FINANCIAL REPORTING DEVELOPMENTS

Financial Services Organizations (FSO)

December 9, 2024

Building a better working world

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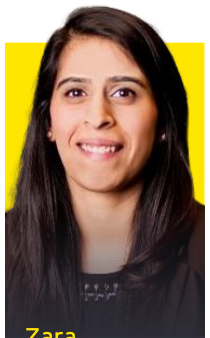

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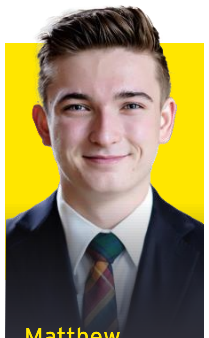

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AGENDA

01 Regulatory updates and perspectives from the Ontario Securities Commission

02 OSFI Assurance on Capital, Leverage, Liquidity Returns Guidelines

03 OSFI Climate Updates

04 Amendments to IFRS 7 and 9

05 IFRS 18 Presentation and Disclosure in Financial Statements

06 IFRS 17 – Insurance Contracts – Updates

07 Accounting Implications of Recent Tax Legislation

- EIFEL Rules
- Taxes on Share Buyback

Ontario Securities Commission

Regulatory Update

Ontario Securities Commission

Disclaimer

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Agenda

Climate-related Matters

Financial Reporting Trends and Focus Areas

Regulatory Perspective – New IFRS Accounting Standards

Climate-related Matters

ONTARIO SECURITIES COMMISSION

Climate Related Disclosures Journey: Rule-making

Oct. 2021
Proposed National Instrument 51-107 published for comment

Mar. 2022
Proposed SEC rules and ISSB exposure drafts published for comment

Oct. 2022
CSA update to the market

Apr. 2023
CSSB chair and initial members appointed

June 2023
Final ISSB standards published and CSSB became operational

July 2023
CSA welcomes ISSB standards and IOSCO endorsement

Oct. 2023
CSA update to the market

Climate Related Disclosures Journey: Rule-making (cont.)

Feb. 2024
ISSB issues preview of adoption guide

Mar. 2024
SEC approves climate rules

Mar. 2024
CSSB publishes exposure drafts for comment

Mar. 2024
CSA welcomes CSSB consultation and sets out rule-making process

Apr. 2024
SEC stays rules pending resolution of litigation

June 2024
Comment period closes for CSSB consultation

OSC ONTARIO SECURITIES COMMISSION

Climate – Canadian Path Forward

1. We are engaging with the CSSB

2. We intend to conduct further consultations to adopt disclosure standards based on ISSB standards, with modifications as necessary

Climate – Key Rule-Making Considerations

- Policy rationale for approach
- Proportionality and scalability
- Quantitative disclosures
- Liability considerations

ONTARIO SECURITIES COMMISSION

Financial Reporting Trends and Focus Areas

ONTARIO SECURITIES COMMISSION

Business Combinations

Observation:

Business combinations based on exchanging significant amounts of equity interests and recording mainly goodwill or intangible assets at the acquisition date

	Areas of Deficiency
Financial Statements	• Qualitative description of the factors that make up the goodwill balance *[IFRS 3 B64(e)]*
MD&A Disclosure	• Why did management decide to pay a significant amount over the fair value of the net identifiable assets? • Discuss specifics of intangible assets to explain what it represents, including material components and stage of development
Other	• If record impairment loss for goodwill or intangible assets within 12 months from date of acquisition, substantial MD&A disclosure needed: ○ What were circumstances leading to the impairment ○ What key inputs or assumptions that changed for impairment compared to purchase price allocation

Goodwill Impairment Considerations

Observation:

Issuers do not provide sufficient information about CGUs

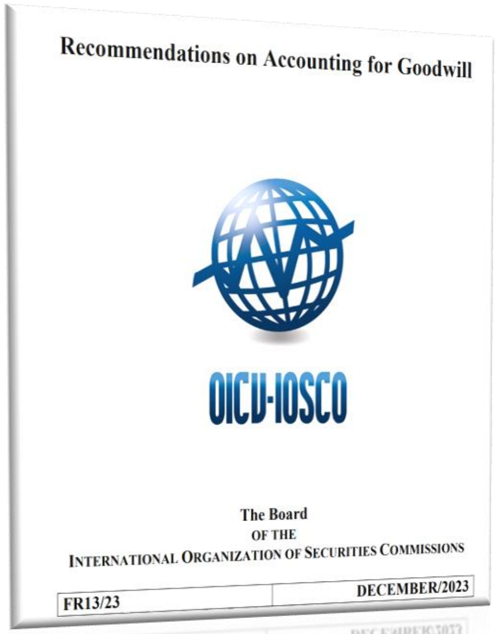
Issuers do not provide required disclosure for instances where a reasonably possible change to key assumption(s) would cause CGU carrying amount to exceed the recoverable amount.

	Areas of Deficiency
Financial Statements	• Description of CGU required when impairment loss recognized or reversed *[IAS 36.130(d)(i)]* • If goodwill in a CGU represents a significant portion entity's total goodwill, additional information required about the CGU and recoverable amount determination *[IAS 36.134]*

MD&A Disclosure	• Overall performance discussion should:
	  • Discuss reasons leading to the impairment at the CGU level
	  • How continuing operations contributed to the recoverable amount being lower than carrying amount
	  • Information on 'close call' results from impairment assessment that indicate limited headroom remaining for goodwill

Other	• IOSCO paper – Recommendations on Accounting for Goodwill

IOSCO Publication – Recommendations on Accounting for Goodwill


Recommendations on Accounting for Goodwill

OICU-IOSCO

The Board
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

FR13/23	DECEMBER/2023

- Publication was motivated by:
  - Risk of unrecognized impairment on accumulated goodwill balances ('too little, too late')
  - Limited or no disclosure of 'close call' scenarios
  - Inadequacy of disclosures of key assumptions and questionable validity of assumptions underlying estimated cash-flows used to test for impairment

- Report includes ***recommendations for issuers, audit committees, and external auditors*** that aim to enhance the reliability, faithful representation and transparency of goodwill recorded and disclosed by issuers

- Topic of goodwill impairment continues to be an area of priority and focus for the regulatory community

OSC ONTARIO SECURITIES COMMISSION

Expected Credit Losses (ECL)

Observation:

Issuers do not disclose enough information to enable investors to understand nature and extent of credit risk arising from its financial assets

	Areas of Deficiency
Financial Statements	• Disclose key inputs and assumptions, including how forward-looking information has been incorporated into the determination of ECL *[IFRS 7.35G]* • Disclose more information about collateral and how it is impacting the ECL assessment for financial assets *[IFRS 7.35K]*
MD&A Disclosure	• Discuss information necessary to enhance a user's understanding of the issuer's financial position and performance ○ Carefully consider further disclosure on the impact of the economic environment on the factors used to measure ECL • If there are liquidity risks associated with financial assets, issuers should discuss these as part of its liquidity analysis
Other	• Challenges with the timeliness of identifying when there has been a significant increase in credit risk

Disaggregation of Revenue

Observation:

Issuers do not disaggregate revenues in a manner that allows readers to understand how nature, amount, timing and uncertainty of revenue affected by economic factors.

	Areas of Deficiency
Financial Statements	• Preparers are not adequately considering whether multiple categories of disaggregation may be needed *[IFRS 15.114]* • Preparers need to consider how revenue is presented for other purposes, such as disclosure outside of financial statements *[IFRS 15 B88]* • Presenting one reportable segment does not exempt an issuer from required revenue disaggregation disclosure.
MD&A Disclosure	• Analysis should be provided for each category of disaggregated revenue
Other	• Neither IFRS 15 or MD&A requirements contain an exemption from disclosing information because preparer is of view that it is “commercially sensitive”.

Overly Promotional Disclosure

Observations:

- Promotional activities that are untrue or unbalanced to the extent that investors may be mislead
- Notable areas of concern are 'greenwashing' and 'AI washing'

	Key Considerations
Greenwashing	• Disclosing net-zero target with no indication what is included in target and no credible plan to achieve target • Claiming product or service ESG "friendly" or "compliant" without disclosure citing basis for claim
AI Washing	• Unsubstantiated statements about use of AI technology ○ "Company uses most advanced AI technology" ○ "Company leading competitors in use of AI to support its business"

Regulatory Perspectives

New IFRS Accounting Standards

IFRS 18 Presentation and Disclosure in Financial Statements

Responds to investors demands

All entities affected

Disclosing the impact of IFRS 18

- Progressively more detailed as effective date approaches

Non-GAAP financial measures

- Reflect on number disclosed *outside* financial statements

IFRS 19 Subsidiaries without Public Accountability: Disclosures

- Permits certain subsidiaries of reporting companies to voluntarily provide reduced financial statement disclosures.

- Entities "without public accountability".

