# Year-end accounting update

November 2023

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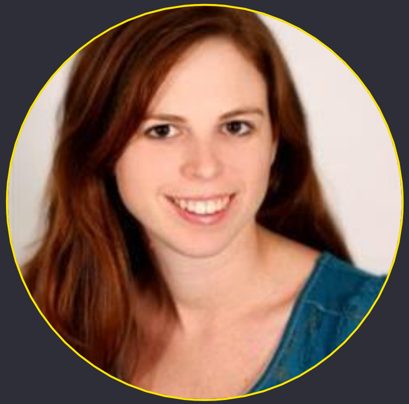

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# Agenda

## 1 In flight

- New IFRS standards and amendments effective 1 January 2023

## 2 Next throw

- New IFRS amendments effective after 1 January 2023
- Agenda decisions

## 3 Regulator findings

- Johannesburg Stock Exchange ('JSE') Thematic Reviews
- Report on proactive monitoring of financial statements in 2023

## 4 New developments

## 5 Sustainability update

# 1

# In flight

# New IFRS standards and amendments effective 1 January 2023

| | Description |
|---|---|
| ★ | IFRS 17 *Insurance Contracts* |
| ★ | Disclosure of Accounting Policies - Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 |
| ★ | Definition of Accounting Estimates - Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* |
| | Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 *Income Taxes* |
| | International Tax Reform – Pillar Two Model Rules - Amendments to IAS 12* |

*The amendments are effective immediately upon issuance. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

# 1.1

## Disclosure of Accounting Policies

*Amendments to IAS 1 and IFRS Practice Statement 2*

# Disclosure of Accounting Policies

**The amendments:**

1 **Replaced** the requirement for entities to disclose their *'significant accounting policies'* with **'material accounting policy information'**

2 Added guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

IAS 1.7

If standardised accounting policy information is needed for users to understand other material information in the financial statements, that information is material & should be disclosed

If an entity decides to disclose accounting policy information that is not material, it needs to ensure that that information does not obscure material information



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# Disclosure of Accounting Policies

Is the related transaction, other event or condition material in:

- size?
- nature? or
- both size and nature?

No

The accounting policy information is immaterial (i.e., does not need to be disclosed)

Yes

No

**Is the accounting policy information itself material?** *(i.e., is the accounting policy information required for users to understand other material information in the financial statement?)*

Yes

Accounting policy information is material (i.e., **must be disclosed**)

2023

# Disclosure of Accounting Policies

## Is the accounting policy information itself material?

Consider whether:

| | | | |
|---|---|---|---|
| Options are permitted in the applicable standard | Accounting policy was developed under IAS 8 | Other entity-specific factors make it material | Users are familiar with IFRS |

Relevant in the context of:

- Material change in accounting policy
- Significant judgement or estimate
- Complex accounting



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# 1.2

## Definition of Accounting Estimates

*Amendments to IAS 8*

# Definition of Accounting Estimates

"Accounting estimates" now defined:
*Monetary amounts in financial statements that are subject to measurement uncertainty*

The amendments clarify the distinction between:

- Changes in accounting policies
- Changes in accounting estimates
- Correction of errors

# Example

**Q**

Is the following a change in accounting estimate or accounting policy?

## Fact pattern

- Entity A owns an investment property accounted for under the fair value model.
- The valuation technique applied is consistent with the income approach under IFRS 13 Fair Value Measurement.
- In the current year, due to changes in market conditions, the entity changed the valuation technique to be consistent with the market approach and management concluded that the resulting measurement is more representative of the investment property's fair value.
- It was concluded that the change is not a correction of a prior period error.



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# Example (continued)

A

The effect of this change is a **change in an accounting estimate** because the accounting policy—to measure the investment property at fair value—has not changed

Change in the *measurement technique*

The fair value of the investment property is an **accounting estimate** because:

(a) the fair value is a monetary amount that is **subject to measurement uncertainty**

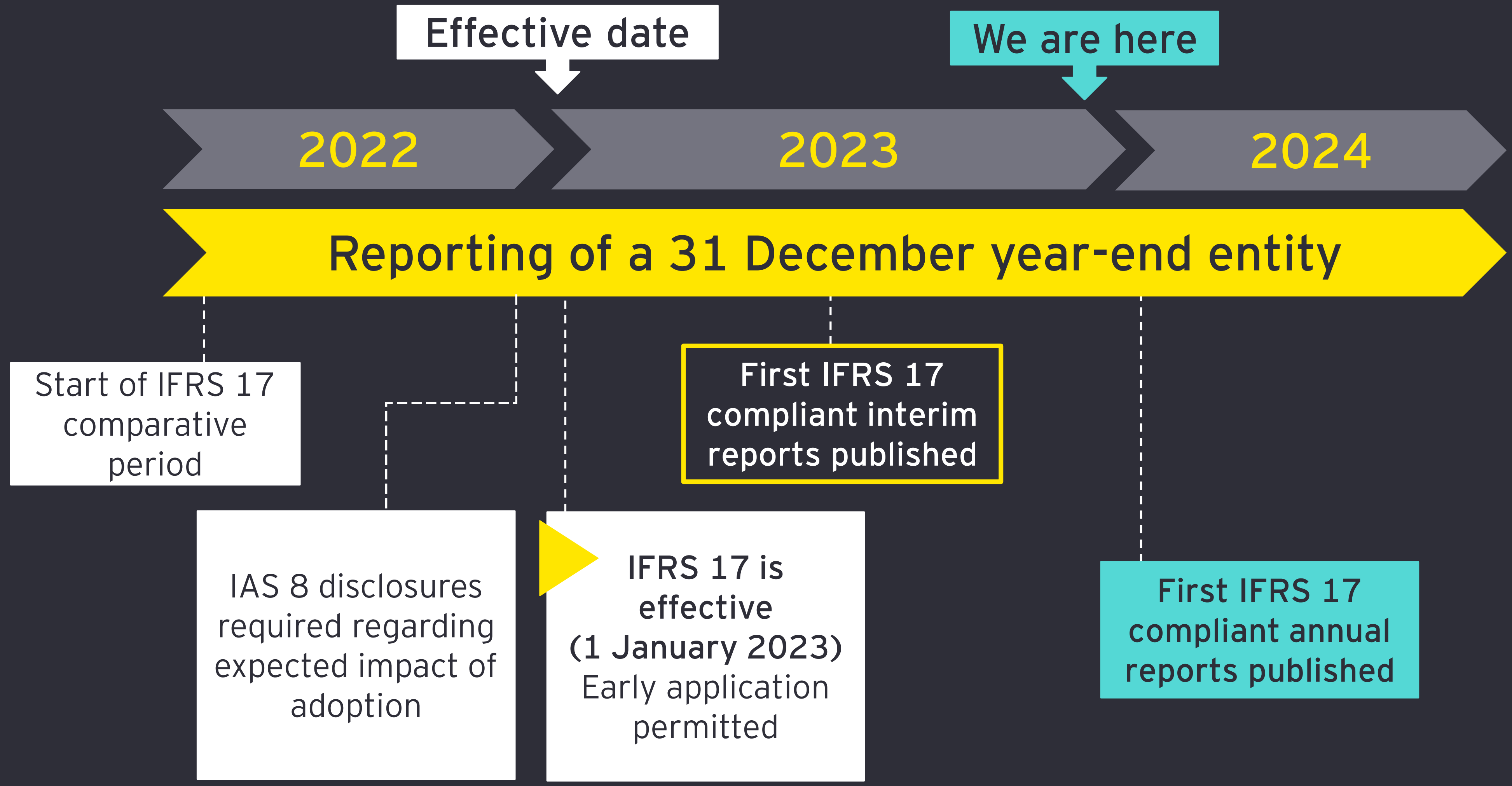
(a) the fair value is an output of a measurement technique (a **valuation technique**) used in applying the accounting policy (fair value model)

(a) in developing its estimate of the fair value, Entity A uses **judgements and assumptions**

# 1.3

## IFRS 17 *Insurance Contracts*

# IFRS 17: Timeline



# IFRS 17 since effective date

## Corporates: Key conversations

### Scoping considerations

#### Cell captives

**Insurance contracts:**

- Self-insurance is not in scope
- Insurance over external risk is in scope of IFRS 17

Assessment is more complex in group environments

#### Manufacturer warranty

- Warranties issued by **another** party for goods sold by a manufacturer, dealer or retailer are **within** the scope of IFRS 17
- Product warranties issued ***directly*** by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer are ***outside*** of the scope of IFRS 17

