Standards issued but not yet effective or applied in the accounts

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of any new standards and interpretations that have been issued but are not yet effective and have not yet been applied in the financial statements, together with information relevant to assessing the possible impact when implemented for the first time.

Practical tip: avoid boilerplate disclosures

Disclosure is required only when changes to accounting standards will have a material impact on the accounts. For example, no disclosure would be required in respect of an amendment to IAS 40 *Investment Property* if the entity does not recognise an investment property on its balance sheet.

Endorsement

In some jurisdictions, for example the UK and the EU, preparers can apply accounting standards and interpretations only once they have been endorsed. Endorsement is a formal process whereby standards and interpretations are adopted in some jurisdictions. In the UK, it is the UK Endorsement Board (UKEB) that is responsible for this process. In the EU, the European Financial Reporting Advisory Group (EFRAG) issues endorsement advice prior to endorsement by the European Commission.

Although unendorsed standards and interpretations cannot be adopted, the requirements of those standards and interpretations may be applied if they do not conflict with the requirements of any endorsed standard or interpretation.

Our factsheets are regularly updated and reflect the current UK and EU endorsement status of a standard or interpretation at the time of updating. Please check the 'last updated' date to ensure you have the latest version.

UK preparers and endorsement

UK companies with accounting periods beginning on or after 1 January 2021 are required to apply UK-endorsed IFRS (referred to as UK-adopted IFRS on the UKEB website). There are specific requirements for the transition period, for example for accounting periods which straddle 31 December 2020.

Further faculty factsheets
More information on the transitional rules is available in the faculty's factsheet *2020 IFRS Accounts*.

The latest version of the UK Adoption Status Report, as well as the text of UK-endorsed IFRSs, is available on the website of the UK Endorsement Board (UKEB) at endorsement-board.uk

The implications of the UK leaving the EU are discussed further in section 5 of this factsheet.

EU preparers and endorsement

The latest version of the EU Endorsement Status Report is available at efrag.org.

Section 5

Implications of UK's exit from the EU for UK preparers

Background

EUWAA 2020 s39(2)

The UK formally left the EU on 31 January 2020 but continued to be subject to EU rules until the end of the transition period – referred to as the implementation period (IP) completion day in the European Union (Withdrawal Agreement) Act 2020 and defined as 11.00 pm on 31 December 2020 (GMT). Although the legislation refers to IP completion day as 11.00pm on 31 December 2020, in practice this means the post-transition period starts on 1 January 2021.

The end of the transition period brought into effect a number of changes in UK company law, which have a consequential impact on UK entities preparing IFRS accounts.

UK-adopted IFRS

SI 2019/685

As noted in section 4 of this factsheet, UK companies with accounting periods beginning on or after 1 January 2021 are required to apply UK-endorsed IFRS. UK legislation provides that all IFRSs that had been endorsed by the EU on or before the IP completion day became UK-endorsed IFRS. From 1 January 2021, any new IFRSs or amended IFRSs require independent endorsement in the UK to be part of the suite of UK-endorsed IFRS available to UK entities. As noted above, you can find more information on UK endorsement status on the UKEB website.

Practical tip: implications for UK preparers of UK endorsement process

At the time of the publication of this factsheet, UK and EU-adopted IFRS are almost identical (the *Amendment to IFRS 16 – Covid-19-Related Rent Concessions beyond 30 June 2021* has yet to be endorsed by the EU – see page 5).

Although there is provision in law for UKEB (through its devolved powers from the Secretary of State) to contribute to the development of a single set of international accounting standards, the guiding principles for adoption may mean divergence from the requirements, or the effective date of a standard, as issued by the IASB or as endorsed by the EU. Nevertheless, other than in relation to differences in the timing of endorsement, it is currently anticipated that UK and EU-adopted IFRS will remain substantially converged in most respects.

Other implications of changes in company law

Further implications for UK preparers of IFRS accounts are considered in the Appendix to this factsheet.

Section 6

New and amended standards mandatory for annual periods beginning in 2021

1. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2

Mandatory date: Annual periods beginning on or after 1 January 2021. Earlier application is permitted.