Acceptance in Regulatory Filings	
Reporting Issuer Financial Statements	X
Issuer Financial Statements: IPO, Short-Form Prospectus, or Information Circular	X
Acquisition Financial Statements[1]	+
Registrant Financial Statements	X
Financial Statements Filed under an Existing Undertaking	X

[1] If eligible subsidiary, additional disclosure considerations.

Questions?

OSFI ASSURANCE ON CAPITAL, LEVERAGE AND LIQUIDITY GUIDELINE

SENIOR MANAGEMENT ATTESTATION

KEY GUIDANCE

- Appropriate governance in place to ensure regulatory returns are free of material misstatements.
- Appropriate policies, procedures and controls exist to monitor the accuracy and completeness of all regulatory returns on an ongoing basis.
- Returns are accurate, complete, and in compliance with the minimum regulatory requirements at the reporting date.
- Based on review performed by an internal function independent of the business line responsible for preparation of the returns.
- OSFI expects senior management attestations to be submitted to the lead supervisor based on the SMSB's filing frequency and requirements for the respective regulatory returns.

WHAT HAS CHANGED?

Attestation would require an internal review of the regulatory return prior to signoff to enhance governance and controls in institutions.

The review should be performed by an individual not directly involved in the preparation of the returns, and with the appropriate authority, knowledge, and expertise to interpret the applicable regulatory guidance.

Submit summary of unadjusted errors annually.

INTERNAL AUDIT OPINION

KEY GUIDANCE

- Objectively assess:
  - a) The effectiveness of internal controls in place for all schedules and line items with respect to key regulatory returns.
  - b) The effectiveness of management information systems and processes.
  - c) The monitoring of compliance with approved regulatory models.
- May appoint any independent qualified party.
- May be completed any time during the fiscal year.
- OSFI may assess the effectiveness of the work undertaken by internal audit and verify that appropriate and timely corrective action is taken in response to any control weaknesses identified and may require additional testing by internal and/or external auditors with respect to the areas of concern.

WHAT HAS CHANGED?

Internal auditors are expected to provide their opinion within 90 days of the fiscal year-end and at a minimum once every three years based on the FRFI's internal risk-based frequency of review.

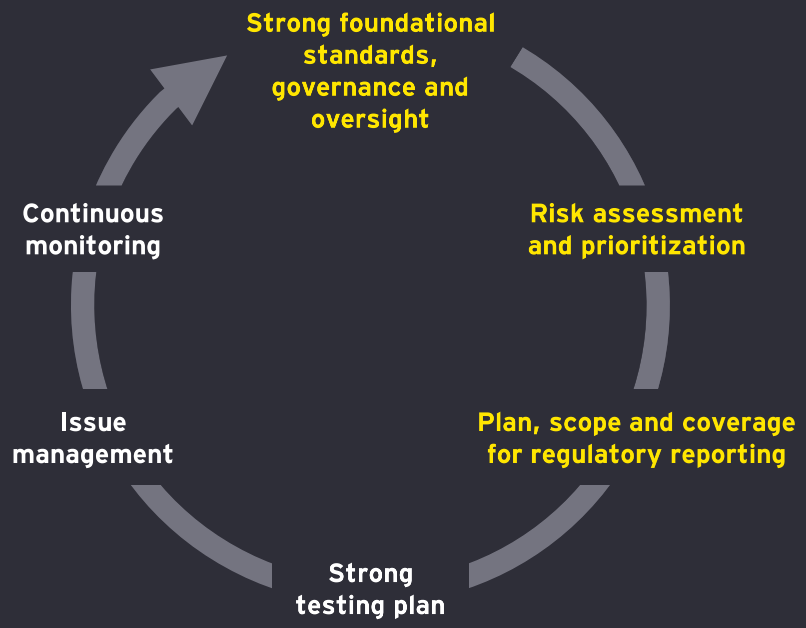
If the internal audit opinion does not include testing of controls at year-end, the FRFIs must attest that the processes and controls continue to be in place and no material changes occurred at year-end.

INTERNAL AUDIT FRAMEWORK

To maximize impact while meeting the requirements of the guideline, a successful internal audit program should contain the following components:

Some of the risks of testing capital are:

- Completeness and accuracy of the data flows from front office systems to calculation engines.
- Incorrect application of OSFI Capital Adequacy Requirements (CAR).
- Lack of controls over data flows into capital calculation engine.
- Risk of management override of data in preparation of returns.
- Lack of adequate controls over return preparation.



Some of the risks of testing liquidity:

- Completeness and accuracy of the data flows from front office systems to calculation engines.
- Inconsistent bucketing of cash flows and interpretation of subjectivity within the Liquidity Adequacy Requirement (LAR).
- Risk of management override of data in the preparation of returns.
- Testing of management's assumptions for data elements.
- Lack of adequate controls over return preparation.

Using a strong foundational framework, an organized approach can be taken to applying a risk-based testing approach.

INTERNAL AUDIT OPINION – ADDITIONAL CONSIDERATIONS

We have been working with several clients in supporting their readiness for management's attestation, internal and external audit. Common themes or questions arising for internal audit include:

- Control uplift may be required, as was seen in similar projects in the past, such as IFRS 9 or IFRS 17
- Timing of inaugural report.
- Sequencing of activities subject to audit, e.g., all components at the same time, or spread over time.
- Integrating comfort from pre-existing processes and controls into new in-scope processes and covering the gaps.
- Scope – differs from external audit – need to capture controls over all line items for all schedules?
- Impact of audit on management attestations.
- Regulatory environment.
- Determination of materiality.
  - Separate materiality for numerator and denominator.
  - Quantitative considerations include an upper limit (e.g., 5%) or % to internal target, whichever is lower.
  - Qualitative considerations include:
    - Materiality will be used toSize, nature and complexity.
    - Any breach or near breach of internal target.
    - Open investigations or errors within the numerator and denominator.
  - Set a lower performance materiality for scoping as well as a misstatement threshold.
  - Aggregate errors for the numerator and denominator separately and aggregate the combined errors on total ratio and determine if material.

EXTERNAL AUDIT OPINION – OVERVIEW AND MATERIALITY CONSIDERATIONS

KEY GUIDANCE

- External audit opinion on whether the numerator and denominator of key regulatory ratios have been prepared, in all material respects, in accordance with the relevant regulatory framework.

Materiality

- To plan the extent, timing, and nature of the procedures.
- May lead the auditor to set materiality at a level that is lower than the materiality used for financial statement audits.
- Requires external auditor's professional judgement and should be based on a combination of quantitative and qualitative factors:
  a. Size, nature, and complexity of a FRFI's operations.
  b. Breach or near breach of a FRFI's internal target for capital, leverage, or liquidity requirements.
  c. Offsetting misstatements in the numerator and denominator of a regulatory ratio that may cause the subject matter information to be materially misstated.

WHAT HAS CHANGED?

Opinion shall cover material risk components in numerator and denominator of key regulatory ratios thereby preventing offsetting errors that might not be detected otherwise.

New audit requirement for DTIs

Scope change for insurers as the ratio page subject to an external audit is being clarified.

New guidelines for assessing materiality threshold.

External audit opinion will be performed under CSAE 3000 Attestation Engagements Other than Audits or Reviews of Historical Financial Information

EXTERNAL AUDIT OPINION – ADDITIONAL CONSIDERATIONS

The following are some considerations for management as they prepare for the FY25 external audit of the regulatory ratios:

- Consider engaging external auditors or another independent qualified third party to perform a pre-assessment
- Controls vs substantive audit
- Those charged with governance
- Timing of audit procedures
- Timing of the audit opinion
- Complexity of DRI/FRI
- Use of specialists

OSFI ASSURANCE GUIDELINE – DEVELOPMENTS

On July 8, 2024, OSFI released clarifications on the OSFI Assurance Guideline to assist with the requirements. The following is a summary of the clarifications.

EXTERNAL AUDIT

- The external audit opinion is expected on the numerator and denominator separately as opposed to the overall ratio in order to ensure that offsetting errors are not missed.
- The Net Cumulative Cash Flow (NCCF) and Operating Cash Flow Statement do not have external audit requirements.
- Category II and III SMSBs can submit an external audit opinion every 2 years starting in fiscal 2025 within 90 days of year-end.

SENIOR MANAGEMENT ATTESTATION

- For FRIs, if the existing attestations or audit opinions align with the scope and frequency of the Guideline, the FRI can submit the same attestation and audit opinions for the regulatory returns to avoid duplication of effort.
- Any individual, including an external third party, who is "not directly involved in the preparation of the returns, and (is) with the appropriate authority, knowledge, and expertise to interpret the applicable regulatory guidance" can review the regulatory returns as part of the senior management attestation.
- Although liquidity returns are filed monthly, the attestation for liquidity returns is expected for the quarter-end month only.
- Category II and III SMSBs can review and attest quarterly for a fiscal year, every two years starting in fiscal 2024.