South African specific considerations

# Cell captives: First party vs. third party

## "First party" cell arrangements

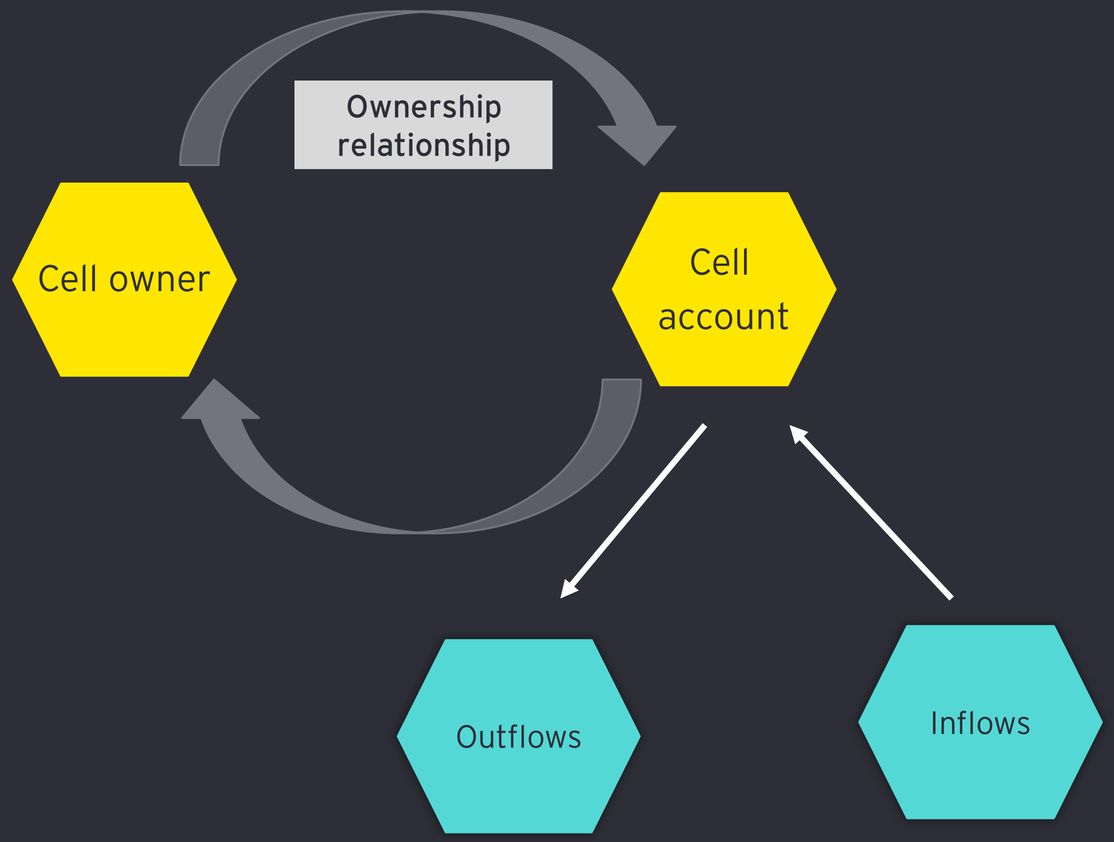
Risks that are being insured relate to the cell owner's **own operations** or operations within the cell owner's group of companies (self-insurance)

**Meets the definition of a financial instrument**

## "Third party" cell arrangements

Cell owner provides the opportunity to its own **client base** to purchase branded insurance products

**Meets the definition of a reinsurance contract (the ultimate insurance risk is borne by the cell owner)**



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# Cell captives: Accounting for 1st party cell captives

| Impact on primary financial statements | Typical cell owner accounting before IFRS 17 adoption | Cell owner accounting after IFRS 17 adoption |
|---|---|---|
| Income statement | IFRS 9 *Financial instruments*:<br>Fair value gain/loss | IFRS 9:<br>Fair value gain/loss |
| Balance sheet | IFRS 9:<br>Financial asset at fair value | IFRS 9:<br>Financial asset at fair value |



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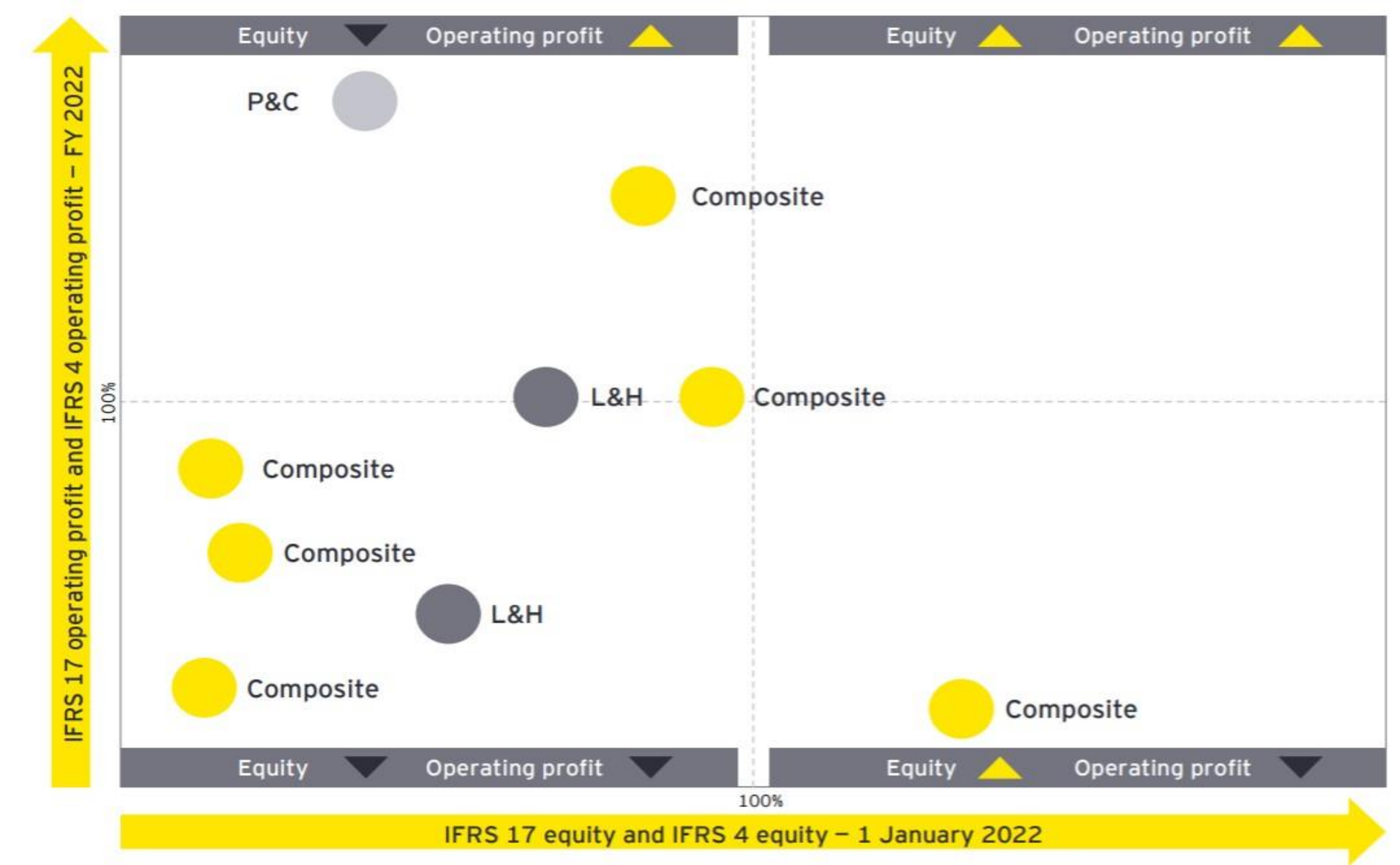
# Cell captives: Accounting for 3rd party cell captives

| Impact on primary financial statements | Typical cell owner accounting before IFRS 17 adoption | Cell owner accounting after IFRS 17 adoption |
|---|---|---|
| Income statement | IFRS 4 Insurance Contracts:<br>▶ Premium<br>▶ Claims<br>▶ Expenses<br>IFRS 9 (alternative):<br>▶ Fair value gain/loss<br>▶ Investment income | Have to apply IFRS 17:<br>▶ Insurance revenue<br>▶ Insurance service expense<br><br>*IFRS 17 numbers have to be presented gross of reinsurance held and separated for each portfolio.* |
| Balance sheet | IFRS 4:<br>▶ Insurance asset<br>▶ Insurance liability<br>IFRS 9 (alternative):<br>▶ Investment in cell captive (financial asset at fair value) | Have to apply IFRS 17:<br>▶ Insurance asset/liability<br>▶ (original cash outflow plus/minus insurance result)<br><br>*IFRS 17 numbers have to be presented gross of reinsurance held* |

