IFRS Hot Topics

Kristiansand Symposium 2022

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Building a better working world

Agenda

IFRS Update

- New standards and amendments
- IFRS Interpretations Committee

IFRS Hot Topics

- Accounting considerations for the war in Ukraine
- Accounting for climate change
- Extractive project
- Business combinations under common control
- Goodwill and impairment

God regnskapsskik

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IFRS Update

Smaller IFRS changes effective in 2022; expect larger impacts in 2023

New pronouncements	IFRS	2022	2023
Reference to the Conceptual Framework	IFRS 3	✓	
Onerous Contracts – Costs of Fulfilling a Contract	IAS 37	✓	
AIP: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	IFRS 9	✓	
AIP: Subsidiary as a First-time Adopter	IFRS 1	✓	
AIP: Taxation in Fair Value Measurements	IAS 41	✓	
Insurance Contracts	IFRS 17		✓
Classification of Liabilities as current or non-current	IAS 1		✓*
Disclosure Initiative – Accounting Policies	IAS 1		✓
Definition of Accounting Estimates	IAS 8		✓
Deferred Tax to Assets and Liabilities arising from a Single Transaction	IAS 12		✓

* Postponed

Entities encouraged to revisit their accounting policy disclosures

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accounting policy disclosures are seldom useful and could be improved

The disclosure problem

- Not enough relevant information
- Too much irrelevant information
- Ineffective communication of the information provided

Disclosure Initiative—Accounting Policies

- Entities required to disclose material accounting policy information rather than their significant accounting policies
- Guidance and examples on the application of materiality to accounting policy disclosures included in *Materiality Practice Statement 2*

Entities encouraged to revisit their accounting policy disclosures

Determining whether accounting policy information is material

Step 1	Step 2	Step 3
Transaction, event or condition material in size or nature?	Accounting policy information material?	Disclose accounting policy information

Step 2 - material accounting policy information

- Change in accounting policy
- Accounting policy choice
- Absence of an IFRS that specifically applies
- Significant judgments or assumptions
- Complex accounting

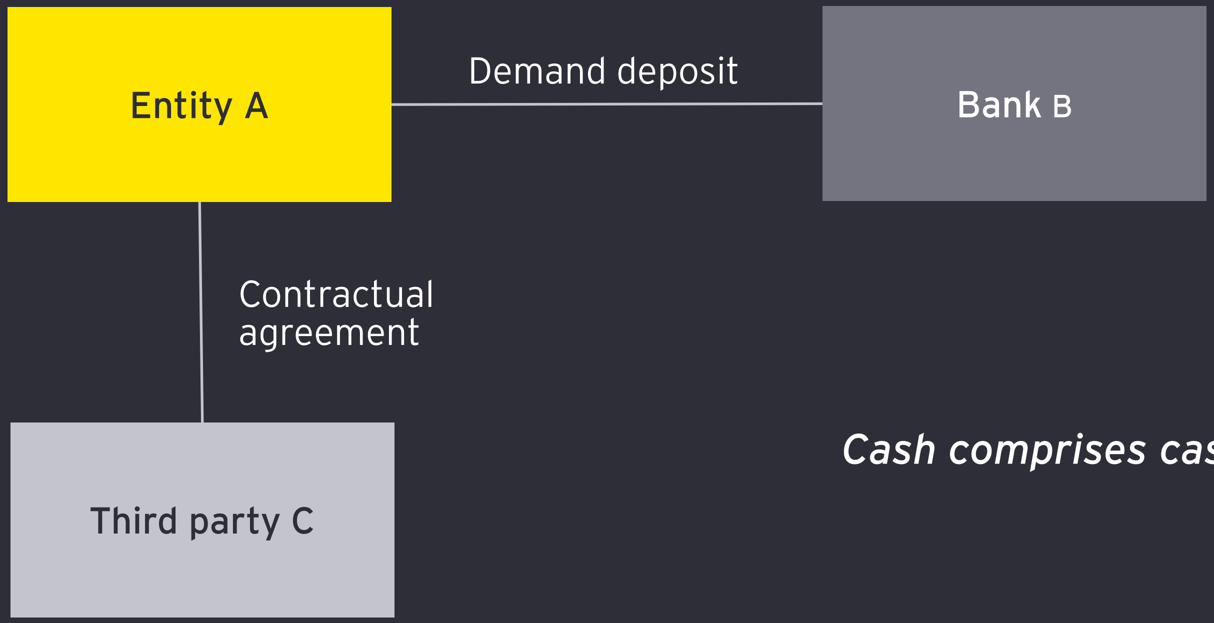
IASB clarifies deferred tax accounting for leases and decommissioning obligations