INTERNAL AUDIT

- OSFI clarified that the internal audit opinion for a given year should be based on the effectiveness of the controls for that year only.

OSFI CLIMATE UPDATES

SUSTAINABILITY DEVELOPMENTS IN CANADA

Canadian Sustainability Standards Board (CSSB)

Office of the Superintendent of Financial Institutions (OSFI)

B-15 Climate Risk Management

CANADIAN SUSTAINABILITY DISCLOSURE STANDARDS

On 13 March 2024, the Canadian Sustainability Standards Board ("CSSB") **released** Exposure Drafts on Canada's first sustainability standards, based on the International Sustainability Standards Board (ISSB) first standards (with very few deviations) issued in June 2023 – IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 - Climate-related Disclosures.

Three proposed documents were published, including two Canadian Sustainability Disclosure Standards ("CSDS").

1. CSDS 1 General Requirements for Disclosure of Sustainability-related Financial Information
2. CSDS 2 Climate-related Disclosures
3. Consultation Paper Proposed Criteria for Modification Framework

Finalized standards expected by **December 2024**.

At this time there are **no mandatory assurance requirements**.

In order to become mandatory under Canadian securities legislation, **the CSSB standards must first be incorporated into a CSA rule.**

CSA PUBLIC COMMENTS

Once the CSSB standards are finalized, the CSA anticipates seeking comment on a revised rule setting out climate-related disclosure requirements.

In a **press release on March 13, 2024** issued subsequent to the CSSB's release, the CSA indicated that it *"anticipates adopting only those provisions of the sustainability standards that are necessary to support climate-related disclosures"*.

When the CSA publishes its revised rule, it will seek public comments on a number of matters, including the scope of application and the need for additional time and/or guidance for reporting issuers to comply with certain disclosure requirements.

OSFI B-15 CLIMATE RISK MANAGEMENT OVERVIEW

PURPOSE OF DISCLOSURE EXPECTATIONS

BUILD confidence in management

ASSIST in maintaining adequate access to capital and liquidity channels

IMPROVE the public's confidence in the resilience of the Canadian financial system

OUTCOMES

- Understand and mitigate against potential impacts of climate-related risks to organization's business model and strategy.
- Have appropriate governance and risk management practices to manage identified climate-related risks.
- Remain financially resilient through severe, yet plausible, climate risk scenarios, and operationally resilient through disruption due to climate-related disaster

OSFI B-15 CLIMATE RISK MANAGEMENT OVERVIEW

GOVERNANCE

- Board of directors oversight of climate risks and opportunities
- Management's role in assessing / managing climate risk

STRATEGY

- Identified climate risks and opportunities
- Impact of climate risks and opportunities on business & strategy
- Transition plans
- Strategy resiliency to adverse climate scenarios

RISK MANAGEMENT

- Process for identifying and assessing climate risks
- Process for managing climate risks
- Integration with overall risk management

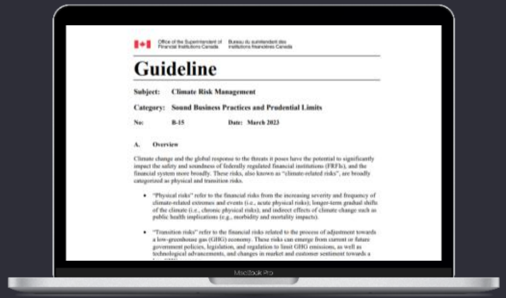
METRICS AND TARGETS

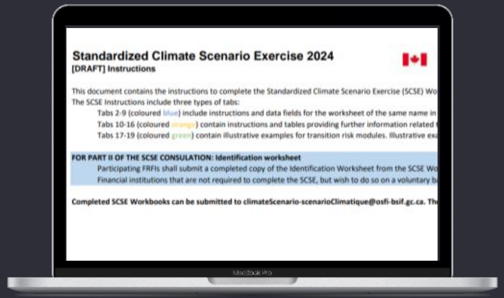
- Metrics used to assess climate risk
- Scope 1 & 2 GHG emissions
- Scope 3 GHG emissions
- Targets used to manage climate risk and performance against targets

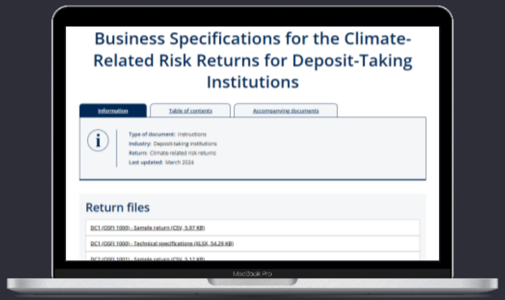
OSFI CLIMATE MANDATE AND TIMELINES

As part of the Climate mandate, OSFI requires submissions for the following three requirements:

OSFI CLIMATE REQUIREMENTS	B-15 CLIMATE RISK MANAGEMENT	STANDARDIZED CLIMATE SCENARIO EXERCISE	CLIMATE RISK RETURNS
OBJECTIVE	Governance, risk management, strategy and disclosure requirements	Standards for Federally Regulated Financial Institutions ("FRFI") to conduct Climate Scenario Analysis	Collect climate-related emissions and exposure data
APPLICABILITY	All FRFIs except foreign bank branches.	All FRFIs except foreign bank branches, federally regulated pension plans, and financial institutions in run-off.	All FRFIs except for foreign bank branches.
DEADLINES	180 days after fiscal year end as applicable: ▸ Fiscal year-end 2024* for Domestic Systematically Important Banks ("DSIB") and Internationally Active Insurance Groups headquartered in Canada ("IAIG") ▸ Fiscal year-end 2025* for all other FRFIs *Certain disclosures are required to be reported one year later i.e. Scope 3 emissions	▸ December 13, 2024 - for credit and market risk modules ▸ January 24, 2025 - for flood and wildfire risk modules, the real estate transition risk exposure assessment, and the questionnaire	180 days after fiscal year end as applicable: ▸ Fiscal year-end 2024 for DSIBs and IAIG ▸ Fiscal year-end 2025 for all other FRFIs







KEY POTENTIAL CHALLENGES FOR FINANCIAL INSTITUTIONS

Preparing for and implementing new regulatory requirements may be a difficult process for financial institutions with a variety of key challenges along the journey

RISK IDENTIFICATION

- Understanding the relevant risks and opportunities

DATA

- Integrating multiple disparate sources of data
- Sourcing accurate data and filling data gaps

GOVERNANCE AND OPERATING MODEL

- Regulatory programs are initially being driven and led out of the Finance function, but co-owned with other functions such as Risk and Sustainability
- Senior leadership buy in is key

MANAGING OVERLAPPING GLOBAL FRAMEWORKS

- Defining a strategic approach for multinational institutions subject to multiple requirements, e.g., ISSB, OSFI B-15, SEC Climate Rule, European regulations, California regulations

ENTITY VS GROUP DISCLOSURE

- For institutions with multiple entities, disaggregation of data and disclosure at the entity level is an open question
- Materiality will also need to be considered at the in-scope entity level