# IFRS 17 since effective date

## Insurance entities: Impact on numbers



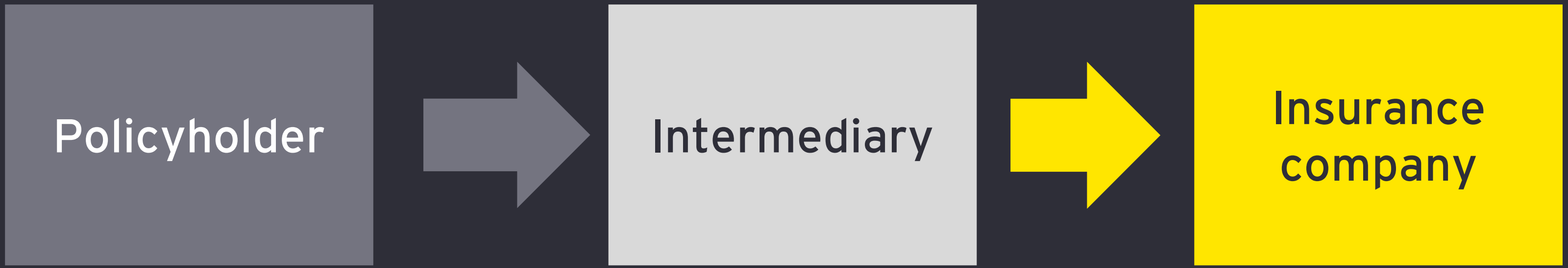

- **L&H (Life and health):** Nine groups underwrite only life and health (L&H) business, which includes short- and long-term savings, and retirement products.
- **Composite:** Eighteen groups are composite and underwrite both property and casualty (P&C) business, and life business (with a number of them also having major reinsurance segments).
- **P&C (Property & casualty):** Three groups underwrite only non-life business, which includes P&C products.

Source: *Market updates on the impact of IFRS 17 and IFRS 9 - Observations from disclosures published by selected insurance groups [July 2023]* - ey-market-updates-on-the-impact-of-ifrs-17-and-ifrs-9-july-2023.pdf

# Premiums receivable from an intermediary

**Q**

Are premiums receivable from an intermediary EITHER: future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 OR a separate financial asset applying IFRS 9 *Financial Instruments*?



2023

Final

# Premiums receivable from an intermediary

A

**View 1**

## IFRS 17

The insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract

**Accounting policy choice**

## IFRS 9

**View 2**

The insurer determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but, instead, a separate financial asset

[Insurance Accounting Alert September 2023 | EY - Global]

# 2

# Next throw

# New IFRS amendments effective after 1 January 2023

| | Description | Effective 1 January |
|---|---|---|
| ★ | Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1 | 2024 |
| ★ | Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 *Leases* | 2024 |
| ★ | Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 *Statement of Cash Flows* & IFRS 7 *Financial Instruments: Disclosures* | 2024 |
| | Lack of exchangeability – Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* | 2025 |

# 2.1

## Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

*Amendments to IAS 1*

2024

# Classification of liabilities as current or non-current and non-current liabilities with covenants

Amendment

A liability is classified as current when: ……..

d) it does not have the **right** at the end of the reporting period to **defer settlement** of the liability for at least twelve months after the reporting period

## The amendments clarify:

- What is meant by a right to defer settlement
- A right to defer settlement **must exist** at the end of the reporting period
- Classification is unaffected by the likelihood that an entity will exercise its deferral right
- Only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification
- Disclosures



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# Classification of liabilities as current or non-current and non-current liabilities with covenants

## Disclosure

Requires an entity to provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

This disclosure must include:

- information about the covenants and the related liabilities and
- any facts and circumstances that indicate the entity may have difficulty complying with the covenants.

# 2.2

## Lease Liability in a Sale and Leaseback

*Amendments to IFRS 16*

2024

# Lease liability measurement in a sale & leaseback

The amendment **<u>only</u>** impacts a seller-lessee's accounting for a sale and leaseback transaction that **satisfies the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.**

The amendment specifies that a seller-lessee measures the lease liability arising from a sale and leaseback transaction in a way that it **does not recognise any amount of the gain or loss that relates to the right-of-use (ROU) asset retained.**

Impact

This may represent a significant **change in accounting policy** for entities that enter into sale & leaseback transactions with variable payments that do not depend on an index or rate.



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# Example - Subsequent measurement of a ROU asset and lease liability in a sale & leaseback transaction

Q

How should a seller-lessee measure the **lease liability** in a sale and leaseback transaction?

## Fact pattern

- Entity X sells a building to Entity Y for cash of CU1.8 million (fair value)
- Carrying amount immediately before the transaction is a cost of CU1 million
- Entity X enters into a contract with Entity Y for the right to use the building for five years
- Lease payments comprise of fixed & variable payments that do not depend on an index or a rate
- Entity X determines the proportion of the building transferred to Entity Y that relates to the right of use it retains as 25%



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# Example (continued)

A

| | | |
|---|---|---|
| Dr Cash | 1 800 000 | |
| Dr Right-of-use asset *(1 000 000 x 25%)* | 250 000 | |
| Cr Building | | 1 000 000 |
| Cr Lease liability | | 450 000 |
| Cr Gain on rights transferred (P/L) *(( 1 800 000 – 1 000 000) x 75%)* | | 600 000 |

Balancing figure (par. 102A)

**In measuring the lease liability, Entity X develops an accounting policy for determining 'lease payments' in a way that it would not recognise any amount of the gain that relates to the right of use it retains**

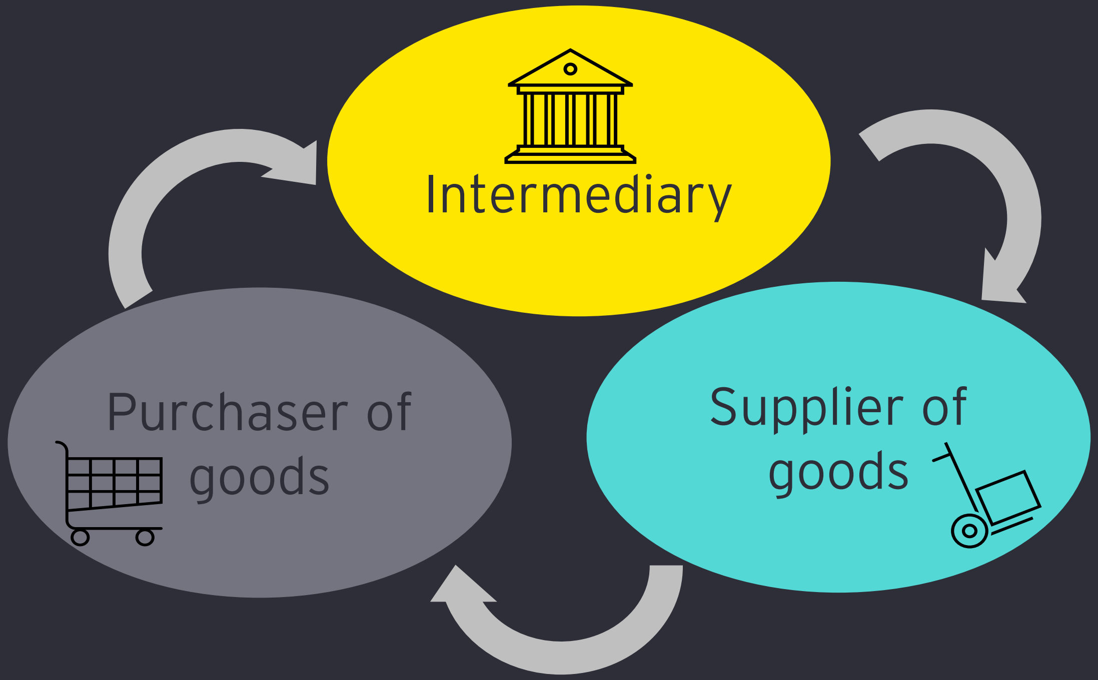
*(for example, 'lease payments' EITHER reflect the* ***expected lease payments*** *at the commencement date OR reflect* ***equal periodic payments*** *over the lease term)*

# 2.3

## Disclosures: Supplier Finance Arrangements

*Amendments to IAS 7 and IFRS 7*

# Disclosures: Supplier Finance Arrangements




- One or more finance providers pay amounts an entity owes to its suppliers.
- The entity agrees to settle those amounts with the finance providers according to the terms and conditions of the arrangements, either at the same date or at a later date than that on which the finance providers pay the entity's suppliers.
- As a result, supplier finance arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the original payment due dates.