Interest rate benchmarks such as LIBOR (the London Inter-Bank Offered Rate) will be discontinued and replaced by alternative benchmark rates. The Phase 1 amendments dealt with the financial reporting effects **before** a particular interest rate benchmark has been replaced and were effective for accounting periods beginning on or after 1 January 2020. These Phase 2 amendments address the financial reporting issues that might arise once an interest rate benchmark **has been** replaced.

Further faculty factsheets
More information on the Phase 1 amendments is available in the faculty's factsheet *2020 IFRS Accounts*.

Accounting for a change in the basis for determining contractual cash flows of a financial asset or a financial liability, required as a result of IBOR reform

FRS 9.5.4.5, IFRS 4.20R

The Phase 2 amendments introduce a practical expedient to account for the change in the basis for determining contractual cash flows, if required as a result of IBOR reform. It requires that a change to the effective interest rate is accounted for like a re-estimation of cash flows to reflect a change of a market rate. As a result, there will be no adjustment to the carrying amount of the financial asset or financial liability and, therefore, no gain or loss.

For this purpose, a change is required by Interbank Offered Rates (IBOR) reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

IFRS 9.5.4.9

Any changes made to a financial asset or financial liability in addition to those required by IBOR reform must be accounted for by applying the general requirements once the Phase 2 reliefs have been applied.

Modification of a lease in the accounts of the lessee

IFRS 16.104

When a lease is modified as a result of IBOR reform, the amendments require a lessee to remeasure the lease liability, using the revised discount rate that reflects the change in interest rate benchmark.

IFRS 16.106

When lease modifications are made in addition to those required by IBOR reform, all modifications (including those required by IBOR reform) must be accounted for by applying the general IFRS 16 requirements, and at the same time.

Hedge accounting

IFRS 9.6.8.13 & 6.9;
IAS 39. 102M & 102O–102Z3

An entity will not discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets all the other hedge accounting criteria.

IFRS 9.6.9.1

When a hedged item or hedging instrument is updated for a change required by IBOR reform, the hedging documentation must be updated to reflect that change. The changes will be restricted to the designation of the hedged risk as an alternative benchmark, the description of a hedged item and/or the hedging instrument. The documentation must be updated by the end of the reporting period in which the change is made.

IFRS 9.6.9.4 & 6.9. 7

These changes required by IBOR reform will not result in discontinuation of the hedging relationship. For cash flow hedges, at the point the description of the hedged item is changed, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate.

IFRS 9 (and IAS 39) permits a group of items to be a hedged item. On transition to an alternative benchmark rate, an issue arises if the hedged cash flows or the fair value of some items in the group are changed to refer to a new benchmark interest rate before others are changed. In this case, the amendments require that the hedged items are allocated to subgroups; the alternative benchmark is the hedged risk for the relevant subgroup, while the original benchmark is the hedged risk for the other subgroup until such time as the underlying items expire or are changed to reference the alternative benchmark.

IFRS 9.6.9-10; IAS 39.102Y-Z

The amendments also provide temporary relief in respect of the designation of non-contractually specified risk components. An entity has to reasonably expect the alternative benchmark rate to be separately identifiable within 24 months – ie, this condition does not need to be met on designation of the alternative benchmark. This is helpful if the market in the alternative benchmark is undeveloped at the time of designation. However, the alternative benchmark rate must meet the 'reliably measurable' criterion at all times.

IFRS 9.6.9.11 & 6.9.13

Practical tip: judgement required on 24 month time limit

The 24 months provision is for each alternative benchmark rate, is not hedge specific and starts when the benchmark rate is first designated. Judgement will be required – for each alternative benchmark rate – when assessing whether the benchmark will be separately identifiable within the 24 month time limit. This is particularly relevant for a fair value hedge of fixed rate debt eg, when identifying SONIA as a risk component of the fixed rate.

The amendments permit an entity applying IAS 39 to reset to zero the fair value changes of a hedged item and a hedging instrument when assessing the retrospective hedge effectiveness on a cumulative basis. This election is made separately for each hedging relationship.