ROLE OF FINANCE IN ADVANCING THE CLIMATE MANDATE

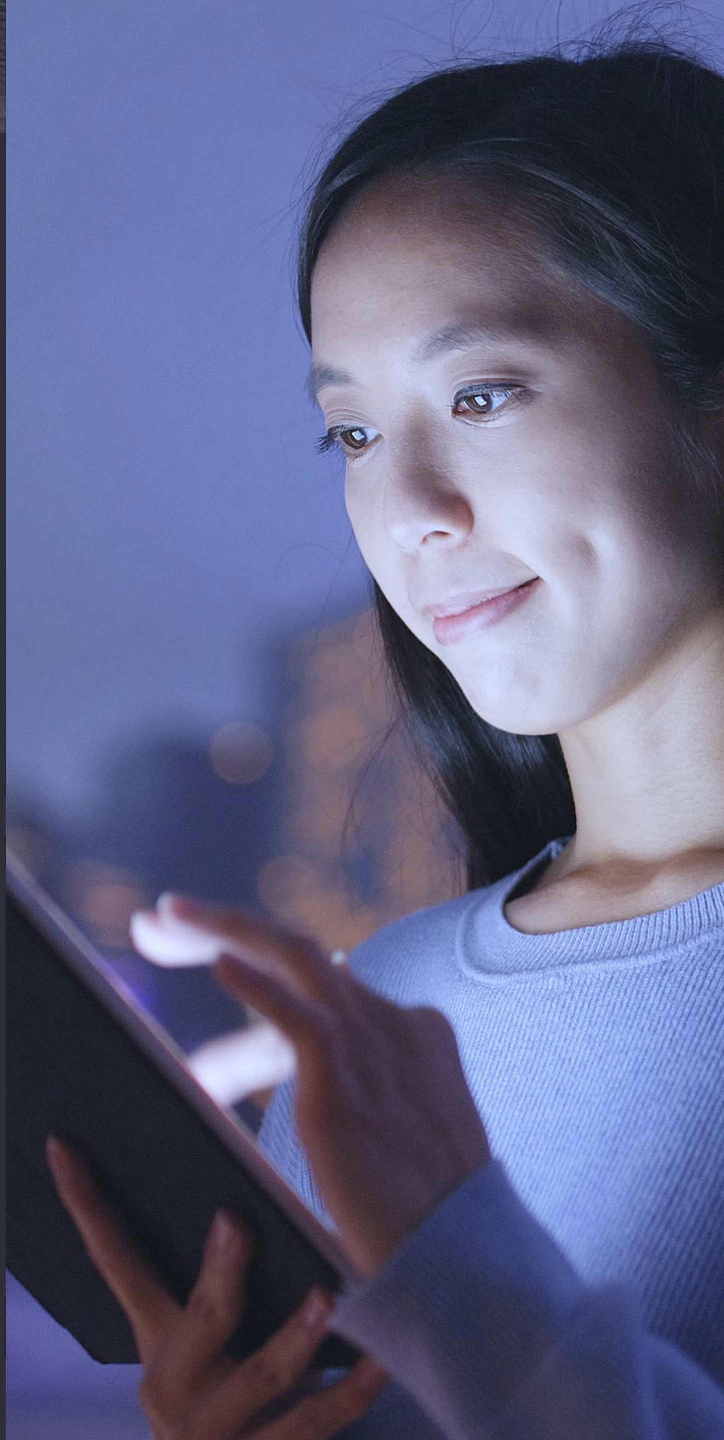
REPORTING, DISCLOSURES AND MESSAGING	GOVERNANCE	DATA, ANALYTICS, AND TECHNOLOGY PLATFORMS	PERFORMANCE MANAGEMENT
Report in a reliable, objective and consistent manner aligned to regulatory frameworks, and develop a climate narrative that can be used consistently across channels to address financial and non-financial performance.	Establish governance through formalized operating model, leadership and board commitment, and end-to-end comprehensive performance management.	Establish a data framework, internal controls and processes to collect, aggregate and analyze sustainability and climate data, and invest in technology platforms required to drive insights into decision-making.	Track non-financial (and financial) performance measures and value created across the business (e.g., talent, innovation).

AMENDMENTS TO IFRS 7 AND IFRS 9

AMENDMENTS TO THE CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

IFRS 9 AND IFRS 7 AMENDMENTS

- Clarify the date of recognition and derecognition of financial assets and liabilities and the definition of "settlement date"
- Introduce an accounting policy option to derecognise financial liabilities that are settled through an electronic payment system before the settlement date if certain conditions are met
- Clarify how to assess the contractual cash flow characteristics of financial assets that include ESG linked features and other similar features
- Clarify the treatment of non-recourse assets and contractually linked instruments (CLI)
- Require additional disclosures in IFRS 7 for financial assets and liabilities with contractual terms that reference a contingent event and equity instruments classified at FVOCI
- Effective for annual reporting periods beginning on or after January 1, 2026. Earlier application is permitted



CLARIFICATION OF DATE OF RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

IFRS 9 AND IFRS 7 AMENDMENTS

- The amendment clarifies the date of recognition and derecognition of financial assets and liabilities and the definition of settlement date.
  - The settlement date is the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires or the liability otherwise qualifies for derecognition.
- IFRS 9 provides an exception for regular way purchases or sales of financial assets that allows for recognition/derecognition using either trade date or settlement date accounting. That exception continues to apply and is not impacted by these amendments.

	FINANCIAL ASSET	FINANCIAL LIABILITY
DATE OF INITIAL RECOGNITION	The date on which the entity becomes party to the contractual provisions of the instrument (IFRS 9 para 3.1.1)	The date on which the entity becomes party to the contractual provisions of the instrument (IFRS 9 para 3.1.1)
DATE OF DERECOGNITION	The date on which the rights to cash flows expire or the asset is transferred (IFRS 9 para 3.2.3)	The settlement date (IFRS 9 para 3.3.1 and 3.3.2), unless an entity applies a policy choice for electronic payment systems. (IFRS 9 B3.3.8)

DERECOGNITION OF FINANCIAL LIABILITIES SETTLED THROUGH ELECTRONIC TRANSFER

IFRS 9 AND IFRS 7 AMENDMENTS

Introduce an accounting policy option to derecognise financial liabilities that are settled through an electronic payment system before the settlement date if certain conditions are met:

CONDITIONS:

- The entity has no practical ability to withdraw, stop or cancel the payment instruction;
- The entity has no practical ability to access the cash to be used for settlement; and
- The settlement risk associated with the electronic payment system is insignificant.

SOME PRACTICAL CHALLENGES IN APPLYING THE EXCEPTIONS:

- Multiple electronic payment systems and/or cross border payments
- Inter-company balances

SPPI ASSESSMENT IN CLASSIFYING FINANCIAL ASSETS: FINANCIAL ASSETS WITH ESG – LINKED FEATURES

IFRS 9 AND IFRS 7 AMENDMENTS

This simplified decision tree is not explicitly presented within the amendments. Rather we have attempted to depict our current understanding of how the amendments are intended to work via the decision tree.

Are the contractual cash flows that could arise both before and after each change in contractual cash flows consistent with **a basic lending arrangement**, irrespective of the probability of the contingent event occurring?

NO → **SPPI FAILED**

e.g. cash flows before and after the change are based on an index, commodity price, equity price or other similar variable

YES

e.g. cash flows before and after the change, each considered in isolation, are based on an unleveraged rate of interest plus a spread

Does the **nature of the contingent event** relate directly to, and do contractual cash flows change in the same direction as, changes in basic lending risks and costs?

YES → **SPPI PASSED**

NO/UNSURE

Are the cash flows arising from the contingent feature not **"significantly different"** to an identical financial asset without such a feature?

NO → **SPPI FAILED**

YES

SPPI PASSED → **NEW DISCLOSURE REQUIREMENT**

Amendments clarify the assessment of whether the lender's compensation is consistent with a basic lending arrangement, and how contractual terms that change the timing or amount of contractual cash flows should be assessed.

SPPI ASSESSMENT IN CLASSIFYING FINANCIAL ASSETS: FINANCIAL ASSETS WITH ESG – LINKED FEATURES

IFRS 9 AND IFRS 7 AMENDMENTS

WHICH OF THESE LOANS PASS THE SPPI TEST?

	Instrument 1	Instrument 2
	▸ Basic Interest Rate: CORRA + 5% credit spread ▸ Contingent Feature: Interest rate is adjusted to track the movements in a market-determined carbon price index (i.e. if carbon price index increases by 10%, credit spread will increase by 10%)	Basic Interest Rate: CORRA + 5% credit spread ▸ Contingent Feature: Interest rate is reduced by 15 basis points if borrower achieves a specified reduction in its greenhouse gas emissions in the preceding year.
Contractual cash flows that could arise both before and after each change in contractual cash flows are consistent with a basic lending arrangement?	× contractual cash flows are indexed to a variable (the carbon price index), which is not consistent with a basic lending arrangement	√ contractual cash flows before and after each change, each considered in isolation, are based on an unleveraged rate of interest plus a spread, which is consistent with a basic lending arrangement
Nature of contingent event relates directly to, and change in the same direction as, changes in basic lending risks and costs?	N/A	No/Unsure – contingent event is reduction of borrower's greenhouse gas emissions: further analysis required
Cash flows arising from contingent features are not "significantly different"?	N/A	√ could pass SPPI (further assessment required)

DISCLOSURES

IFRS 9 AND IFRS 7 AMENDMENTS

INSTRUMENTS WITH CONTRACTUAL CASH FLOWS THAT MAY CHANGE BECAUSE OF CONTINGENT EVENTS

- New disclosure requirements for instruments with contractual terms that change cash flows due to contingent events that do not relate directly to changes in basic lending risks and costs:
  - A qualitative description of the nature of the contingent event
  - Quantitative information about possible changes to contractual cash flows (e.g., the range of possible changes)
  - The gross carrying amount of financial assets and the amortised cost of financial liabilities subject to the contingent features

EQUITY INSTRUMENTS DESIGNATED AT FVOCI

- Clarification that existing disclosures shall be provided by class of equity investments
- New disclosure requirements:
  - Separate disclosure for changes in fair value relating to FVOCI equity instruments derecognized versus held at period end
  - Any transfers of cumulative gain or loss within equity related to investments derecognized during the reporting period