Company determines if tax deductions relate to	Initial recognition exemption	Resolution
Lease assets - Tax base equal carrying amount - No temporary differences **Lease liabilities** - Tax base equal nil - Temporary differences arise	- IAS 12 prohibits recognition of deferred tax if the initial recognition exemption applies (IRE) - IRE applies when a transaction affects neither accounting profit nor taxable profit (and is not a business combination) - Different views on whether the IRE applies to temporary differences arising when a company initially recognises a lease	- Board proposed amendments to require a company to recognize deferred tax for temporary differences that arise on such transactions - Narrowing the scope of the IRE

IFRS Interpretations Committee – agenda decisions and work in progress

Application Question	IFRS	Completion date
Demand Deposits with Restrictions on Use arising from a Contract with a Third Party	IAS 7	29 April 2022
TLTRO III Transactions	IFRS 9, IAS 20	29 April 2022
Economic Benefits from Use of a Windfarm	IFRS 17	29 April 2022
Cash Received via Electronic Transfer as Settlement for a Financial Asset	IFRS 9	TBD
Lessor Forgiveness of Lease Payments	IFRS 16, IFRS 9	TBD
Negative Low Emission Vehicle Credits	IAS 37	TBD
Principal vs Agent: Software Reseller	IFRS 15	TBD
SPAC: Accounting for Warrants at Acquisition	IAS 32, IFRS 3, IFRS 2	TBD
SPAC: Classification of Public Shares as Financial Liabilities or Equity	IAS 32	TBD
Transfer of Insurance Coverage under a Group of Annuity Contracts	IFRS 17	TBD

Demand deposits with restrictions from third parties classified as cash



Cash comprises cash on hand and demand deposits [IAS 7.6]

Lessor forgiveness of lease payments

Entity A
(lessor)

Lease

Entity B
(lessee)

Fact Pattern

- A leases an asset to B which is classified as an operating lease
- A and B agrees to a rent concession (release from some payments)
- Some payments are due but not paid, others are not yet contractually due
- A uses the ECL model in IFRS 9 to the operating lease receivable

The question

- How should lessor apply the ECL model to the operating lease receivable?
- Should the lessor apply the derecognition requirements in IFRS 9 or lease modification requirements in IFRS 16 to account for the rent concession?

Analysis

- ECL should reflect all cash shortfalls, including considering its expectations of forgiving lease payments recognized as part of the receivable
- As the contractual rights to the cash flows expired with the rent concession, the lessor derecognizes the operating lease receivable
- Lessor to account for the modified lease as a new lease

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Negative Low Emission Vehicle Credits

Fact Pattern

- Entities receive positive credits in a calendar year if they produce or import vehicles whose average fuel emissions are lower than a government target. If they are higher, they receive negative credits
- If an entity receives negative credits for one year, it is required to eliminate those negative credits the following year by either producing/importing to receive positive credits or by purchasing from another entity
- If the entity fails to eliminate negative credits, government can impose sanctions

The question

- Would an entity that receives negative credits have a present obligation under IAS 37?

Analysis

- A legal obligation is present unless the government sanction is a realistic alternative to eliminating negative credits for the entity

IFRS Hot Topics

Accounting considerations for the war in Ukraine

Items for consideration

- Impairment of non-financial assets
- Held for sale and discontinued operations
- Investments in subsidiaries, associates and joint arrangements
- Valuation of inventory
- (not exhaustive)

Questions

- Is the recoverable amount larger than the carrying value?
- Do we have control over the subsidiary?
- Do we have significant influence?
- Is it a sale or an abandonment?
- Should it be classified as held for sale? Discontinued operations?

