Financial Reporting Webinar Series: Interim reporting update – What's on the horizon

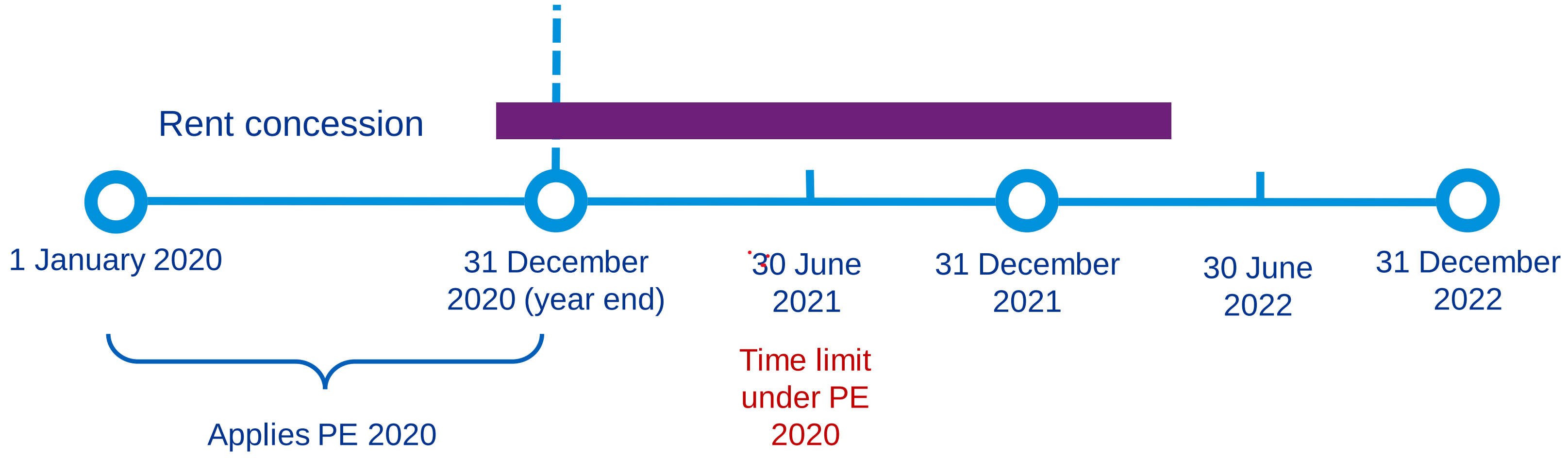
Friday, 14 May 2021

Polling question 1

Has your organization adopted the COVID-19 related rent concession practical expedient for the 2020 reporting period?

A. Yes
B. No
C. N/A or unsure

HKFRS 16 rent concession relief case study



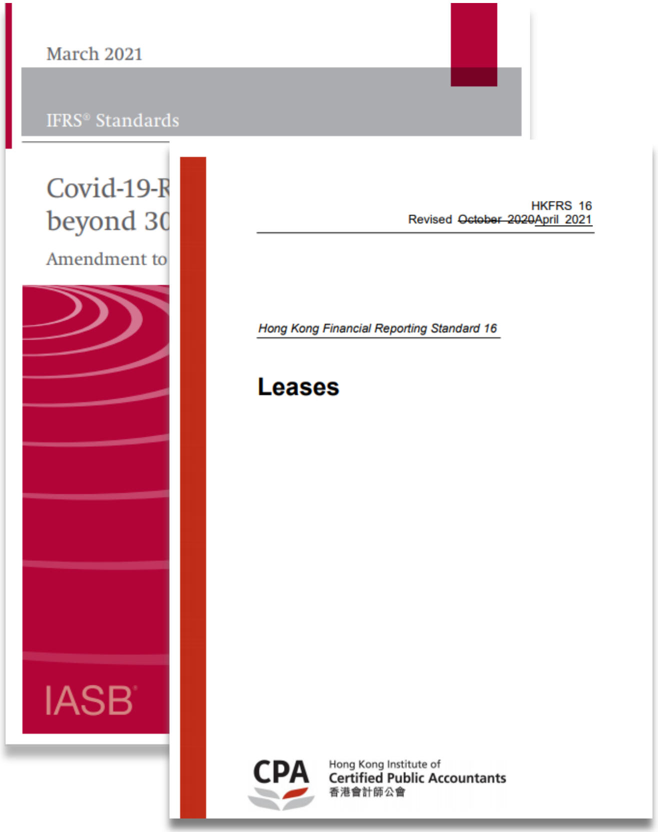
Entity A has a portfolio of retail property leases and has applied the first amendment in its 2020 financial statements. For this lease under consideration, rent concessions were negotiated and granted for November 2020 – March 2022. How should A have accounted for this rent concession in its 2020 FS?