TRANSITION AND EFFECTIVE DATE

IFRS 9 AND IFRS 7 AMENDMENTS

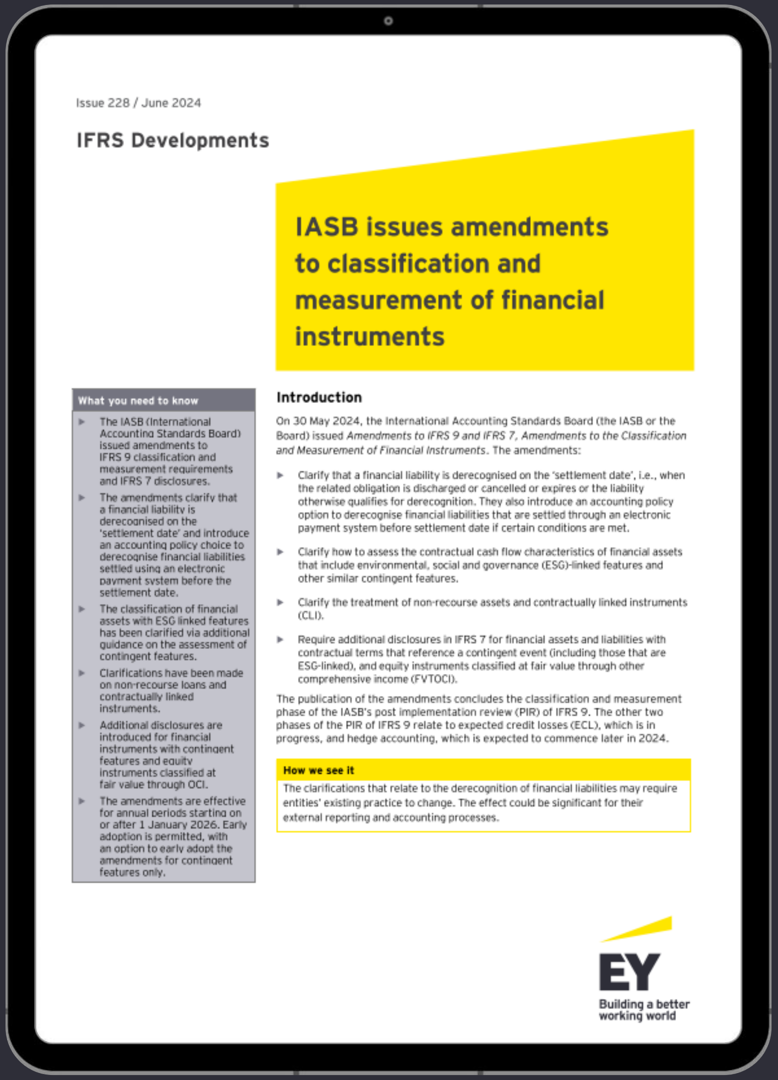
- Effective for annual periods beginning on or after **January 1, 2026** – early adoption is permitted

- Adoption to be applied retrospectively with adjustment to opening retained earnings – prior periods not required to be restated (but can be only if done without use of hindsight)

- Entities may elect to **early apply only** the amendments to the SPPI requirements together with the disclosure requirements in IFRS 7 relating to instruments with contingent cash flows, without having to early apply the other amendments from the same date

IFRS DEVELOPMENTS

IFRS 9 AND IFRS 7 AMENDMENTS


Issue 228 / June 2024

IFRS Developments

IASB issues amendments to classification and measurement of financial instruments

What you need to know

- The IASB (International Accounting Standards Board) issued amendments to IFRS 9 classification and measurement requirements and IFRS 7 disclosures.
- The amendments clarify that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice to derecognise financial liabilities settled using an electronic payment system before the settlement date.
- The classification of financial assets with ESG linked features has been clarified via additional guidance on the assessment of contingent features.
- Clarifications have been made on non-recourse loans and contractually linked instruments.
- Additional disclosures are introduced for financial instruments with contingent features and equity instruments classified at fair value through OCI.
- The amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for contingent features only.

Introduction

On 30 May 2024, the International Accounting Standards Board (the IASB or the Board) issued *Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments*. The amendments:

- Clarify that a financial liability is derecognised on the 'settlement date', i.e., when the related obligation is discharged or cancelled or expires or the liability otherwise qualifies for derecognition. They also introduce an accounting policy option to derecognise financial liabilities that are settled through an electronic payment system before settlement date if certain conditions are met.
- Clarify how to assess the contractual cash flow characteristics of financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features.
- Clarify the treatment of non-recourse assets and contractually linked instruments (CLI).
- Require additional disclosures in IFRS 7 for financial assets and liabilities with contractual terms that reference a contingent event (including those that are ESG-linked), and equity instruments classified at fair value through other comprehensive income (FVTOCI).

The publication of the amendments concludes the classification and measurement phase of the IASB's post implementation review (PIR) of IFRS 9. The other two phases of the PIR of IFRS 9 relate to expected credit losses (ECL), which is in progress, and hedge accounting, which is expected to commence later in 2024.

How we see it

The clarifications that relate to the derecognition of financial liabilities may require entities' existing practice to change. The effect could be significant for their external reporting and accounting processes.

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[Amendment to classification and measurement requirements of IFRS 9]

June 2024

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

IMPACT ON THE COMPLETE SET OF FINANCIAL STATEMENTS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

PRIMARY FINANCIAL STATEMENTS

Statement of financial position	Statement of profit or loss	Statement presenting comprehensive income	Statement of changes in equity	Statement of cash flows

NOTES TO THE FINANCIAL STATEMENTS

Management defined performance measures

Disclosure of expenses aggregated in the operating category by function

Other disclosures carried forward to IFRS 18 or IAS 8

Material accounting policies
Sources of estimation uncertainty
Capital management
Debt covenants
Going concern uncertainty
Fair presentation
Compliance with IFRS Accounting Standards

Significant changes　Some changes　Minimal changes

OVERVIEW OF THE NEW REQUIREMENTS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

New categories and required subtotals in statement of profit or loss

Disclosures about management-defined performance measures (MPMs)

Enhanced requirements:

- on aggregation and disaggregation
- presentation and disclosure of expenses classified in the operating category

CATEGORIES AND SUBTOTALS IN THE STATEMENT OF PROFIT OR LOSS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Revenue	Operating
Cost of sales	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Net interest expense on net defined benefit liability (or asset)	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

Some companies, such as banks and investment property companies, will classify income and expenses in their operating profit that other companies would classify in the investing or financing categories.

This will allow such entities to report key performance metrics within the operating section.

NEW ITEMS

REQUIRED ITEMS

CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS: INVESTING

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

WHAT IS TYPICALLY INCLUDED IN THE INVESTING CATEGORY?

Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity

- Rental income and remeasurements of investment property
- Interest income and fair value changes on financial assets
- Dividends and fair value changes on non-consolidated equity investments

Income and expenses from investments in unconsolidated subsidiaries, associates and joint ventures accounted for using the equity method

Income and expenses from cash and cash equivalents

CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS: FINANCING

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

WHAT IS TYPICALLY INCLUDED IN THE FINANCING CATEGORY?

All income and expenses from liabilities from transactions that involve only the raising of finance

- Receipt and return of cash or company's own shares
- Debt instruments that will be settled in cash e.g., bank loans

Interest income and expenses and effects of changes in interest rates from other liabilities (Note that this is not an exhaustive list.)

- Lease liabilities
- Defined benefit pension liabilities
- Decommissioning or asset restoration provision
- Litigation provision

CATEGORIES IN THE STATEMENT OF PROFIT OR LOSS: OPERATING

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

WHAT IS TYPICALLY INCLUDED IN THE OPERATING CATEGORY?

Income and expenses:

- From an entity's main business activities
- Not classified in other categories (residual category)
- Also includes volatile and unusual income and expenses

Provides a picture of the entity's operations

SPECIFIED MAIN BUSINESS ACTIVITIES

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

IFRS 18 REQUIRES AN ENTITY TO ASSESS WHETHER IT

- Invests in assets to generate a return individually and largely independently of other resources held by an entity as a main business activity?
- Provides financing to customers as a main business activity?