IAS 39.102.V

These reliefs are only applicable for changes required as part of the reform and that are economically equivalent. Further guidance is provided in the amendments as to the mechanisms that would typically meet this requirement.

IFRS 9.6.9.2 & 5.4.8

The reliefs may be applied more than once, for example if changes are made to the hedged item and hedging instrument at different points in time.

IFRS 9.6.9.3

Practical tip: hedge ineffectiveness

For hedge effectiveness measurement purposes, the normal rules apply. Potentially IBOR reform could introduce sources of ineffectiveness. For example, if a LIBOR interest swap hedging instrument was expected to transition to SONIA at a different time to the hedged item loan then this would give rise to some ineffectiveness, which could therefore impact the accounting entries.

Disclosures

An entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates. The entity will also be required to provide quantitative information about financial instruments that have yet to transition to alternative benchmark rates.

IFRS 7. 24I–24J;

Transitional requirements

The amendments are applied retrospectively, with the exception of certain hedges (see below). Comparatives are not required to be restated, and restatement of comparatives is permitted only when it is possible to do so without the use of hindsight. If comparatives are not restated there may be an adjustment to equity at the start of the period of first adoption.

IFRS 9.7.2.43-46; IAS 39.108H-K; IFRS 4.51; IFRS 16C20C-D

Hedges discontinued solely due to changes directly required by IBOR reform are reinstated when certain conditions are met.

IFRS 9.7.2.44; IAS 39.108I

2. Amendment to IFRS 16 – Covid-19-Related Rent Concessions beyond 30 June 2021[1]

Mandatory date: Annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at 31 March 2021.

Practical tip: tread carefully if you have benefited from rent concessions

This recent amendment cannot be seen in isolation. Its impact will depend on whether you have benefitted from COVID-19-related rent concessions and whether or not you have chosen to apply the practical expedient in earlier accounting periods. This is discussed further below.

Further faculty factsheets
More information on the *Amendments to IFRS 16 – Covid-19-related Rent Concessions* (May 2020) is available in the faculty's factsheet *2020 IFRS Accounts*.

Under IFRS 16 *Leases*, rent concessions such as rent holidays or deferrals might, depending on the individual facts and circumstances, be considered a lease modification. As a result of *Amendments to IFRS 16 – Covid-19-Related Rent Concessions* (issued in May 2020 and effective 1 June 2020), lessees can elect not to assess whether a COVID-19-related rent concession is a lease modification. This practical expedient is available subject to certain conditions being met, including that any reduction in lease payments affects only payments originally due on or before 30 June 2021.

IFRS 16.46B

The amendment issued in March 2021 extends the time period over which the practical expedient is available for use to concessions that end on 30 June 2022.

IFRS 16.20BA-BC

The practical expedient must be applied consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the amendment published in May 2020 or the amendment published in March 2021. When a contract becomes eligible as a result of the extension, the cumulative effect is recognised retrospectively as an adjustment to opening reserves at the beginning of the annual period in which the lessee first applies the March 2021 amendment.

Practical tip: consistent application is key

The two sets of amendments are linked and one cannot be applied without the other.

For example, if an entity applied the practical expedient in an earlier accounting period to COVID-19-related rent concessions which were within scope, it will need to review any rent-concessions which were previously excluded because of the time limit but may now fall within the scope of the amendments because of the extension.

Conversely, if an entity had COVID-19 related rent concessions which were within scope but chose not to apply the practical expedient in an earlier accounting period, it cannot do so now without a change in accounting policy.

Practical tip: IFRS amendments work differently to other GAAPs

The amendments made to IFRS for COVID-19-related rent concessions are often similar to, but not the same as, amendments to accounting standards in other jurisdictions. For example, the equivalent UK GAAP amendments to accounting standards are mandatory, whereas in IFRS the practical expedient is optional, and the timing of recognition of amounts in profit or loss can differ between the two GAAPs. Care will need to be taken when consolidating a global group to ensure that the requirements are correctly and consistently applied.