War in Ukraine raises several accounting considerations

Shell intends to exit equity partnerships held with Gazprom entities

Feb 28, 2022

The Board of Shell plc ("Shell") today announced its intention to exit its joint ventures with Gazprom and related entities, including its 27.5 percent stake in the Sakhalin-II liquefied natural gas facility, its 50 percent stake in the Salym Petroleum Development and the Gydan energy venture. Shell also intends to end its involvement in the Nord Stream 2 pipeline project.

"We are shocked by the loss of life in Ukraine, which we deplore, resulting from a senseless act of military aggression which threatens European security," said Shell's chief executive officer, Ben van Beurden.

Shell's staff in Ukraine and other countries has been working together to manage the company's response to the crisis locally. Shell will also work with aid partners and humanitarian agencies to help in the relief effort.

"Our decision to exit is one we take with conviction," said van Beurden. "We cannot – and we will not – stand by. Our immediate focus is the safety of our people in Ukraine and supporting our people in Russia. In discussion with governments around the world, we will also work through the detailed business implications, including the importance of secure energy supplies to Europe and other markets, in compliance with relevant sanctions."

At the end of 2021, Shell had around $3 billion in non-current assets in these ventures in Russia. We expect that the decision to start the process of exiting joint ventures with Gazprom and related entities will impact the book value of Shell's Russia assets and lead to impairments.

Shell's Powering Progress strategy and financial framework remain unchanged. We reiterate our progressive dividend policy and intent to distribute 20-30 percent of CFFO to shareholders in the form of dividends and share buybacks while targeting a strong balance sheet with long-term AA credit metrics. We stepped up our distributions by announcing an $8.5 billion share buyback programme for the first half of 2022, and we expect to increase our dividend per share by 4 percent for the first quarter of 2022.

Enquiries

Media

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War in Ukraine raises several accounting considerations

bp

bp to exit Rosneft shareholding

27 February 2022

- bp will exit its 19.75% shareholding in Rosneft.
- Both bp-nominated directors to resign from Rosneft board with immediate effect.
- bp will no longer report reserves, production or profit for Rosneft.
- Changes in accounting treatment of Rosneft shareholding expected to lead to a material non-cash charge.
- bp's financial frame and distribution guidance remains unchanged.

Impact on reporting and finances

As a result of the resignations of bp's nominated directors, bp has determined that it no longer meets the criteria set out under International Financial Reporting Standards (IFRS) for having "significant influence" over Rosneft. bp will therefore no longer equity account for its interest in Rosneft, treating it now as a financial asset measured at fair value.

This will result in two material changes to bp's financial reporting and finances in the results for the first quarter of 2022.

First, it is expected to give rise to a non-cash adjusting item charge at the time of the first quarter 2022 results, representing the difference between the fair value of bp's Rosneft shareholding at 31 March 2022 and the carrying value of the asset. At the end of 2021 this carrying value stood at around $14 billion.

Second, in addition, the change is expected to result in non-cash adjusting item charge, principally arising from foreign exchange losses accumulated since 2013 that under IFRS were previously recorded directly in equity rather than the income statement. At the end of 2021 these totalled around $11 billion, and this adjustment will not impact equity.

The change in accounting treatment also means that bp will no longer recognise a share in Rosneft's net income, production and reserves[1]. bp will no longer report Rosneft as a separate segment from the first quarter 2022 results.

As a result of the accounting changes, and excluding Rosneft from base year and future periods, bp now expects:

- to continue, as before, to deliver a 7-9% EBIDA per share CAGR between 2H19/1H20 through 2025 at oil prices of $50-60 per barrel (2020 real) based on bp's planning assumptions;
- EBITDA from resilient hydrocarbons and group to be around $2 billion lower in 2025, at around $31 billion and $38 billion respectively.