WHETHER AN ENTITY HAS SPECIFIED MAIN BUSINESS ACTIVITIES

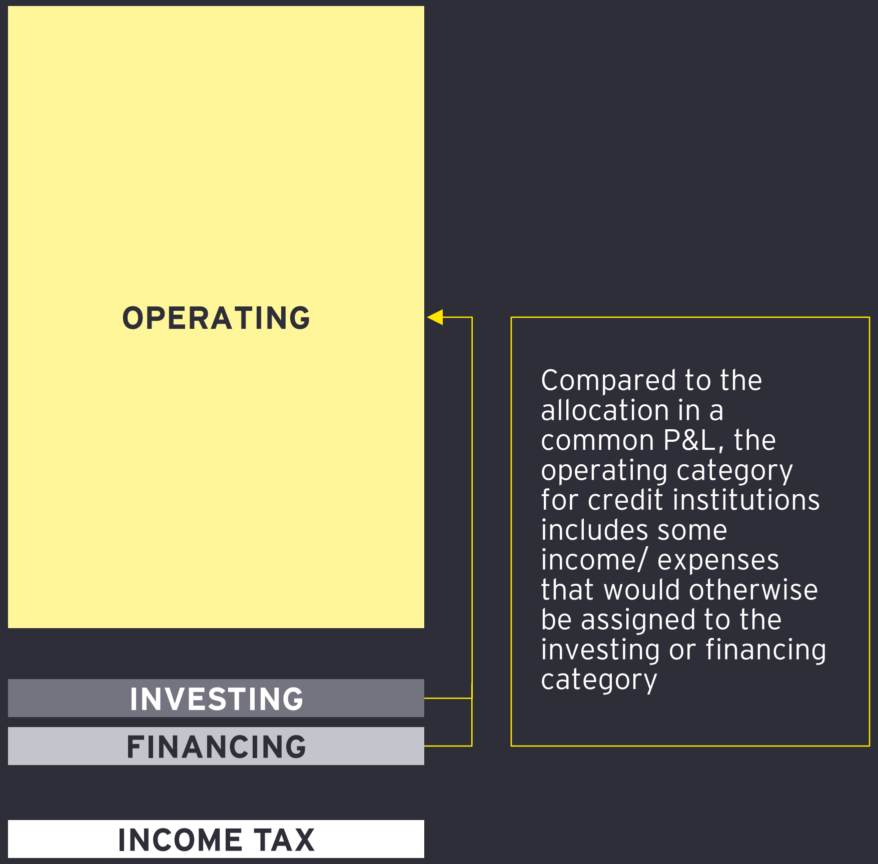
- Is a matter of fact and not merely an assertion
- Entity uses judgement to assess
- Based on observable evidence to the extent available
- Assessed for the reporting entity as a whole

THE ASSESSMENT IS A CONTINUOUS ONE AND MAY CHANGE OVER TIME

EXAMPLE: PROFIT AND LOSS ACCOUNT OF A BANK

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

INVESTMENT AND RETAIL BANK	20X2	20X1
Interest revenue calculated using the effective interest method	322,000	306,300
Other interest and similar income	34,000	27,500
Interest expense calculated using the effective interest method	-255,000	-238,000
Other interest and similar expense	-26,000	-21,000
Net interest income	**75,000**	**74,800**
Fee and commission income	76,800	74,300
Fee and commission expenses	-45,300	-44,800
Net fee and commission income	**31,500**	**29,500**
Net trading income	9,100	900
Net investment income	11,600	7,800
Credit impairment losses	-17,300	-19,100
Employee benefits	-55,100	-49,500
Depreciation and amortisation	-6,700	-5,950
Other operating expenses	-5,100	-4,550
OPERATING PROFIT	43,000	33,900
Share of profit of associates and joint ventures	1,800	2,100
Interest expense on pension and lease liabilities	-2,200	-1,800
Profit before tax	**42,600**	**34,200**
Income tax expense	-11,200	-9,000
PROFIT	31,400	25,200



Source: IFRS 18.IE13, Illustrative Example II-4, adjusted.

EXAMPLE: PROFIT AND LOSS ACCOUNT OF AN INSURANCE COMPANY

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

CC Insurance Group	20X2	20X1
Insurance revenue	138,200	133,800
Insurance service expenses	-107,000	-106,000
Insurance service result	**31,200**	**27,800**
Investment income	117,000	103,000
Credit impairment losses	-5,000	-1,500
Insurance finance expenses	-85,900	-84,000
Net financial result	**26,100**	**17,500**
Other operating expenses	-3,100	-4.600
Operating profit	54,200	40,700
Share of profit of associates and joint ventures	-5,400	4.800
Profit before financing and income taxes	48,800	45,500
Interest expense on borrowings and pension liabilities	-2,500	-2,500
Profit before tax	**46,300**	**43,300**
Income tax expense	-10,200	-9,000
PROFIT	36,100	34,300

Quelle: IFRS 18.IE12, Illustrative Example II-4.

OPERATING

INVESTING

FINANCING

INCOME TAX

Compared to the allocation in a common P&L, the operating category for insurance companies includes some income/ expenses that would otherwise be assigned to the investing or financing category

MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs): DEFINITION

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Subtotals of income and expenses not specified by IFRS Accounting Standards

Used in public communications outside financial statements

Measures that communicate management's view of an entity's financial performance

WHAT ARE MPMs?

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

PERFORMANCE MEASURES

FINANCIAL PERFORMANCE MEASURES

SUBTOTALS OF INCOME & EXPENSES

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt
- Adjusted revenue

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

IDENTIFYING AN MPM

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Is the measure a subtotal of income and expenses? — NO →

Is the measure used in public communications outside financial statements? — NO →

Is the measure included in the list of subtotals in IFRS 18 that are not MPMs or specifically required to be presented or disclosed by IFRS Accounting Standards? — YES →

Does the measure communicate management's view?*

YES

Is there reasonable and supportable information to rebut the presumption?* — YES →

MPM – disclosure requirements for MPMs are applied to that measure

NOT AN MPM – DISCLOSURE REQUIREMENTS FOR MPMS ARE NOT APPLICABLE

*It is presumed that a subtotal of income and expenses used in public communications communicates management's view; a company is not required to consider whether to rebut the presumption

MPMs: REQUIRED DISCLOSURES

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

IFRS 18 introduces requirement to disclose in a single note:

- Explanations of why, in the management's view, the MPM provides useful information about the entity's financial performance.
- How the MPM is calculated
- A reconciliation between the MPM and the most directly comparable subtotal or total defined in IFRS
- The income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation and description of how the entity determined the income tax effect
- Label and describe each MPM in a clear and understandable manner that does not mislead users
- Any changes in MPMs shall be explained and comparative information shall be restated to reflect the change

AGGREGATION AND DISAGGREGATION

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Roles of primary financial statements and the notes

- Primary financial statements are to provide a useful structured summary
- Notes are to provide further information and supplement the primary financial statements

Principles for aggregation and disaggregation

Considering similar and dissimilar characteristics

- in the primary financial statements would result in a useful structured summary
- in the notes would result in material information

Aggregating items and using meaningful labels

Use meaningful labels

- Use the label 'other' only when unable to find a more informative label
- Label as precisely as possible

Additional disclosures required if aggregated amounts of immaterial items are sufficiently large that users might question whether the amount includes material items

DISCLOSURE OF EXPENSES CLASSIFIED IN THE OPERATING CATEGORY

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

If one or more line items comprising expenses classified by function are presented in the operating category an entity shall disclose

In a single note the total of each:

- Depreciation
- Amortisation
- Employee benefits
- *Impairment losses and reversals*
- *Write-downs and reversals on inventories*

A qualitative description of the nature of expenses included in each function line item

Also, required to disclose

- *Amount related to each line item in the operating category*
- *List of any line items outside the operating category that also include amounts relating to the total*

Items in ***italics*** are new requirements

CONSEQUENTIAL AMENDMENTS TO OTHER STANDARDS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

NARROW-SCOPE AMENDMENTS MADE TO:

IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

- Name changed to IAS 8 Basis of Preparation of Financial Statements
- Some requirements previously included within IAS 1 moved to IAS 8

IAS 34 INTERIM FINANCIAL REPORTING

- Amended to require disclosure of MPMs

IAS 33 EARNINGS PER SHARE

- Restrict the types of additional earnings per share measures that entities can disclose

IAS 7 STATEMENT OF CASH FLOWS

- Require the use of ‘operating profit or loss’ as the mandatory starting point for entities using the indirect method
- Largely remove the current optionality for classifying cash flows from interests and dividends

TRANSITION

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

EFFECTIVE DATE	Reporting periods beginning **on or after 1 January 2027**
EARLY APPLICATION	PERMITTED
APPLICATION	RETROSPECTIVELY

- In the year of adoption and thereafter, entities that prepare condensed interim financial statements in compliance with IAS 34 must present the same headings and subtotals it expects to use in their annual financial statements and will also need to include disclosures on management-defined performance measures.
- Use of "IFRS Accounting Standards" when referring to IFRSs regarding accounting standards issued by the IASB

IMPLICATIONS FOR CREDIT INSTITUTIONS & INSURERS

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

Updates to reporting systems to appropriately tag and categorise income and expenses

Re-alignment of outputs, templates and processes across internal and external reporting

Group entities with different main business activities may require re-categorization of items in consolidation

Enhanced corporate communication guidelines for investor and stakeholder publications