2024

# Disclosures: Supplier Finance Arrangements

The disclosure requirements in the amendments **enhance the current requirements** and are **intended to assist** users of financial statements in **understanding the effects of supplier finance arrangements** on an entity's liabilities, cash flows and exposure to liquidity risk

**Note X—Supplier Finance Arrangements**

The entity entered into arrangements with the following terms and conditions:

- Type A...
- Type B...

| Carrying amount of liabilities | Reporting date 20X2 | Reporting date 20X1 |
|---|---|---|
| Presented within trade and other payables | CU1,500 | CU1,000 |
| – of which suppliers have received payment | CU1,050 | CU800 |
| Presented within finance payables | CU1,000 | CU750 |
| – of which suppliers have received payment | CU900 | CU650 |
| **Range of payment due dates** | | |
| Liabilities that are part of the arrangement | 85–90 days after invoice date | 80–90 days after invoice date |
| Comparable trade payables that are not part of an arrangement | 60–70 days after invoice date | 60–65 days after invoice date |

**Non-cash changes**

There were no material business combinations or foreign exchange differences in either period. There were non-cash transfers from trade payables to finance payables of CU1,200 and CU900 in 20X2 and 20X1.

*Source: Investor Perspectives: Supplier finance—new disclosure (ifrs.org)*

**Description** of the terms and conditions

The **carrying amounts** of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and the line items, for which the finance providers have already settled the corresponding trade payables

**The range of payment due dates** for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements

The type and effect of **non-cash changes** in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable

# 2.4

## Agenda decisions

# Agenda decisions

| | Description | Standard | Decision |
|---|---|---|---|
| ★ | Premiums receivable from an intermediary | IFRS 17/IFRS 4 | Final |
| | Merger between a parent and its subsidiary in separate financial statements | IAS 27 *Separate Financial Statements* | Final |
| ★ | Definition of a lease – substitution rights | IFRS 16 | Final |
| | Guarantee over a derivative contract | IFRS 9 | Final |
| | Home and home loans provided to employees | IFRS 9/IAS 19 *Employee Benefits* | Final |
| | Payments contingent on continued employment during handover periods | IFRS 3 *Business Combinations* | Tentative |

# Definition of a lease - Substitution rights

## Fact pattern

- Customer enters into a 10-year contract with a supplier for the use of 100 batteries for use in electric buses
- It is assumed that the supplier has the practical ability to substitute alternative assets throughout the contract term
- At inception of the contract, it is expected that the supplier would not benefit economically if substitution occurs in the first 3 years

# Definition of a lease - Substitution rights

**Q1**

When a contract is for the use of more than 1 similar asset, does an entity evaluate whether a contract contains a lease on an individual asset basis OR by considering all assets together?

**A**

The customer assesses whether the contract contains a lease, including evaluating whether the supplier's substitution right is substantive, **for each potential separate lease component.**

IFRS 16.B12

Each battery

# Definition of a lease - Substitution rights

**Q2**

How does an entity assess whether a contract contains a lease when the supplier has particular substitution rights?

**A**

IFRS 16.B14

(a) the supplier has the practical ability **to substitute alternative assets throughout the period of use**

and

(b) the supplier would **benefit economically** from the exercise of its right to substitute the asset

Not for at least 3 years of the contract - therefore, not throughout the period of use



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# 3

# Regulator findings

# 3.1

## JSE Thematic Reviews

# JSE Thematic Reviews

| Thematic reviews |
| --- |
| Earnings per share for dual class share structures |
| ★ IFRS 7 disclosures |
| ▸ Liquidity risk |
| ▸ Credit risk |

Issued 3 November 2023

# IFRS 7 Disclosures

## Liquidity risk

**Finding:** Insufficient information provided for users to understand the entity-specific measures taken to manage the liquidity risk exposure for the current financial period and the liquidity risk as a whole

## Findings relating to IFRS 7.39 maturity analysis

Over-aggregation of time bands

Must be presented on an undiscounted basis

Determining the appropriate number of time bands used in the maturity analysis requires judgement



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# IFRS 7 Disclosures

## Credit risk

**Finding:** Insufficient entity-specific information provided for users to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows

| Disclosure items considered: | |
|---|---|
| 1 | Default events and write-offs |
| 2 | Reason for expected credit loss ('ECL') allowance |
| 3 | Analysis of ECL rate |
| 4 | Information concerning credit risk rating grades |
| 5 | Reconciliations of changes in the ECL allowance |
| 6 | Recognition of collateral held |

# IFRS 7 Disclosures

## Credit risk: Default events

IFRS 7.35F(b) requires an entity to disclose its definition of default including the reasons for selecting those definitions

“Financial assets are considered to be in default when contractual payments are 60 days past due *the standard credit terms which is 30 days to 45 days and, the repayment profile of customers. 85% of all customers have payment terms of 30 days or less. 60 days past due is considered to be an appropriate indicator of default when considered against the group’s customer base, the trading terms for which are predominantly 30 days. This is also informed by the group’s extensive experience with its customer base."*

Sufficiently detailed and entity specific disclosure

# IFRS 7 Disclosures

## Credit risk: Write-off policies

IFRS 7.35F(e) requires disclosure of an entity's write off policy, including the indicators that are used to assess that there is no reasonable expectation of recovery

IFRS 9.5.4.4

Write-off policy is critical as it impacts key credit ratios

Understanding judgements in the policy and how these are disclosed

Assessment of post-write-off recoveries against peers

# IFRS 7 Disclosures

## Credit risk: Write-off policies

"A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. *Once all internal measures to collect contractual cash flows have been exhausted, the group will engage the assistance of a debt collection agency in an attempt to secure payment. Twice a year an assessment of the outstanding amounts owed by the customer together with detailed information from the debt collection agency is undertaken and the decision made as to whether collection efforts should continue or be suspended. The timing of this decision is uncertain and will depend on the facts and merits of the collection efforts and is based on the cost versus benefit of continuing the collection effort."*

***REMINDER:*** The contractual amounts still outstanding on financial assets subject to enforcement activity is required to be disclosed.
The fact that management may regard the possibility of recovery of these monies as being very low was not a valid basis to omit such disclosures.

IFRS 7.35L

# IFRS 7 Disclosures

## Credit risk: Analysis of ECL rate

Where ECL allowance rates differ from prior years, the following disclosure is required:

| IFRS 7.35G(c) | IFRS 7.35B(b) |
|---|---|
| Explain any **changes in the estimation techniques** or **significant assumptions** applied to the receivables | **Entity-specific qualitative information** to enable users to understand the changes in expected credit losses and the reasons for those changes |

# IFRS 7 Disclosures

## Credit risk: Credit risk rating grades

Insufficient disclosure to allow users to understand how an entity **groups** receivables under each relevant grading

Credit risk rating grade classifications previously mandated for disclosure by **IAS 39**, stating that "Loans are classified as being 'neither past due nor impaired'" and no clear classification tied into the method of provisioning under IFRS 9

Non-disclosure of credit **concentrations** by both geographic location and industry when these have been presented to key management personnel for credit risk management purposes

# IFRS 7 Disclosures

## Credit risk: Reconciliations

IFRS 7.35H calls for a reconciliation of the changes in the ECL allowance, showing the changes for 'stage 1, 2 and 3' separately

| Reconciliation of allowances for expected credit losses | CU'000 |
|---|---|
| Opening balance | 3 000 |
| Charge to profit or loss | 540 |
| Closing balance | 3 540 |

A more detailed breakdown must be provided for the movement, splitting the amount between the changes for 'stage 1, 2 and 3'

Required for all ECL allowances

# 3.2

## Report on proactive monitoring of financial statements in 2023

# Report on proactive monitoring of financial statements in 2023

| | Report findings | |
|---|---|---|
| ★ | IAS 7 *Statement of Cash Flows* | Classification of cash flows and application of the definition of cash and cash equivalents |
| | | Inadequate disclosure of changes in liabilities from financing activities |
| ★ | IFRS 9 *Financial Instruments* | Application of derecognition criteria |
| | IAS 1 *Presentation of Financial Statements* | Mandatory separate presentation on the face of the statement of profit or loss |
| | | Offsetting of income and expenditure |
| | | Disclosure of judgements |
| ★ | IFRS 13 *Fair Value Measurement* | Missing disclosures |
| ★ | IFRS 8 *Operating Segments* | Disclosure of material income and expenses per segment |

# Report on proactive monitoring of financial statements in 2023

## Classification within the Statement of Cash Flows

IAS 7.6

**Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents

**Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity

**Cash** comprises cash on hand and demand deposits

**Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value



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# Report on proactive monitoring of financial statements in 2023

## Classification within the Statement of Cash Flows

Investments in assets for the purpose of **financing** capital expenditure do not meet the definition of *financing activities*

Classification as cash and cash equivalents requires **significant judgement** in certain cases (such as certain call investments and money market funds)