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Accounting for climate change

Stakeholders

- Increased focus on measurement and disclosure of climate-related matters
- Additional disclosures to meet stakeholders' expectations?
- FSA's thematic review due this autumn

Example from ENI – climate scenarios

Considering the level of judgment in the estimation process of the VIUs of Oil & Gas assets, management has prepared a stresstest analysis utilizing alternative decarbonization scenario as adopted by the IEA in its SDS WEO '21 and net zero emissions 2050 (NZE 2050) scenarios. The sensitivity tests to the IEA SDS and NZE 2050 scenario consider energy commodity pricing assumptions different from those adopted by the management and the utilization of a cost for carbon emissions across all geographic areas where Eni operates its oil & gas activities based on the prices reported in the following table

In relation to the NZE 2050 scenario, for which possible value recovery actions are not considered, such as rescheduling/ cancellation of planned development activities, contractual renegotiations, effect on costs or actions aimed at accelerating the pay-back period, a headroom is determined, that is, the excess of the total value-in-use compared to the corresponding book value of the E&P CGU, consistent and in excess of more than 30% compared to the book value.

	Value in use of the O&G CGUs Headroom vs. Carrying amounts		Assumption at 2050 in real terms USD 2020		
	Tax-deductible CO_2 charges	Non tax-deductible CO_2 charges	Brent price	European gas price	Cost of CO_2
Eni's scenario	~90%	-	*46 $/bbl*	*6.2 $/mmBTU*	*CO_2 costs projections in the EU/ETS + projections of forestry costs*
IEA SDS WEO 2021 scenario	76%	75%	*50 $/bbl*	*4.5 $/mmBTU*	*200-95 per tonne of CO_2**
IEA NZE 2050 scenario	35%	32%	*24 $/bbl*	*3.6 $/mmBTU*	*250-55 per tonne of CO_2**

(*) Prices relating to advanced/emerging economies.

Source: https://www.eni.com/assets/documents/eng/reports/2021/Annual-Report-2021.pdf

IASB is performing an outreach in the Extractive Industries Project

Background and history

- IFRS 6 is an interim accounting standard since 2004
- Has led to some diversity in accounting for E&E
- In 2010 IASB published a discussion paper, and in 2018 a research project was activated
- IASB decided to NOT develop requirements for recognition and measurement

September 2021

- Exploring improvements to the disclosure objectives and requirements in IFRS 6 about E&E
- Exploring removing the temporary status of IFRS 6

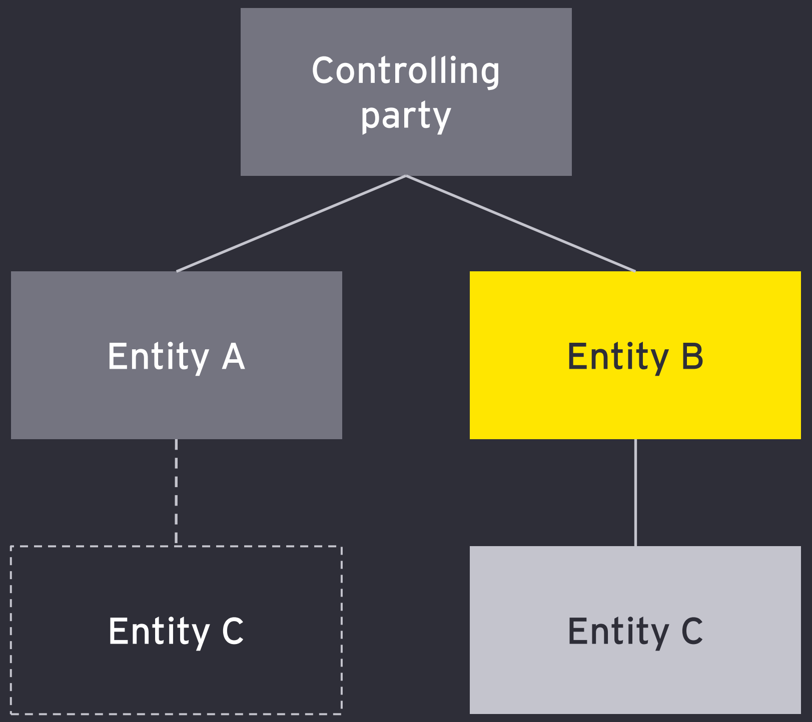
March 2022

Three phases

I. Review identified disclosure suggestions, relevant academic research, sample of entities annual reports. Result: ideas for information about E&E that could be useful for users
II. Limited outreach with users, preparers and auditors to test (a) initial ideas from Phase I and (b) understand if there's other information that could be useful
III. Limited outreach with national standard-setters in jurisdictions with extractive industries