[1] Not EU-endorsed at the date of publication of this factsheet.

Section 7

New and amended standards mandatory for annual periods beginning in 2022 and beyond

1. Annual improvements to IFRS Standards 2018-2020 cycle [2]

Mandatory date: Annual periods beginning on or after 1 January 2022. Earlier application is permitted.

Note that illustrative examples that accompany an IFRS are not part of the standard. Therefore, the amendment to the illustrative example accompanying IFRS 16 does not have a mandatory date.

Standard	Amendment	Reference
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Permits a subsidiary to measure (in its own financial statements) cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated accounts, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This option is available only to a subsidiary applying the option available in paragraph D16(a) to measure its assets and liabilities on the same basis. A similar election is available to an associate or joint venture that chooses to apply the option available in paragraph D16(a) of IFRS 1.	IFRS 1.D13A
IFRS 9 *Financial Instruments*	Clarifies that only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf, are included when determining whether a modification of an existing financial liability is substantial (thereby requiring derecognition of the existing financial liability and recognition of a new financial liability).	IFRS 9.B3.3.6
IFRS 16 *Leases*	Simplifies Illustrative Example 13 – *Measurement by a lessee and accounting for a change in the lease term* by deleting reimbursement by the lessor of leasehold improvements made by the lessee from the example.	IFRS 16 Illustrative Example 13
IAS 41 *Agriculture*	Removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. Such cash flows would appropriately be taken into account if after-tax cash flows are being discounted using an after-tax discount rate, as permitted by IAS 41.	IAS 41.22

2. Amendments to IFRS 3 – Reference to the Conceptual Framework [2]

Mandatory date: Annual periods beginning on or after 1 January 2022. Earlier application is permitted.

The amendment to IFRS 3 *Business Combinations* updates certain references to the Conceptual Framework to the current version. IFRS 3.11

To ensure that the accounting requirements for business combinations remain unchanged, the exceptions to the recognition principle have been amended for liabilities and contingent liabilities that fall within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*. The amendments also clarify that the recognition of contingent assets is prohibited (previously explicit only in the Basis for Conclusions). IFRS 3.21A-C, 23, 23.A

[2] Not UK-endorsed at the date of publication of this factsheet.

3. Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use [3]

Mandatory date: Annual periods beginning on or after 1 January 2022. Earlier application is permitted.

IAS 16 *Property, Plant and Equipment* (PPE) requires an item of PPE to be initially measured at cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Prior to the amendments, directly attributable costs included costs of testing the asset 'after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition'. IAS 16.15-17

The amendments prohibit deducting the amounts received from selling items produced from the cost of PPE while the asset is being prepared for its intended use. Instead, the sales proceeds and related cost will be recognised in profit or loss and require separate disclosure either in the statement of comprehensive income or in the notes. IAS 16.17(e), 20A

4. Amendments to IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract [3]

Mandatory date: Annual periods beginning on or after 1 January 2022. Earlier application is permitted.

IAS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. IAS 37.68

The amendments specify that the costs of fulfilment are those that relate directly to the contract, consisting of both: IAS 37.68A

- the incremental costs of fulfilling that contract – for example, direct labour and materials; and
- an allocation of other costs that relate directly to fulfilling contracts – for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

5. Amendments to IAS 1 – Classification of Liabilities as Current or Non-current [3] [4]

Mandatory date: Annual periods beginning on or after 1 January 2023. Earlier application is permitted.

IAS 1 *Presentation of Financial Statements* has been amended[5] to clarify that the classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period. Expectations about whether an entity will exercise a right to defer settlement of a liability do not affect its classification. IAS 1.69(d), 72A, 75A, 76A-B

In order to conclude a liability is non-current, the right to defer settlement of a liability for at least 12 months after the reporting date must exist as at the end of the reporting period. In some cases the right to defer settlement may be subject to the entity complying with specified conditions, such as loan covenants. The amendments require an entity to comply with any such conditions as at the period end, even if the lender does not test compliance until a later date.