Careful consideration needs to be applied to determine whether an investment meets the definition of cash and cash equivalents or is rather regarded as an investing activity



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# Report on proactive monitoring of financial statements in 2023

## Definition of cash and cash equivalents

Amounts held by third-parties (such as a financial institution) and **not yet received** by the entity do not meet the definition of cash (demand deposit or cash on hand)

Movement in amounts held in foreign bank accounts were incorrectly reflected as financing activities

Foreign bank accounts are a **cash balance** and should form part of the cash and cash equivalents balance

**A detailed assessment is often required in determining whether the definition is met**



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# Report on proactive monitoring of financial statements in 2023

IFRS 9.5.4.4

## Application of IFRS 9 derecognition criteria

IFRS 9 allows an entity to both:

- IFRS 9.B5.5.4: measure lifetime ECL allowances on a collective basis and
- IFRS 9.B5.5.5: assess significant increases in credit risk on a collective basis

An entity shall directly reduce the gross carrying amount of a **financial asset** when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

- **Write-off points should be re-assessed annually based on past experience and expectations of the future**
- **Explanation of these assumptions should be disclosed**



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# Report on proactive monitoring of financial statements in 2023

## Missing IFRS 13 disclosures

**Reconciliation of fair value measurement of non-listed equity investments classified as equity instruments designated at fair value through OCI (Level 3):**

| | Power | Electronics | Total |
|---|---|---|---|
| | **€000** | **€000** | **€000** |
| **As at 1 January 2022** | **386** | **502** | **888** |
| Remeasurement recognised in OCI | 4 | 6 | 10 |
| Purchases | – | – | – |
| Sales | – | – | – |
| **As at 1 January 2023** | **390** | **508** | **898** |
| Remeasurement recognised in OCI | 54 | (80) | (26) |
| Purchases | 231 | 293 | 524 |
| Reclassified in assets held for sale | – | (308) | (308) |
| Sales | – | (50) | (50) |
| **As at 31 December 2023** | **675** | **363** | **1,038** |

*Source: Good Group (International Limited) Illustrative consolidated financial statements for the year ended 31 December 2023*

Good Group International Limited December 2023 | EY Luxembourg

**IFRS 13.93(e)**

Omission of a reconciliation between the opening and closing balances for fair value measurements within the level 3 fair value hierarchy

**IFRS 13.93(d)**

No explanation for the change in a valuation technique and the reason(s) for making that change

# Report on proactive monitoring of financial statements in 2023

## Segmental report disclosure of material income and expenses

Q

**Is disclosure required if the chief operating decision maker does not separately review an item?**

IFRS 8.23

An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker ("CODM"), **or** are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss, for example:

- material items of income and expense disclosed in accordance with IAS 1.97; and
- material non-cash items other than depreciation and amortisation.



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# Report on proactive monitoring of financial statements in 2023

## Segmental report disclosure of material income and expenses

A

If a **material** income/expense item is included in a profit measure set out in the segmental disclosures, then that **material income/expense item must be individually disclosed on a per segment basis**, irrespective of whether or not the item is regularly provided to the CODM.

IFRS 8.23(f)

"…material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements*"

With regards to which items fall within the ambits of IAS 1.97, the JSE has referred the matter to the IFRS Interpretations Committee



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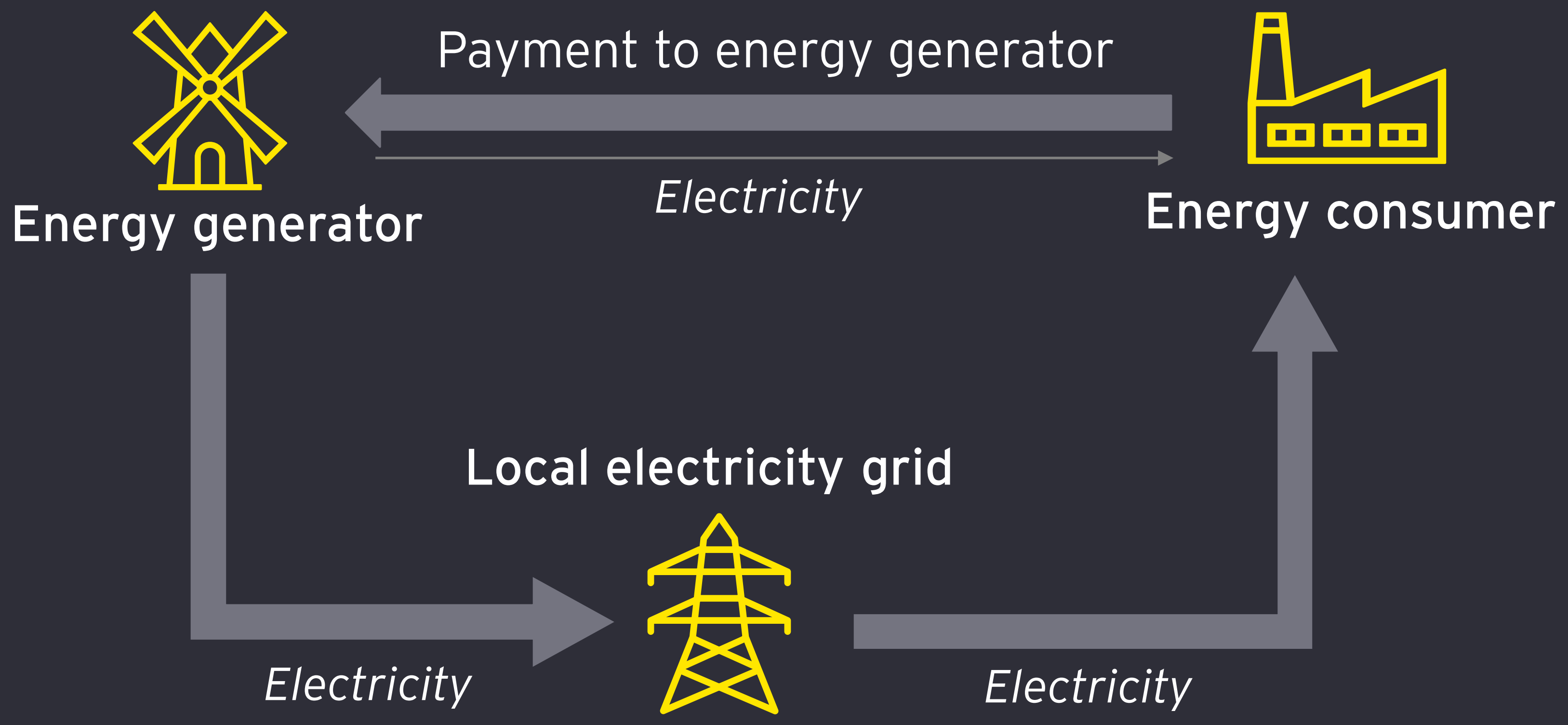
# 4 New developments

# Power Purchase Agreements (PPA)

A PPA is an agreement between a power generator (supplier) and a purchaser (customer) for the sale and supply of energy.