Phase I, II and III is expected to take 5-8 months

Business Combinations under Common Control (BCUCC)



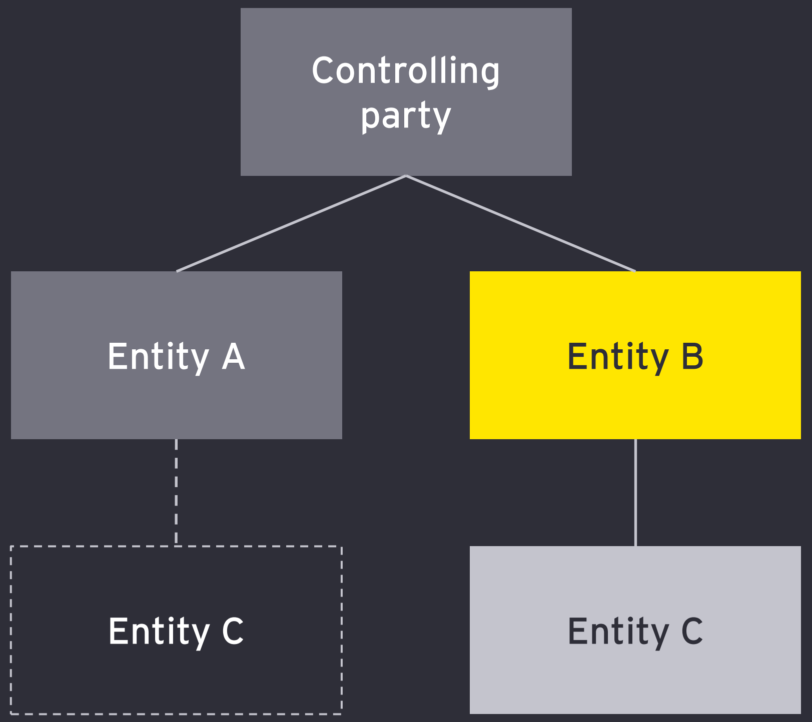
Current accounting

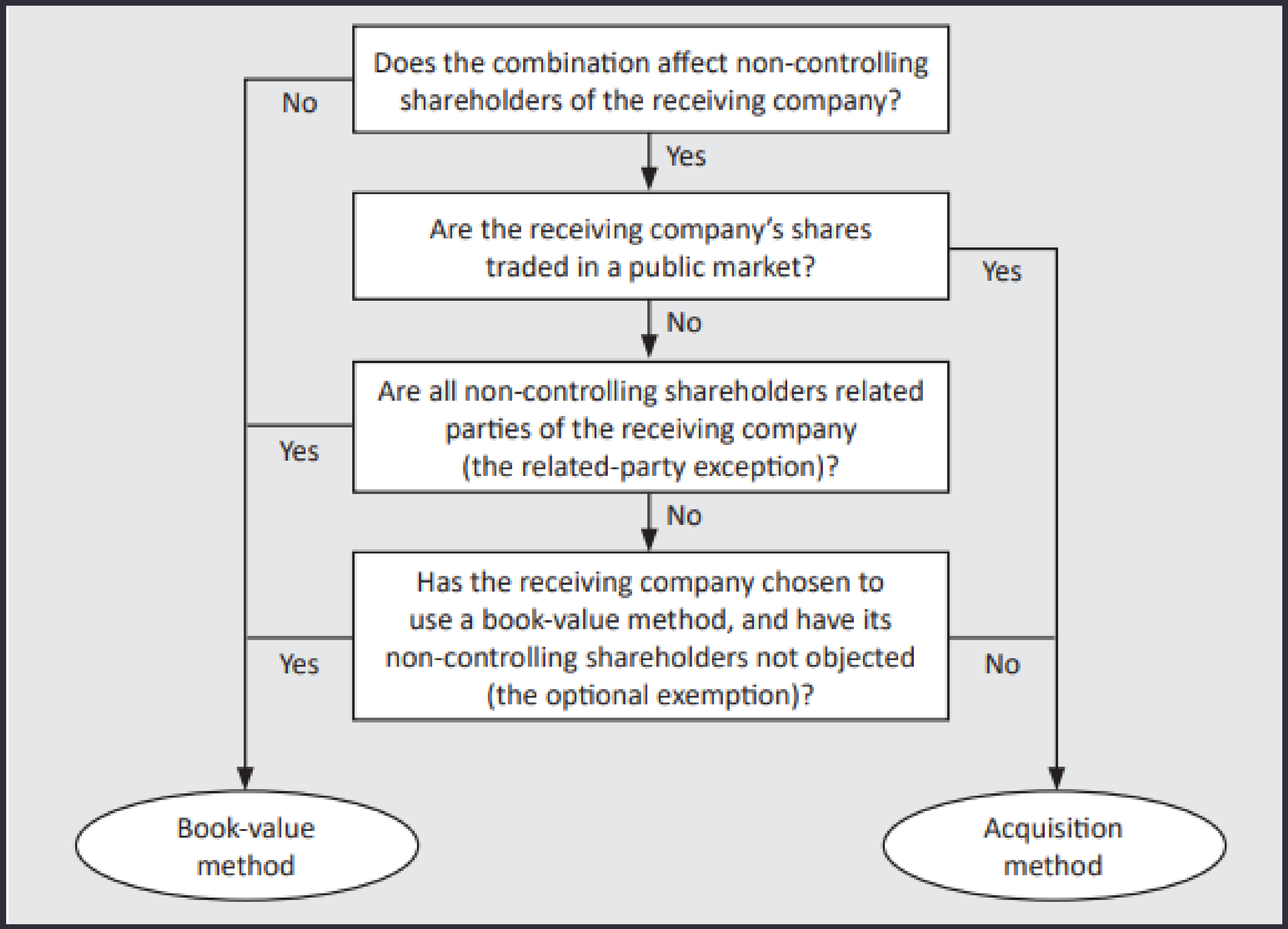
- IFRS 3 Business Combinations excludes BCUCC accounting
- Receiving company needs to develop its own accounting policy by applying the IAS 8 hierarchy
- Diversity in practice
  - Acquisition method and variety of book-value methods
  - No single consistent principle to select method

Proposed accounting

- Neither the acquisition method nor a book-value method for all BCUCC
- Acquisition method if non-controlling shareholder (NCS) are affected and the shares are traded in a public market
- Permissible to use book-value if NCS does not object and required if all NHS are related parties

Business Combinations under Common Control (BCUCC)





Goodwill and Impairment project

Improving disclosures

- Acquisition performance vs management expectations
- Strategic rationale, objectives, metrics for monitoring and performance against objectives

Goodwill impairment and amortisation

- Not feasible to design a different impairment approach
- Challenges: management optimism and shielding
- Board's preliminary view (8 / 14) to not reintroduce amortisation

Simplifying the impairment test

- Relief from annual impairment test
- Removal of current condition requirement
- Allowing post-tax cash flows and discount rate

Intangible assets

- No change in recognition criteria; intangible assets to be recognized separately

Current State

- September 2021: IASB prioritized a) tentative decision on package of disclosures and b) analyse specific aspects of the feedback on the subsequent accounting for goodwill
- May 2022: discussed additional research on
  - Whether it is feasible to estimate useful life of goodwill and the pattern in which it diminishes
  - Potential consequences of transitioning to an amortisation-based model

Goodwill and Impairment project

Possible changes the board considered	More useful information	Reduce costs	Preliminary view in the DP	Updated view
Improve disclosures about acquisitions	Yes	No	Yes, change	Same
Amortise goodwill	No	Yes	No	Further research
Presentation of total equity excluding goodwill	Yes	Maybe	Yes, change	Same
Relief from annual impairment tests	Maybe	Yes	Yes, change	Same
Remove current condition requirement	Yes	Yes	Yes, change	Same
Allowing post-tax cash flows and discount rates	Yes	Yes	Yes, change	Same
Include some intangible assets in goodwill	No	Yes	No	Same