The amendments also clarify that (for the purposes of classification as current or non-current), settlement is the transfer of cash, the entity's own equity instruments (except as described below), other assets or services.

An option granted to a lender to convert a liability into equity shares would not affect classification of the liability as current or non-current if the option is recognised as an equity

[3] Not UK-endorsed at the date of publication of this factsheet.
[4] Not EU-endorsed at the date of publication of this factsheet.
[5] The International Financial Reporting Interpretations Committee (IFRIC) discussed how this new requirement would be applied in practice at its April 2021 meeting. The IASB has agreed to discuss the matter at a future (at the time of writing unspecified) Board meeting.

instrument separate from the liability in accordance with IAS 32 *Financial Instruments: Presentation*.

6. Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies [6] [7]

Mandatory date: Annual periods beginning on or after 1 January 2023. Earlier application is permitted.

IAS 1 *Presentation of Financial Statements* currently requires an entity to disclose significant accounting policies; however, views differ about what constitutes 'significant' and the term is not defined in IFRS. IAS 1.117

The amendments to IAS 1 will require an entity to disclose **material** accounting policies. Accounting policy information is likely to be considered material if users need the disclosure to understand other material information in the accounts.

Factors to consider when determining whether the accounting policy is material might include whether the accounting policy: IAS 1.17B

- has changed during the accounting period;
- was chosen from alternatives available in IFRS;
- was developed in accordance with IAS 8 in the absence of an IFRS that specifically applies;
- relates to an area for which an entity is required to make significant judgements or assumptions; or
- relates to complex accounting and users of the accounts would otherwise not understand those material transactions, other events or conditions.

When an entity discloses immaterial accounting policy information, it must not obscure material accounting policy information. IAS 1.17D

IFRS Practice Statement 2 *Making Materiality Judgements* has been updated to include a step-by-step approach to help determine whether accounting policy information is material. It also includes further guidance with illustrative examples on what, and what not, to disclose. IFRS PS 2.88A-G

7. Amendments to IAS 8 – Definition of Accounting Estimates [6] [7]

Mandatory date: Annual periods beginning on or after 1 January 2023. Earlier application is permitted.

Entities sometimes struggle to distinguish between an accounting policy and an accounting estimate. However, the distinction is important as IAS 8 generally requires a change in accounting policy to be accounted for retrospectively whereas a change in accounting estimate must be accounted for prospectively. IAS 8.19, 36

To help clarify the distinction, the amendments introduce a definition for accounting estimates which is 'monetary amounts in financial statements that are subject to measurement uncertainty'. Measurement uncertainty will arise when monetary amounts required to apply an accounting policy cannot be observed directly. In such cases, accounting estimates will need to be developed using judgements and assumptions. Examples include estimates of net realisable value of inventory, or the fair value of assets and liabilities. IAS 8.5, 36

Although the definition of a change in accounting estimate has been deleted, the underlying concepts remain and have been further clarified. Two examples illustrating the application of the definition of accounting estimates (to the fair value of an investment IAS 8.34, Implementation Guidance Examples 4&5

[6] Not UK-endorsed at the date of publication of this factsheet.
[7] Not EU-endorsed at the date of publication of this factsheet.

property and the fair value of a cash-settled share-based payment liability) have been added to the standard.

Transitional requirements

The amendments are applied to changes in accounting estimates and changes in accounting policies that occur from the beginning of the current accounting period (ie, the accounting period in which the amendments are first adopted). IAS 8.54I

8. Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction [8] [9]

Mandatory date: Annual periods beginning on or after 1 January 2023. Earlier application is permitted.