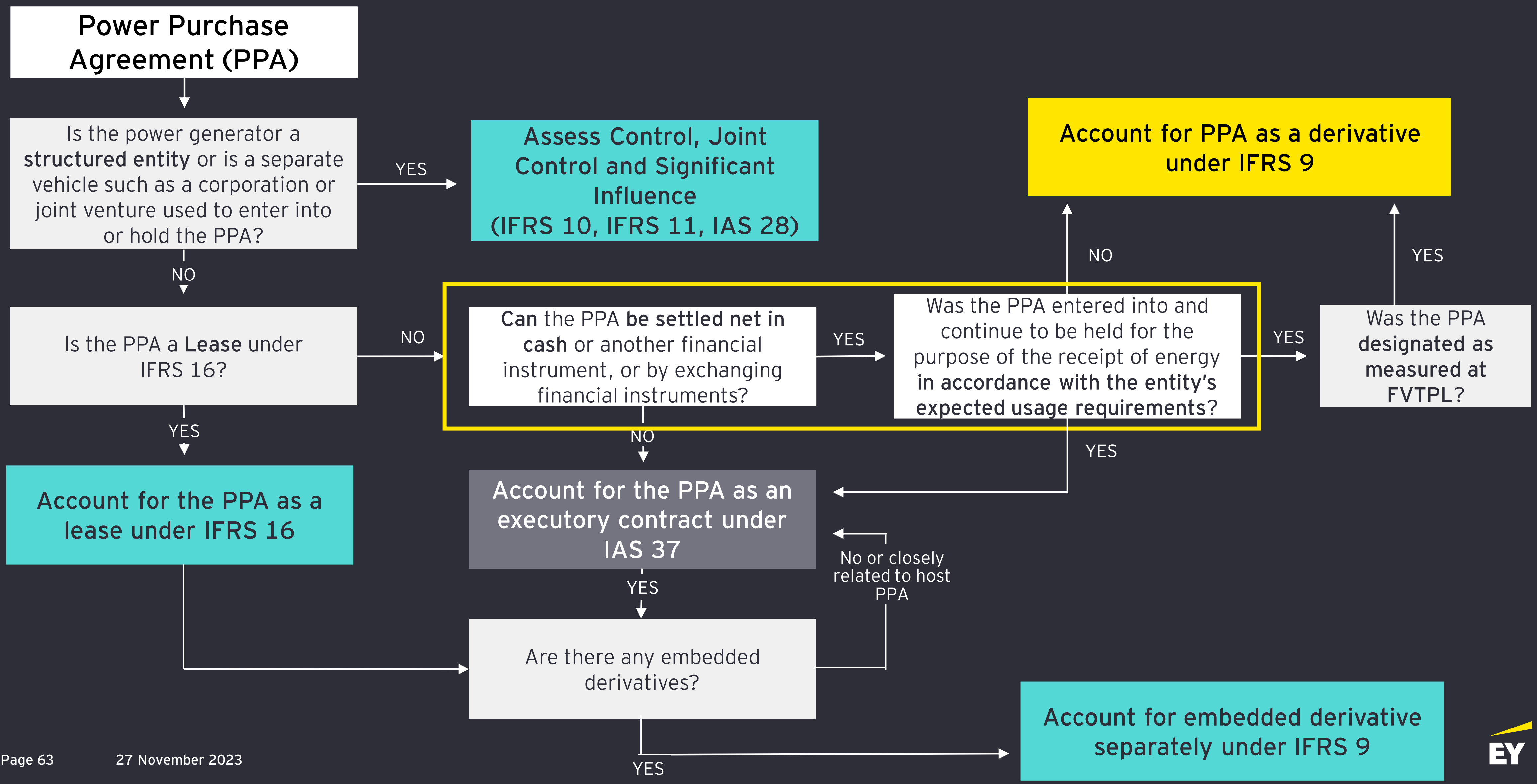


# Power Purchase Agreements (PPA)

## There are two types of PPAs:

| Physical PPA | Virtual PPA (VPPA) |
|---|---|
| Agreements that result in the delivery of physical power | Agreements that DO NOT result in the physical delivery of power.<br><br>These are sometimes referred to as Contracts for Differences or Financial PPAs.<br><br>The agreement is typically net cash settled. |

# Power Purchase Agreements: Decision tree



# Hyperinflationary economies

## Zimbabwe

- ZIMSTAT ceased the release of pure ZWL Inflation and CPI figures, with last release being for January 2023
- ZIMSTAT is now only releasing a blended CPI (not in compliance with IAS 29 Financial Reporting in Hyperinflationary Economies) being a weighted average CPI for both USD and ZWL blended figures
- Local preparers are now required to estimate an inflation rate giving rise to additional complexities and disclosures being required

## Ghana and Sierra Leone

- Ghana and Sierra Leone are now considered hyperinflationary economies as at 31 December 2023 and thereafter
- Consideration for **group financial statements** if there are subsidiaries in these countries within the group
  - transitional impact prospective only
  - no restatement to comparatives

**For periods ending on or after 31 December 2023**

# Coming soon

## IFRS 18
***Presentation and Disclosure in Financial Statements***

Replaces IAS 1 *Presentation of Financial Statements*:

- Significant impact on the presentation of the statement of profit or loss
- Limited changes to the statement of cash flows

## IFRS 19
***Subsidiaries without Public Accountability: Disclosures***

Optional IFRS accounting standard:

- Simplified preparation of financial statements for eligible subsidiaries while maintaining the usefulness for their users
- Reduced disclosure requirements

**Expected publication date: H1 2024**
**Expected effective date: 1 January 2027**



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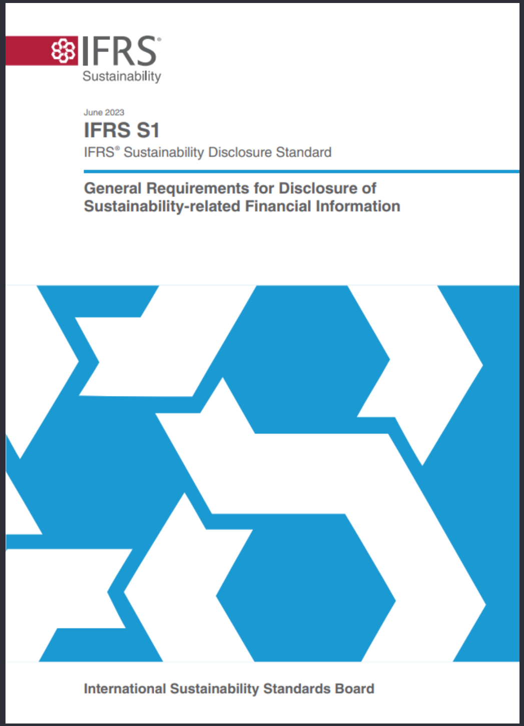
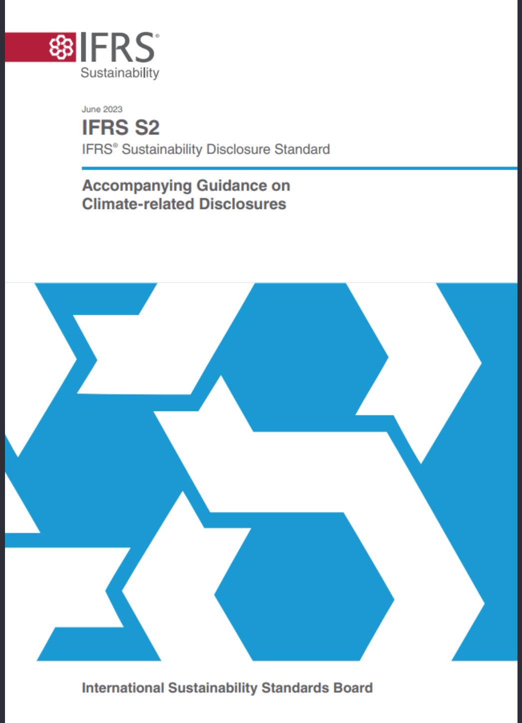
# 5

# Sustainability update

# Update on sustainability disclosure standards




In 2023, the ISSB published its first two standards, **IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1)** and **IFRS S2 *Climate-related Disclosures* (S2)**, which are effective for annual reporting periods beginning on or after **1 January 2024** (early adoption is permitted)

***South African entities currently adopt IFRS S1 & IFRS S2 on a <u>voluntary</u> basis***



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# Current landscape

## Global

Many South African companies are linked to parent companies or themselves are listed on exchanges based in the European Union, United Kingdom, and the United States, who are subject to or will become subject to sustainability reporting in the near future.

Depending on the framework(s) applied, these requirements may also affect South African entities meeting certain thresholds.

## Africa

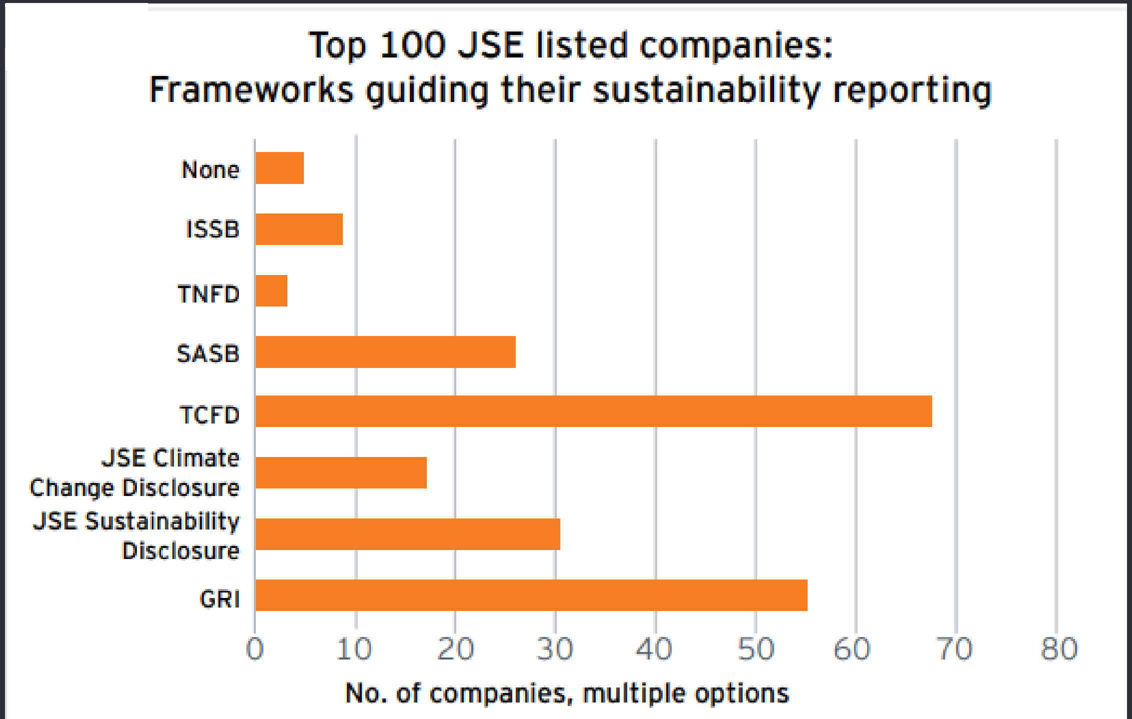
In Africa we've seen some strong support for the adoption of the ISSB standards (IFRS S1 and IFRS S2). Nigeria, Kenya, Ghana, Rwanda and Zimbabwe have all announced their ambitions for early adoption.