A. Apply rent relief expedient proportionately

B. Rent relief expedient applied fully

C. Apply lease modification accounting (i.e. rent relief not applicable)

Covid-19 Related Rent Concessions beyond 30 June 2021



Amendment to HKFRS 16 *Leases*

First version of amendments issued 2020 [effective 1 June 2020 with early adoption permitted]

- Optional practical expedient for lessees in relation to payments originally due on or before 30 June 2021
- Lease modification accounting required for rent concessions beyond 30 June 2021

Second version of amendments issued 2021 [effective 1 April 2021 with early adoption permitted]

- Optional practical expedient extended for payments originally due on or before 30 June 2022
- Retrospective application is required

- 2021 amendments **are mandatory** for organisations that used the original practical expedient
- Reverse previous lease modification accounting

IFRIC agenda decision - Configuration or customisation costs

Fact pattern

- **Customer A enters into a Software as a Service (SAAS) arrangement over a 5-year period with service provider B.**
- **Customer A has right to access the software hosted by B.**
- **A does not have a software license and does not recognize a software intangible asset on its books.**
- **As part of this IT project, configuration or customization (CC) services are provided by B upfront.**

How should A account for these upfront CC costs?

A. Recognise an intangible asset for the CC costs and amortise over 5 years

B. Expense the costs when A receives the CC services upfront

C. It depends on whether the CC services are considered to be “distinct” or “not distinct” to the SAAS arrangement

Accounting policy change will require retrospective application

Recap of IFRS 15 criteria for distinct performance obligations

Criterion 1:

Capable of being distinct

Can the customer benefit from the good or service on its own or together with other readily available resources?

and

Criterion 2:

Distinct within the context of the contract

Is the entity's promise to transfer the good or service separately identifiable from other promises in the contract?

IFRIC TAD: Classification of debt with covenant as current or non-current

Tentative agenda decision; referred back to the IASB

Amendments to IAS 1 effective 1 Jan 2023

- An organisation's **right to defer settlement** of a liability for at least twelve months after the reporting period **must have substance** and … **must exist at the end of the reporting period**.
- If the right to defer settlement is subject to the organisation complying with specified conditions, the right exists at the end of the reporting period only if the organisation **complies with those conditions at the end of the reporting period, even if the lender does not test compliance until a later date**.

Case study

- The loan requires a working capital ratio above 1.0 at each 31 December.
- If the ratio is not met on a testing date, the loan becomes repayable on demand.
- Working capital ratio at 31 December 20X1 (the reporting date) is 1.0.
- Working capital ratio at 30 June 20X2 is 0.9.
- Working capital ratio at 31 December 20X2 is expected to be above 1.0.

Should the loan be classified as current or non-current under the amended IAS 1 requirements at the 30 June interim reporting period?