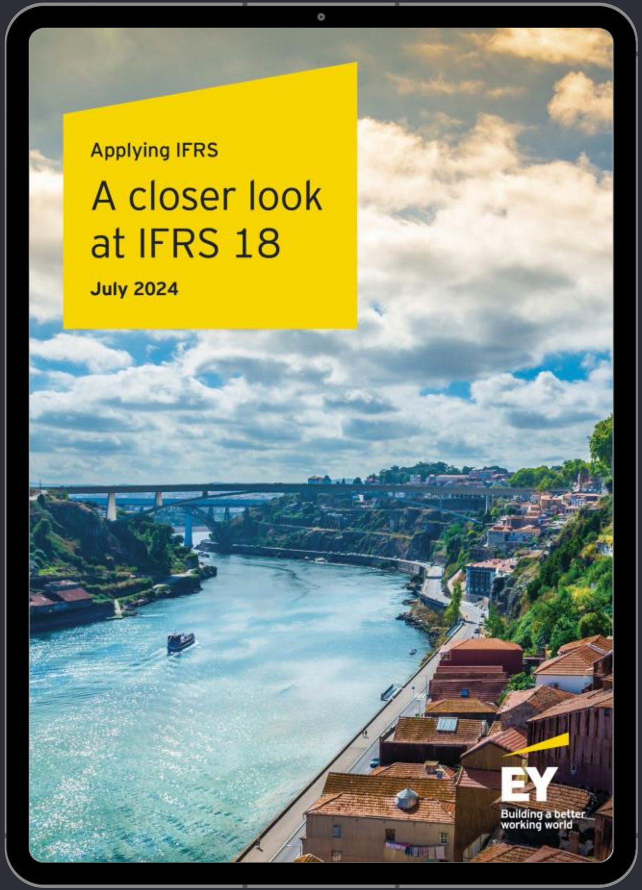
Comprehensive assessment of aggregation, disaggregation, and labelling practices to adhere to revised guidance

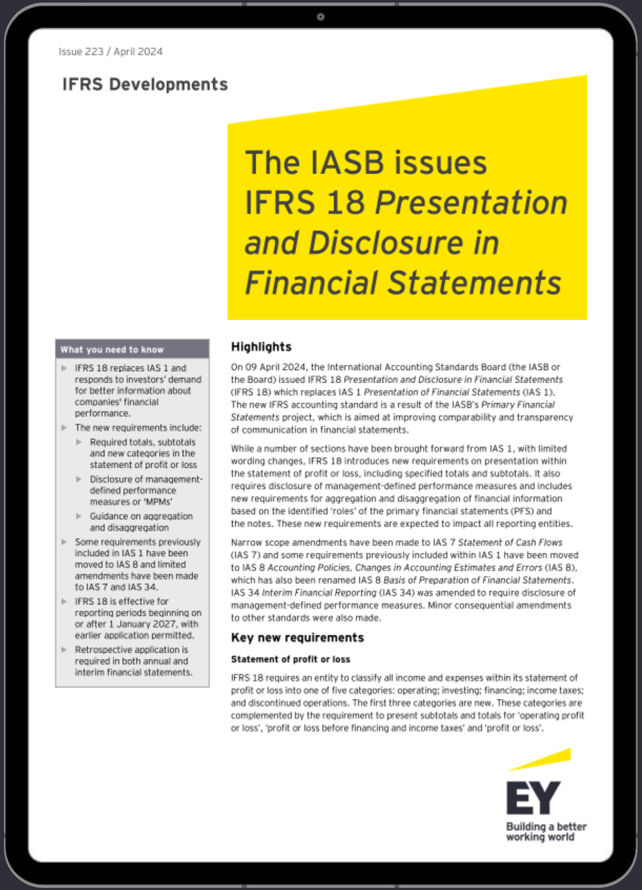
Underwriting models and monitoring systems may require adjustments to align with revised reporting practices

CONSIDERATIONS WHEN IMPLEMENTING IFRS 18

IFRS 18 PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

FOR MORE INFORMATION ON IFRS 18:





Issue 223 / April 2024

IFRS Developments

The IASB issues IFRS 18 *Presentation and Disclosure in Financial Statements*

What you need to know

- IFRS 18 replaces IAS 1 and responds to investors' demand for better information about companies' financial performance.
- The new requirements include:
  - Required totals, subtotals and new categories in the statement of profit or loss
  - Disclosure of management-defined performance measures or 'MPMs'
  - Guidance on aggregation and disaggregation
- Some requirements previously included in IAS 1 have been moved to IAS 8 and limited amendments have been made to IAS 7 and IAS 34.
- IFRS 18 is effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted.
- Retrospective application is required in both annual and interim financial statements.

Highlights

On 09 April 2024, the International Accounting Standards Board (the IASB or the Board) issued IFRS 18 *Presentation and Disclosure in Financial Statements* (IFRS 18) which replaces IAS 1 *Presentation of Financial Statements* (IAS 1). The new IFRS accounting standard is a result of the IASB's *Primary Financial Statements* project, which is aimed at improving comparability and transparency of communication in financial statements.

While a number of sections have been brought forward from IAS 1, with limited wording changes, IFRS 18 introduces new requirements on presentation within the statement of profit or loss, including specified totals and subtotals. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes. These new requirements are expected to impact all reporting entities.

Narrow scope amendments have been made to IAS 7 *Statement of Cash Flows* (IAS 7) and some requirements previously included within IAS 1 have been moved to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), which has also been renamed IAS 8 *Basis of Preparation of Financial Statements*. IAS 34 *Interim Financial Reporting* (IAS 34) was amended to require disclosure of management-defined performance measures. Minor consequential amendments to other standards were also made.

Key new requirements

Statement of profit or loss

IFRS 18 requires an entity to classify all income and expenses within its statement of profit or loss into one of five categories: operating; investing; financing; income taxes; and discontinued operations. The first three categories are new. These categories are complemented by the requirement to present subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'.

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IFRS 17 - INSURANCE CONTRACTS - UPDATES

IFRS 17 INSURANCE CONTRACTS – UPDATES

AGENDA AND DISCUSSION ITEMS

BENCHMARKING RESULTS

TRENDING ISSUES

KEY ACCOUNTING CHALLENGES

IFRS 17 – BENCHMARKING RESULTS

Reporting under IFRS 17 and IFRS 9 – Observations from "Year-End" 2023 financial statements published by insurers

Release of risk adjustment to insurance service result

0%⟷5%

15

Fifteen insurers reported a release of the **RA of the LFRC** to the insurance service result in the range from **0% to5%.**

Ratio of risk adjustment to PVFCF LFRC

0%⟷3%

27

Twenty-seven insurers reported a ratio of Risk Adjustment to present value of future cash flows of the LFRC in the range from **0%** to **3%.**

New business CSM weight

5%⟷10%

20

Twenty insurers reported a **ratio of new business CSM to new business present value of cash inflows** (expected premiums) in the range from **5%** to **10%.**

CSM release ratio

9%⟷12%

15

Fifteen insurers reported the proportion of the **CSM released** into profit or loss for the current year in the range between **9%** and **12%.**

CSM composition by transition approaches

Average of 39% Fair Value Approach

The average proportion of the CSM at the end of 2023 which has been measured using the **Fair Value Approach** at transition is **39%.**

CSM run-off pattern

Average of 44% in more than 10 years

The average proportion of the remaining CSM at the end of 2023 that is **expected to be recognized in profit or loss in more than 10 years is 44%**

Reinsurance CSM weight

1% ⟷ 5%

20

The ratio of **reinsurance CSM** to the CSM of insurance contracts issued was between **1%** and **5%** for **20** insurers.

Loss component weight in LFRC

0%⟷0.3%

19

Nineteen insurers reported the proportion of the **loss component** to be in the range from **0% to 0.3%** of the profitable component of the LFRC.

● No. of insurers

Link: [Reporting under IFRS 17 and IFRS 9]

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IFRS 17 INSURANCE CONTRACTS – ISSUES AND DISCUSSIONS

1 Post-Implementation Review

Many companies have now gone through their first full reporting cycle under IFRS 17. There are ongoing reviews and assessments to understand the practical challenges faced during the initial implementation and to identify areas for improvement.

2 Data Quality and Systems Integration

Companies continue to face issues related to data quality and the integration of new systems required for IFRS 17 compliance. Ensuring accurate and consistent data across various systems remains a significant challenge.

3 Operational Complexity

The operational complexity of IFRS 17, particularly around the Contractual Service Margin (CSM) and risk adjustment calculations, has been a topic of concern. Companies are working on refining their processes to handle these complexities more efficiently.

4 Regulatory Feedback and Adjustments

Regulators in different jurisdictions are providing feedback based on the initial implementation experiences. There are discussions around potential adjustments or clarifications to the standard to address any ambiguities or practical difficulties encountered by companies.

5 Impact on Financial Metrics

The impact of IFRS 17 on key financial metrics such as profitability, equity, and solvency ratios is being closely monitored. Companies are analyzing how the new standard affects their financial performance and communicating these impacts to stakeholders.

IFRS 17 INSURANCE CONTRACTS – ISSUES AND DISCUSSIONS

6 Training and Skill Development

There is an ongoing need for training and skill development within organizations to ensure that finance and actuarial teams are well-equipped to handle the requirements of IFRS 17. Continuous education and upskilling are critical to maintaining compliance and accuracy in reporting.