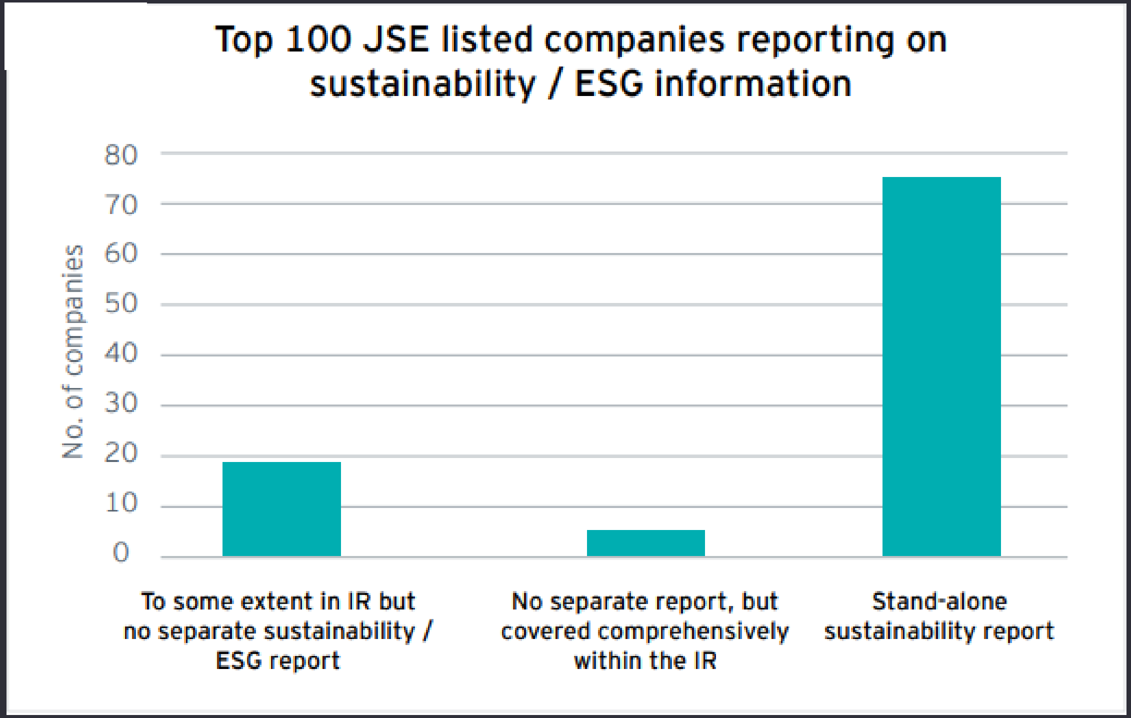
## South Africa

There are currently no proposals to amend the Companies Act to incorporate the sustainability standards (as is currently included for the standards as issued by the International Accounting Standards Board (IASB)) and we are not aware of any current proposals by the JSE to include sustainability disclosure in their listing requirements.

# Sustainability statistics

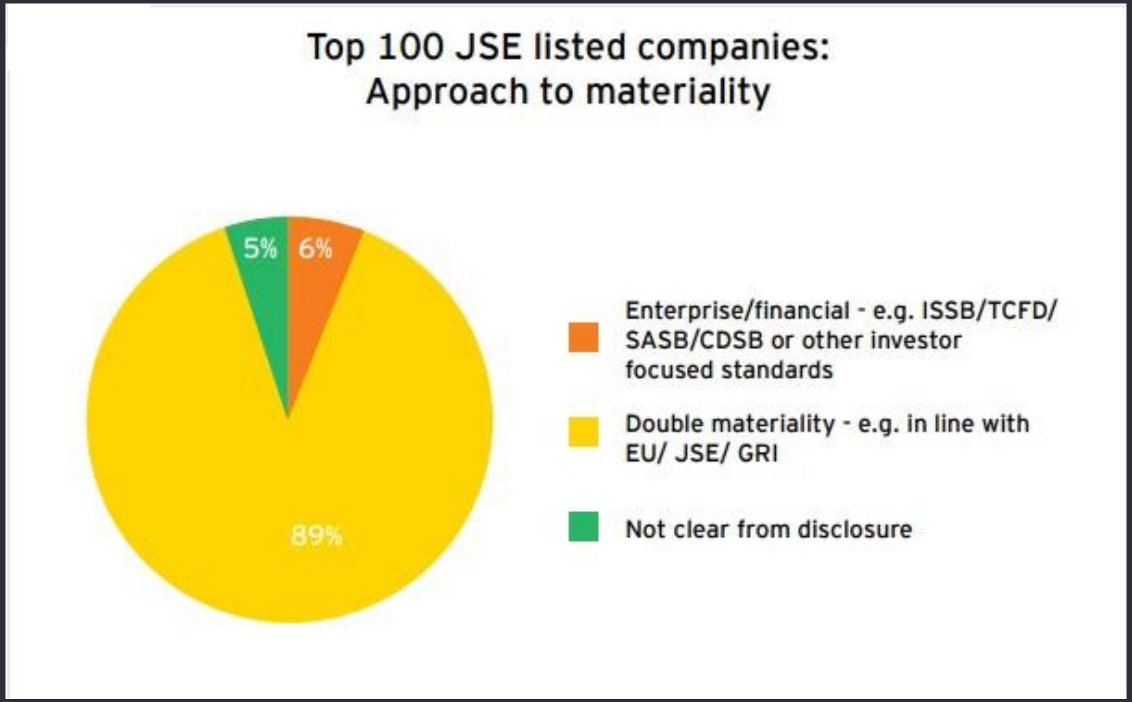
As part of EY South Africa's Annual Excellence in Integrated Reporting Awards 2023 (EIR), an analysis of the top 100 JSE listed companies' most recently published sustainability reports (or equivalent) were surveyed.

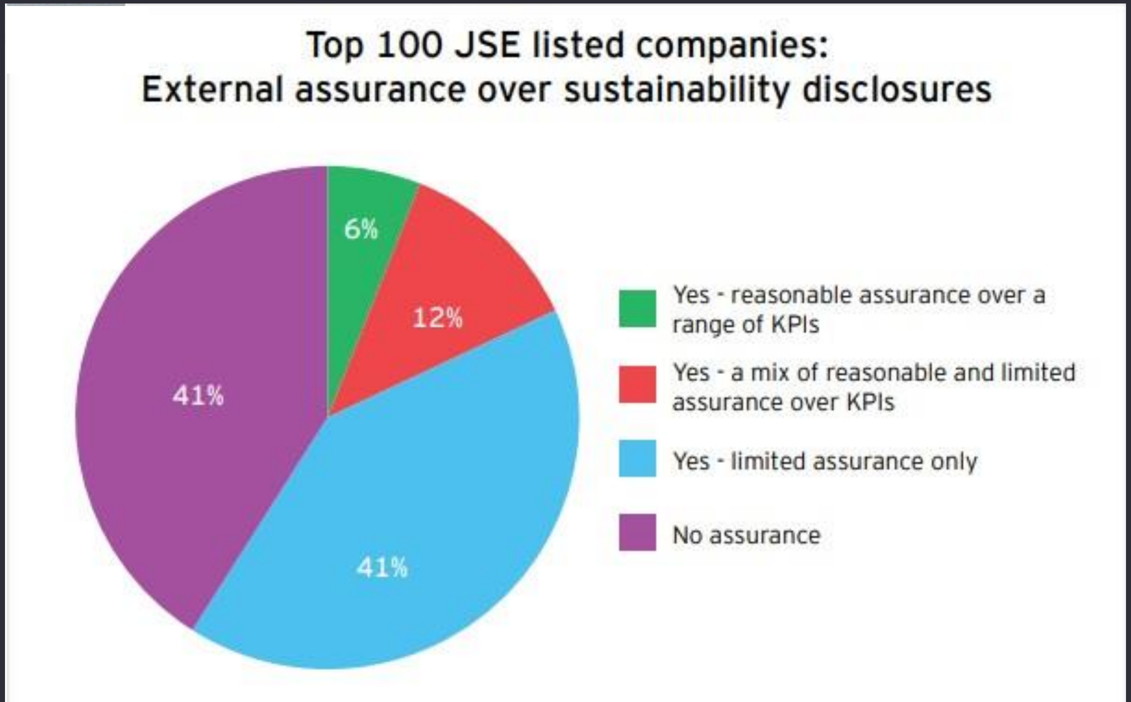



Source: *Excellence in Integrated Reporting 2023:* *ey-com-en-za-ey-excellence-in-integrated-reporting-2023.pdf