An entity is exempt from recognising a deferred tax liability when it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, it has no effect on either accounting or taxable profits. Thus, for example, deferred tax does not need to be recognised when, in a transaction that is not a business combination, an entity purchases an asset that will not be deductible for tax purposes (even though there is a difference between the asset's carrying amount and its tax base). This exemption is often referred to as the 'initial recognition exemption'. IAS 12.15, Example 8, BC74-91

However, the amendment to IAS 12 *Income Taxes* introduces an exception to this exemption when the transaction gives rise to equal taxable and deductible temporary differences. For example, an entity applying IFRS 16 will recognise a right-of-use asset and lease liability at the commencement of a lease which may give rise (depending on the local jurisdiction) to equal taxable and deductible temporary differences. However, the recognition criteria for deferred tax assets are different from those for deferred tax liabilities. The amendment clarifies that for leases and other similar transactions, such as decommissioning liabilities, the initial recognition exemption does not apply. An illustrative example has been added to the standard.

Transitional requirements

The amendments apply to transactions that occur from the beginning of the earliest accounting period presented. IAS 12.98K

The amendments also apply retrospectively to deferred tax assets and liabilities associated with: IAS 12.98L

- right-of-use assets and lease liabilities; and
- decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

Consequential amendment to IFRS 1 First-time adoption of IFRS

First-time adopters apply the requirements at the date of transition to IFRS. IFRS 1.B1, 14

9. IFRS 17 Insurance Contracts [8] [9]

Mandatory date: Annual periods beginning on or after 1 January 2023. Earlier application is permitted.

IFRS 17 was originally issued in May 2017; some limited amendments were published in June 2020.

IFRS 17 introduces comprehensive accounting requirements for insurance contracts and is therefore relevant not just to insurers, but for all entities that issue insurance contracts. The primary objectives of IFRS 17 are to promote consistency across entities and jurisdictions and thereby make financial statements of insurers more useful and more comparable with those of other industries.

[8] Not UK-endorsed at the date of publication of this factsheet.
[9] Not EU-endorsed at the date of publication of this factsheet.

IFRS 17 will replace the current standard on insurance contracts, IFRS 4 *Insurance Contacts*, a temporary standard which permits a variety of accounting practices for insurance contracts, typically based on previous local GAAP practices. The relative absence of prescriptive requirements for recognition and measurement in IFRS 4 has resulted in diversity in current insurance contract accounting, particularly between different jurisdictions, and in some cases the use of outdated assumptions and a lack of transparency about the generation and recognition of profits. IFRS 17 addresses such issues by requiring a consistent measurement approach, requiring the use of current information for measurement, and requiring insurance service results to be presented separately from insurance finance income or expense.

Scope

The definition of 'insurance contract' is the same as in IFRS 4. IFRS 17 applies to all insurance contracts issued, irrespective of the type of entity issuing the contracts, so the standard will also affect some entities that are not insurers. IFRS 17.3-8

IFRS 17 grants an accounting policy choice for fixed fee service contracts such as maintenance or car breakdown services. If certain conditions are met, an entity can account for such contracts under IFRS 15 instead.

In some cases, an entity may need to separate non-insurance components from an insurance contract and account for them under a different IFRS (for example IFRS 9 or IFRS 15).

Practical tip: does IFRS 17 apply?

Entities that issue insurance contracts will need to consider carefully the impact of the new accounting requirements under IFRS 17, as previously adopted policies may no longer be permitted. Entities will need to determine whether insurance contracts issued are covered by IFRS 17's scope exclusions (for example warranties provided by manufacturers, dealers or retailers). The assessment as to whether IFRS 17 applies may require significant resources and, potentially, specialist input.

Overview of IFRS 17's approach

As an initial step IFRS 17 requires entities to identify portfolios of insurance contracts subject to similar risks and managed together. Each portfolio is then divided into groups reflecting differences in expected profitability and date of issue: only contracts issued within one year of each other can be included in the same group. The group then forms the unit of account. IFRS 17.14-24

IFRS 17 requires insurance contracts to be presented on the balance sheet as the total of the fulfilment cash flows (presented as a liability for remaining coverage, a liability for incurred claims (if any), plus an explicit risk adjustment) and the 'contractual service margin' (CSM). The CSM represents the unearned profit on the insurance contracts, which will be recognised as the entity provides the insurance contract services. This means that the CSM is released over the coverage period, ie. the period over which the insurance contract services are provided. By contrast, onerous contracts do not have a CSM; the expected net outflows on a group of onerous contracts are recognised immediately in profit or loss as a loss. IFRS 17.32