7 Industry Collaboration and Best Practices

The industry is seeing increased collaboration among peers to share best practices and solutions for common challenges. Industry forums, conferences, and working groups are playing a vital role in facilitating these discussions.

8 Technology and Automation

Companies are exploring advanced technological solutions, including automation and artificial intelligence, to streamline IFRS 17 processes. These technologies aim to reduce manual effort, improve accuracy, and enhance overall efficiency.

9 Investor Communication

Effective communication with investors and analysts about the changes brought by IFRS 17 is crucial. Companies are focusing on transparent and clear communication to ensure that stakeholders understand the new reporting framework and its implications.

10 Global Consistency

Ensuring global consistency in the application of IFRS 17 remains a challenge, especially for multinational companies operating in different regulatory environments. Harmonizing practices across various jurisdictions is an ongoing effort. Recent report from ESMA evaluates the adoption of IFRS 17 among European insurers, noting improvements in disclosures but emphasizing the need for greater detail and transparency. ESMA stresses the importance of effectively communicating critical inputs, assumptions, and estimation techniques to meet regulatory standards and stakeholder expectations.

IFRS 17 – KEY ACCOUNTING CHALLENGES

1	REINSURANCE HELD ACCOUNTING	The current guidance continues to give rise to mismatch issues in practice. Ex. 1: An entity cedes 100% of a direct contract in an asset position to a reinsurer. Economically, this should net off, but it does not under IFRS 17 as reinsurance held cannot be onerous.
2	ANNUAL COHORTS	As time passes, maintaining a growing number of cohorts containing fewer contracts becomes very costly (e.g., data storage costs) with diminishing value to users. This issue is amplified for long-term business and with quarterly reporting in Canada (managing quarterly cohorts).
3	LIABILITY ROLL-FORWARD TABLES	Depending on how the requirements are interpreted, these disclosures can be quite granular and extensive. E.g. may have a table for each reporting segment, for each of direct business and reinsurance held, for each quarter and each year-to-date period reported. These detailed disclosures are not widely used by analysts
4	INTERIM FINANCIAL STATEMENTS	Multinational entities often have subsidiaries/branches subject to different reporting frequencies from the parent (e.g., parent quarterly vs. subsidiary annually). Some interpret IFRS 17.B137 to mean a subsidiary would have to produce IAS 34-compliant interim financial statements or keep two sets of estimates (one quarterly and one annual) – both are costly and burdensome.
5	LOCKED-IN VS. CURRENT RATES	Fulfillment cash flows (FCF) are measured using current rates, whereas CSM interest accretion is determined using locked-in rates from initial recognition of the contract. The impact of non-financial experience on FCF impacts the CSM, but is determined by using locked-in rates rather than current rates . This can lead to unintuitive impacts when current rates are materially different from locked-in rates.
6	CONTRACTS ACQUIRED IN THEIR SETTLEMENT PERIOD	Relates to the accounting for short-term contracts with long-tail claims, when they are acquired in their settlement period through a business combination in the scope of IFRS 3. Under IFRS 17: - acquiree (issuer) treats these as LIC*- acquirer treats these as LRC* (insured event is the adverse development of incurred claims). For P&C insurers that otherwise only apply the premium allocation approach (PAA), the change to LRC would require implementing GMM (very costly). Results in insurance revenue being booked twice for the same underlying contract.

ACCOUNTING IMPLICATIONS OF RECENT TAX LEGISLATION

- EIFEL Rules
- Taxes on Share Buy Back

EXCESSIVE INTEREST AND FINANCING EXPENSE LIMITATION (EIFEL) RULES

1 OBJECTIVE

- To address concerns about taxpayers deducting excessive interest and financing costs.
- Targeted to multinational enterprises with cross border intercompany financing structures but will also apply to purely Canadian businesses.

2 RULES

- Determines the restriction on deductibility of net interest and finance expenses (IFE)

30% of ATI

- Fixed-ratio rules: IFE deduction limited to 30% of "adjusted taxable income" ("ATI", which approximates EBITDA).
- Group-ratio rules: A higher percentage may apply for a consolidated group, subject to certain conditions.

3 CARRYFORWARD

- Disallowed IFE is referred to as restricted IFE or "RIFE".
- Excess capacity (IFE less than 30% of ATI in a year) can be carried forward three years.
- RIFE can be carried forward indefinitely.

EIFEL rules were implemented with enactment of Bill C-59 on June 20, 2024 (substantively enacted on May 28, 2024).

EIFEL - DTA RECOGNITION CONSIDERATIONS

IAS 12.24 - A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised

RIFE DTA

- RIFE can be carried forward indefinitely
- Carryforward RIFE can create a DTA

Excess Capacity

- Can be carried forward three years
- Not a temporary difference or a loss carryforward
- No DTA to be recognized

Sources of recoverability for RIFE DTA

- Reversal of taxable temporary differences
- Forecasted income projections
- Tax planning opportunities
- EIFEL excess capacity

EIFEL - REVERSAL OF TAXABLE TEMPORARY DIFFERENCES

Only items impacting ATI to be considered

- Only DTLs that impact ATI/EBITDA may be considered a source of taxable income to support recognition of a DTA related to RIFE
- DTLs related to depreciable assets, intangible assets, and other DTLs where reversal does not impact ATI/EBITDA, would generally not be a source of taxable income to support a RIFE DTA.

Interest deductibility room will only be generated on 30% of ATI

- Not sufficient to conclude that RIFE DTA can be recognized because an entity is in a net DTL position
- 30% ratio must be applied
  - For example, a $2,000 DTL related to a derivative or pension asset (which will impact ATI/EBITDA upon reversal) would support only $600 ($2,000 DTL x 30% limit) of carryforward RIFE.

EIFEL - FORECASTED INCOME

SUBSTITUTION VS REALIZATION

- Cannot recognize DTAs where the utilization of the DTA creates an attribute that itself cannot be recognized
  - Cannot recognize a Net Operating Loss (NOL) where it is being utilized due to increased taxable income resulting from the future denial of interest from EIFEL and the future denied interest (RIFE) cannot be benefited based on forecasts
  - Cannot recognize RIFE where it is projected to be used but would result in the creation of NOLs that cannot be benefited

Forecasts may be used to support the recognition of a deferred tax asset relating to RIFE

Forecasts needs to be supportable and consistent with forecasts used elsewhere by the Company

EIFEL - EXAMPLE: RECOGNITION OF RIFE DTA BY FORECASTED INCOME

ASSUMPTIONS:

- Canco, a Canadian entity, has a calendar year-end.
- Canco's statutory tax rate is 25%.
- In 2024, Canco has RIFE of $200.
- Forecast ATI/EBITDA after 2027 is Nil.
- No other temporary differences or losses carried forward in prior or future years.

Year	2025	2026	2027
Forecasted ATI/EBITDA	1,000	1,200	1,500
Forecasted Interest Expense	350	350	350

- When only relying on forecasted income, can any of the $200 RIFE carryforward be recognized?

EIFEL - EXAMPLE: RECOGNITION OF RIFE DTA BY FORECASTED INCOME (CONT'D)

Year	2025	2026	2027
Forecasted ATI/EBITDA	1,000	1,200	1,500
EIFEL Inclusion Rate	30%	30%	30%
IFE Deduction Capacity	300	360	450
Forecasted Interest Expense (IFE)	350	350	350
Excess Capacity / (RIFE)	(50)	10	100
Total Net Room / (Utilization)			60
Existing RIFE Carryforward			200
DTA Recognized (60 * 25% tax rate)			15
DTA Unrecognized ([200 – 60] * 25% tax rate)			35

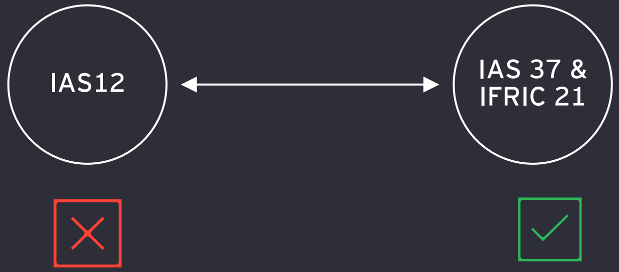
TAXES ON SHARE BUY BACK

BILL C-69: TAX ON NET SHARE REPURCHASES

2% TAX

- Enacted on June 20, 2024
- 2% tax applicable to value of net share repurchases greater than $1 million, occurring on or after January 1, 2024.

ACCOUNTING CONSIDERATIONS



- Outside scope of IAS 12.
- Accounted for as a "levy" in accordance with IAS 37 and IFRIC 21.
- The tax is calculated based on **net** share repurchases at the end of a reporting period.
- Not appropriate to anticipate future share issuances to reduce the liability on repurchases made to date.
- The tax is treated as a direct incremental cost to acquiring own equity instruments and would be recognized as a deduction from equity (IAS 32.37).

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