# Sustainability statistics




Source: *Excellence in Integrated Reporting 2023:* *ey-com-en-za-ey-excellence-in-integrated-reporting-2023.pdf

# Climate-related and other uncertainties in the financial statements

**Purpose** >

The purpose of this project is to explore whether and how financial statements can better communicate information about climate-related risks

IFRS accounting standards do not refer explicitly to climate-related matters.
However, companies need to consider climate-related matters in applying IFRS accounting standards when the effect of those matters is material in the context of the financial statements taken as a whole.

- **IAS 37** Provisions, contingent liabilities and contingent assets
- **IAS 38** Intangible assets
- **IFRS 7** Financial instruments: Disclosures
- **IFRS 9** Financial instruments
- **IFRS 13** Fair value measurement
- **IFRS 17** Insurance contracts

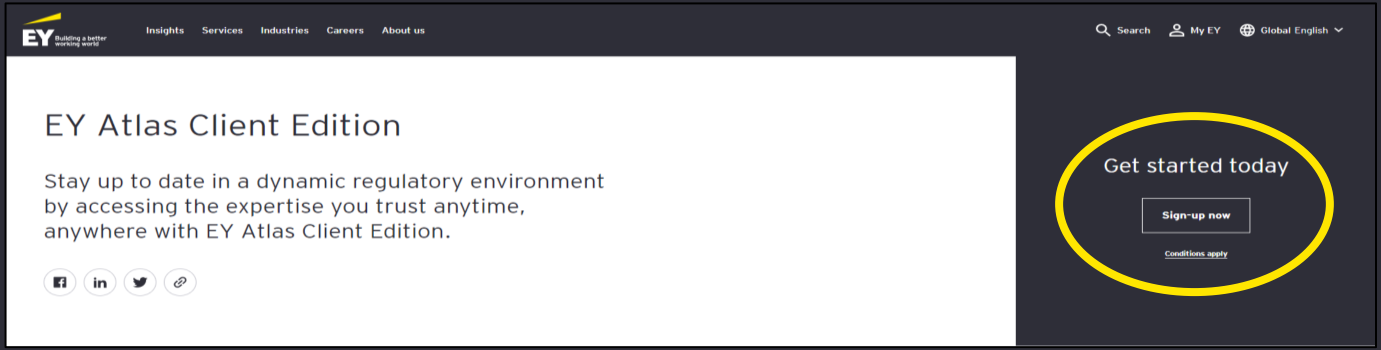
- **IAS 1** Sources of estimation uncertainty and significant judgments
- **IAS 1** Going concern
- **IAS 2** Inventories
- **IAS 12** Income taxes
- **IAS 16** Property, plant and equipment
- **IAS 36** Impairment of assets

# One minute recap

# Resources


**Available and free!**
Link: EY Atlas Client Edition | EY - Global

[ePub version also available]




Latest edition available in January 2024!



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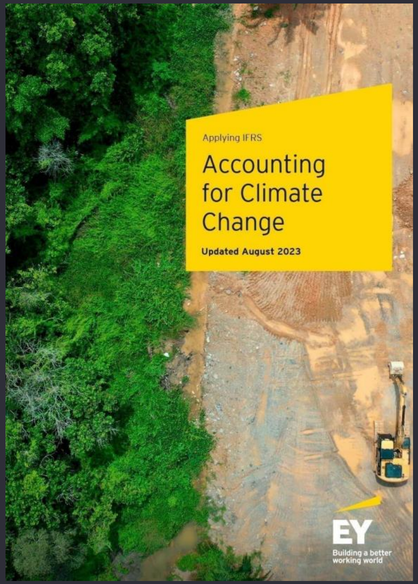
# Resources


JSE Proactive Monitoring Report

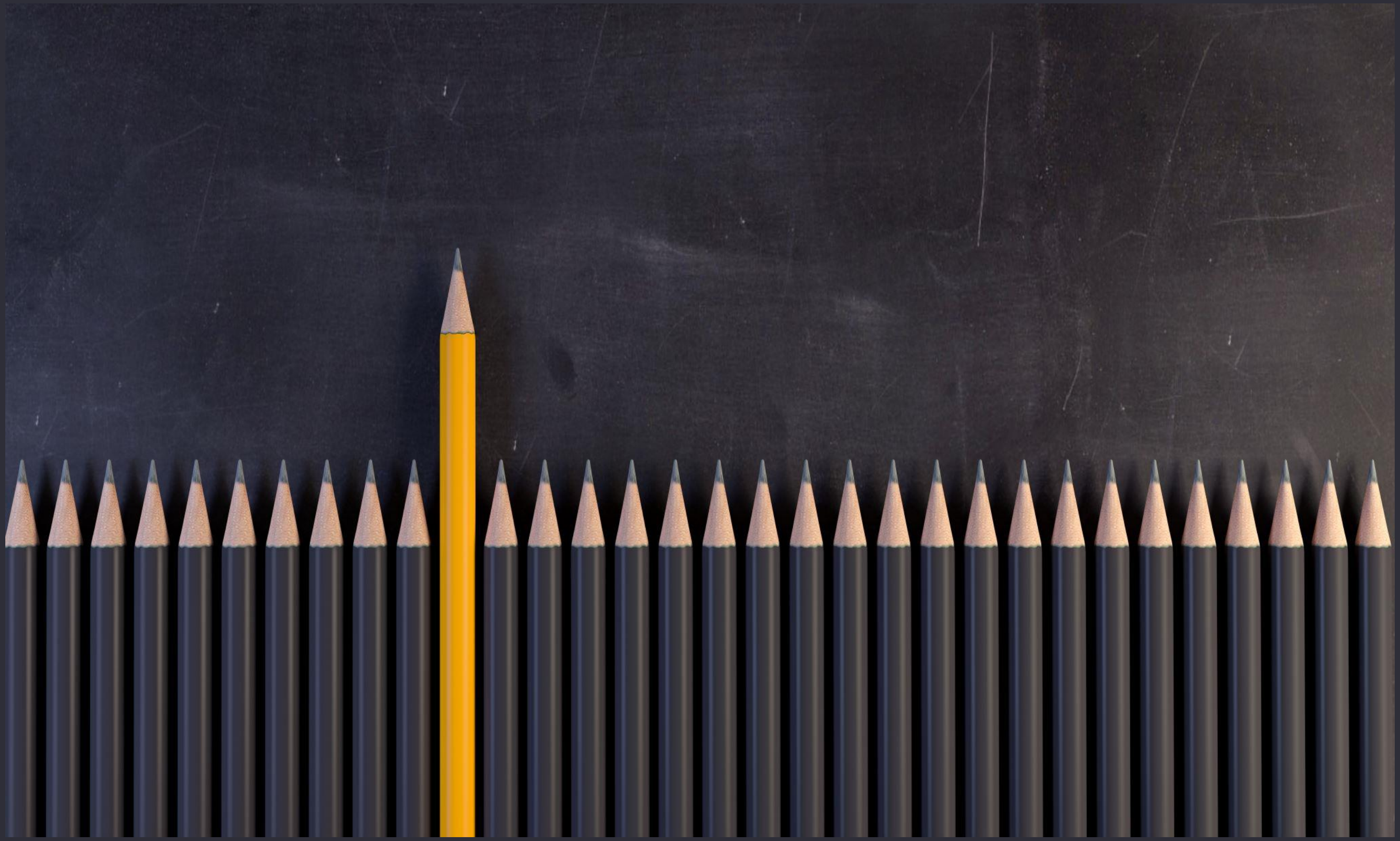



Applying IFRS for climate change


'IFRS Developments' documents

# Feedback

## Please provide us with feedback on today's session



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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.



Creative Services ref. 8786. Artwork by Khaja AF.

ED None



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