The standard also permits a simplified measurement approach – the premium allocation approach (PAA) – for contracts meeting certain criteria, generally those with a coverage period of one year or less. Similar to many current accounting models for non-life contracts, the PAA involves spreading premiums received over the coverage period; the element deferred at each reporting date represents the liability for remaining coverage. In addition, the entity needs to recognise a liability for incurred claims (if any), determined as the present value of future fulfillment cash flows plus a risk adjustment. IFRS 17.53-59

Transition

IFRS 17 requires full retrospective application, ie, insurance contracts are to be recognised and measured at transition date as if IFRS 17 had always applied. However, if this is impracticable, the standard provides two alternative approaches: the modified retrospective approach or the fair value approach. The former aims to achieve the closest outcome to retrospective application possible using reasonable and supportable information, to the extent that information is available without undue cost or effort. If reasonable and supportable information needed to apply the modified retrospective approach is not obtainable, then a fair value approach must be applied. Under the fair value approach, the CSM on transition is determined as the difference between the fulfilment cash flows and the fair value of a group of contracts at the transition date.

IFRS 17 C3--5

Appendix

Implications of changes in UK company law arising from the UK leaving the EU

As noted in section 5 of this factsheet, there are changes in company law arising from the UK leaving the EU which have a consequential impact on the application of IFRS in the UK. There are other changes which, although not affecting EU-endorsed IFRS, have implications for the preparation and filing of accounts by UK companies. Of particular relevance is that where UK company law previously referred to the EEA[10] or an EU-regulated market, these references have been amended to refer to the UK only. Some of the key implications are outlined below and are effective for accounting periods beginning on or after 1 January 2021 unless otherwise noted.

Small and medium-sized groups

Companies that qualify as ‘small’ are eligible to use a number of accounting, auditing and filing exemptions. For example, a company that is eligible for the small companies regime is not required to prepare a strategic report.

Companies that are part of an ‘ineligible group’ are excluded from the small companies regime. Under the previous definition, an ineligible group was one that included, inter-alia, a company whose shares were traded on a regulated market in an EEA state. This has been amended to refer to a UK regulated market, making the definition less restrictive. As a result, more companies could qualify as small.

Further information
More information on the eligibility criteria and the exemptions is available at icaew.com/smallcompanyreporting

Exemption from preparing group accounts for intermediate parents

CA 2006 s400 as amended by SI 2019/685

Under the previous provisions in company law, a UK intermediate parent was exempt from preparing group accounts when the UK parent and its subsidiaries were included in the consolidated accounts of an EEA parent (subject to certain additional conditions). This provision has been amended to refer to the consolidated accounts of a UK parent. Therefore, exemption under this provision will no longer be available when the parent is established in one of the remaining EEA states.

CA 2006 s401 as amended by SI 2019/685

However, exemption from preparing group accounts is also available if the UK parent and its subsidiaries are included in the accounts of a non-UK parent whose accounts are prepared in an equivalent manner to accounts prepared under the Companies Act 2006 (subject to certain additional conditions). At the time of writing, accounts that are considered equivalent would include, inter alia, accounts that are prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU.

Practical tip: EEA parent applying EU-adopted IFRS versus national GAAP

A UK intermediate parent can still be exempt from preparing consolidated accounts if the EEA parent applies EU-adopted IFRS (subject to certain additional conditions) and simply needs to change the exemption reference from s400 to s401 in its accounts’ disclosure. However, if the EEA parent uses a national GAAP more work will be required to assess whether the national GAAP is considered equivalent to either UK GAAP or UK-adopted IFRS.

Change in accounting framework

CA 2006 ss395 and 403 as amended by SI 2019/685

A company that had elected to prepare its individual accounts under EU-adopted IFRS (or a group that has elected to prepare its consolidated accounts under EU-adopted IFRS) could switch to UK GAAP if there had been a ‘relevant change of circumstance’. A relevant change in circumstance previously included:

- An entity ceasing to be traded on an EU-regulated market; and
- Ceasing to be a subsidiary of a parent whose securities are traded on an EU-regulated market.