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God regnskapsskikk

God regnskapsskikk

- Delårsregnskap – ny NRS 11 og endret NRS 8. Standarden trer i kraft fra 1. januar 2022
- Regnskapsføring av immaterielle eiendeler
- Arbeidsgruppe for fremtidig organisering av arbeid med norske regnskapsstandarder

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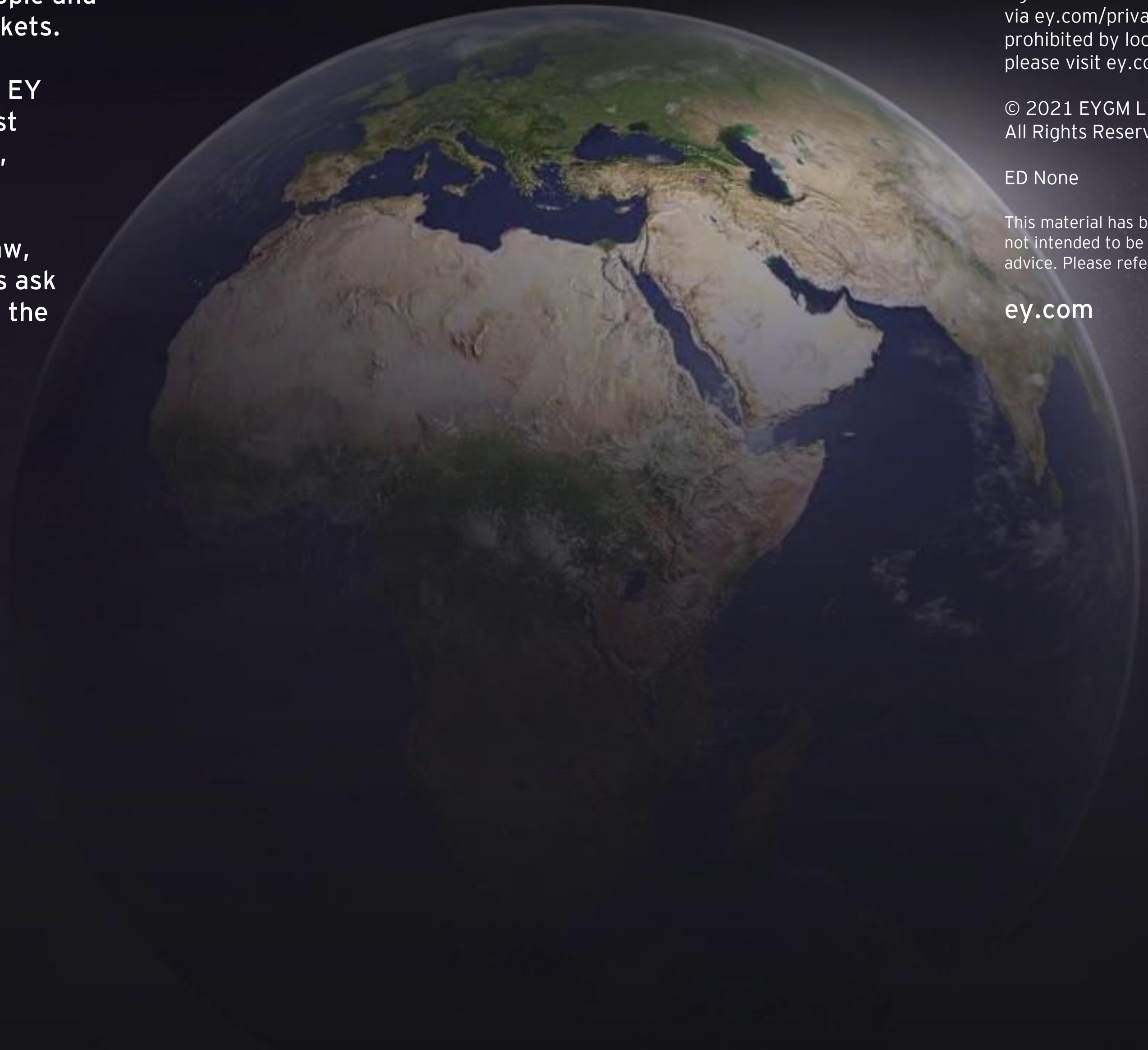

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