[10] The European Economic Area (EEA) includes the 27 EU member states and also Iceland, Liechtenstein and Norway. The UK is no longer part of the EEA.

The reference has been changed to a UK-regulated market, restricting the opportunities for a company to switch back to UK GAAP. However, a company can still switch to UK GAAP provided five years have elapsed since the last time it switched from IFRS to UK GAAP.

Accounting reference period

Generally, a company may not extend its accounting period more than once in any five-year period.

CA 2006 s392 as amended by SI 2019/145

An exception to this rule is that a subsidiary or parent of a UK undertaking may change its accounting reference date to coincide with that of the other undertaking.

Previously, the exception to the general rule was also available to parents or subsidiaries of EEA undertakings. This change came into effect at 11pm on 31 December 2020.

Dormant companies

Dormant subsidiaries are not required to prepare or file individual accounts for a financial year when certain conditions are met, including the existence of a statutory guarantee by the parent of all of the subsidiary's outstanding liabilities at the year-end.

CA 2006 s394A as amended by SI 2019/685

Prior to the amendments the parent giving the guarantee had to be incorporated in an EEA state. This has now changed to the parent being registered in the UK and, therefore, subsidiaries with parents incorporated in the remaining EEA states are no longer eligible for the exemption.

Exemption from audit by way of parent company guarantee

Similarly, a subsidiary may be exempt from audit when certain conditions are met, including the existence of a statutory guarantee by the parent of all the subsidiary's outstanding liabilities at the year end.

CA 2006 s479A as amended by SI 2019/685

Prior to the amendments, the parent providing the guarantee had to be incorporated in an EEA state and the subsidiary included in the consolidated accounts prepared in an 'equivalent' manner (see above). This has now changed to the parent being registered in the UK and, therefore, subsidiaries with parents incorporated in the remaining EEA states are no longer eligible for the exemption.

Non-financial information statement

For those companies otherwise in scope of the non-financial information (NFI) statement, an exemption is only available if its parent prepares a consolidated strategic report containing a group NFI statement. The NFI statement is a UK requirement and, therefore, there is no exemption for subsidiaries of EEA parents that prepare a management report, even if the content is similar.

More information on the scope and content of the NFI statement is available as part of the faculty's webpage on the strategic report.

Other considerations

The above list does not include all the possible financial reporting implications of the UK leaving the EU. In particular, UK companies with EEA listings, those that are required to file accounts with an EEA member state, or a UK parent with EEA subsidiaries that are also intermediate parents will need to consider whether the accounts have been prepared in accordance with local requirements and whether previous exemptions are still available.

You can find out more at icaew.com/brexit.

Contacts and further help

Factsheets for faculty members

This factsheet is part of a series designed to provide practical help for Financial Reporting Faculty members in exercising their professional judgement.

The faculty cannot offer interpretations of standards or give views on the application of standards to particular companies or transactions.

The faculty's standards trackers

To check for current standards and recent amendments go to the faculty's standards trackers at: icaew.com/frfstandardstracker.

Factsheets

Topics covered by other factsheets include:

- *2021 UK GAAP Accounts*
- *IFRS 16 Leases*
- *IFRS 9 Financial Instruments - overview*

A complete list of factsheets can be found here: icaew.com/frffactsheets

Factsheet comments and suggestions

To comment on factsheets, or to suggest topics that you'd like to see covered by factsheets, email us at frfac@icaew.com

Faculty resources icaew.com/frf

Resources published by the Financial Reporting Faculty may be found at icaew.com/frf. Resources include online access to the faculty's publications, webinar recordings and other guidance such as FAQs and the standards trackers. Faculty members also have full access to the IASB's eIFRS resource, including full texts of the standards.

The Financial Reporting Faculty
The faculty aims to help members keep up to date with the implications of new standards, regulations and practice in financial reporting.
Our international community of financial reporting professionals also contribute to the ICAEW's work in influencing the development of financial reporting concepts, standards and regulation.

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