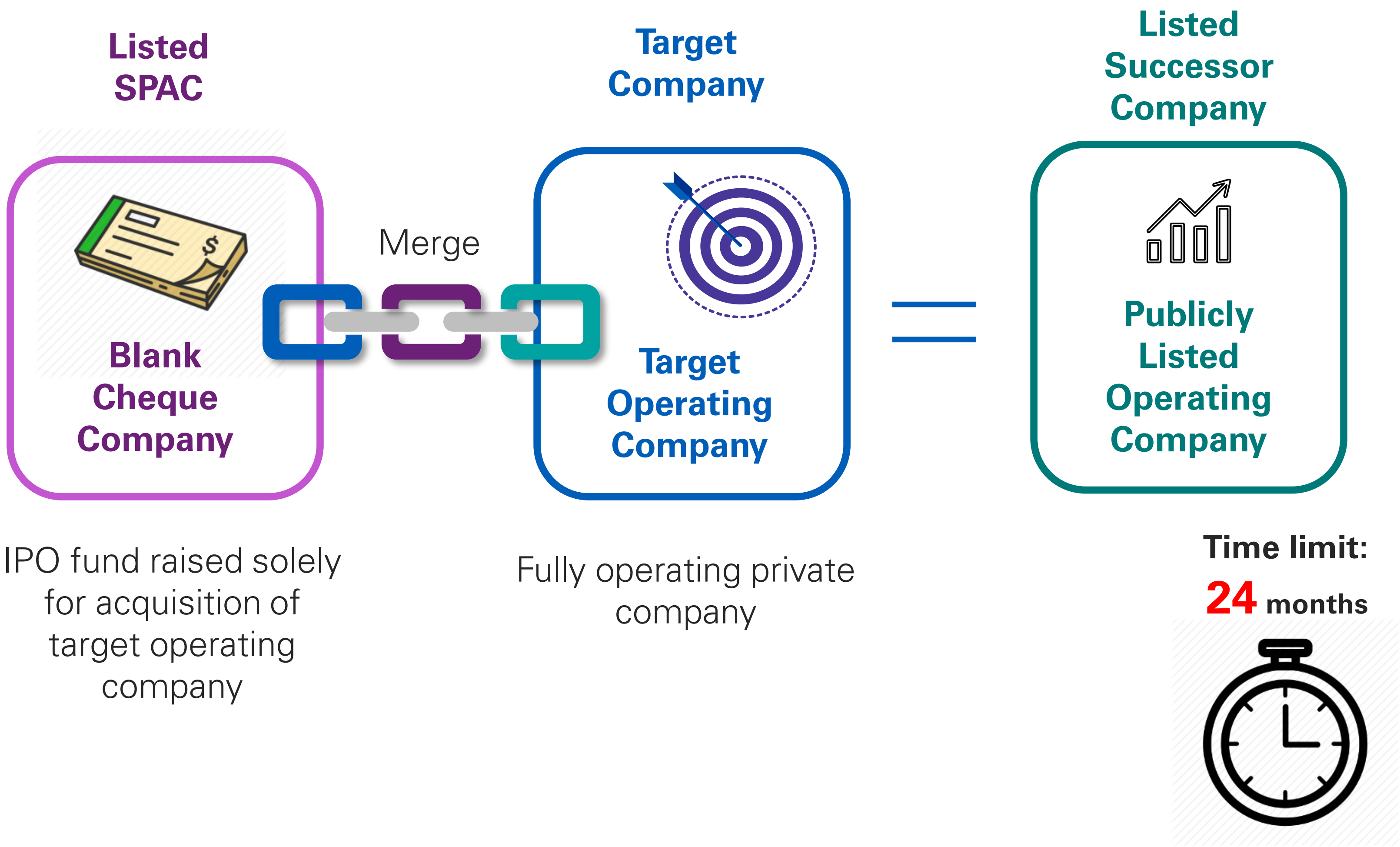
A. Current

B. Non-current

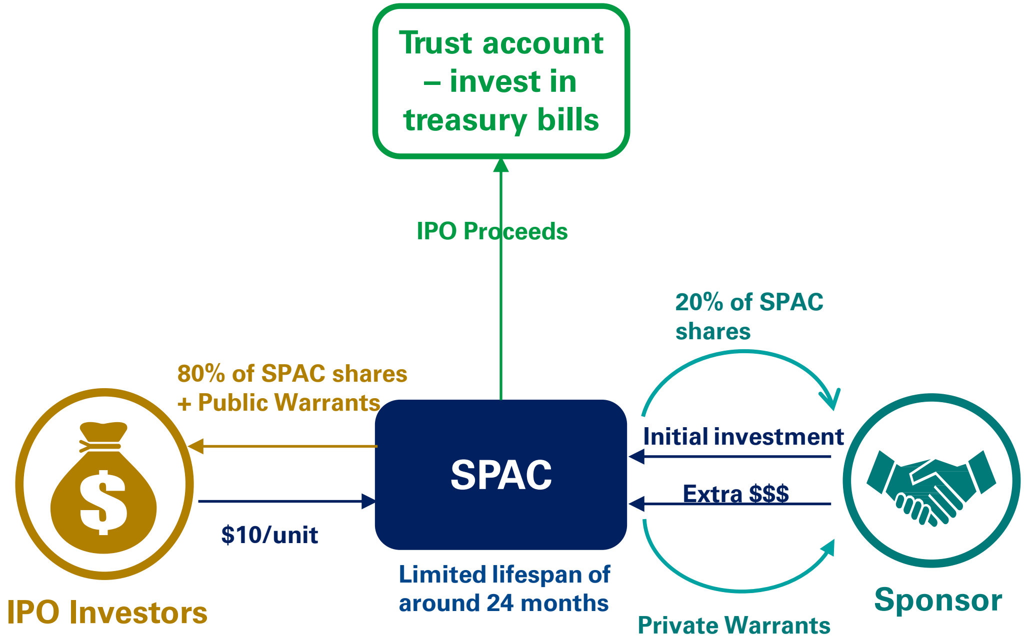
SPAC activity - overview

Year	SPAC IPOs	Total US IPOs	%	SPAC Proceeds $M	Total US IPO Proceeds $M	%
2021	315	437	72%	101,534	164,906	62%
2020	248	450	55%	83,353	179,356	46%
2019	59	213	28%	13,600	72,200	19%
2018	46	225	20%	10,750	63,890	17%
2017	34	189	18%	10,048	50,268	20%

What is SPAC?


Listed SPAC
Blank Cheque Company
Merge
Target Company
Target Operating Company
Listed Successor Company
Publicly Listed Operating Company
IPO fund raised solely for acquisition of target operating company
Fully operating private company
Time limit:
24 months

Key IFRS Accounting Considerations: SPAC phase



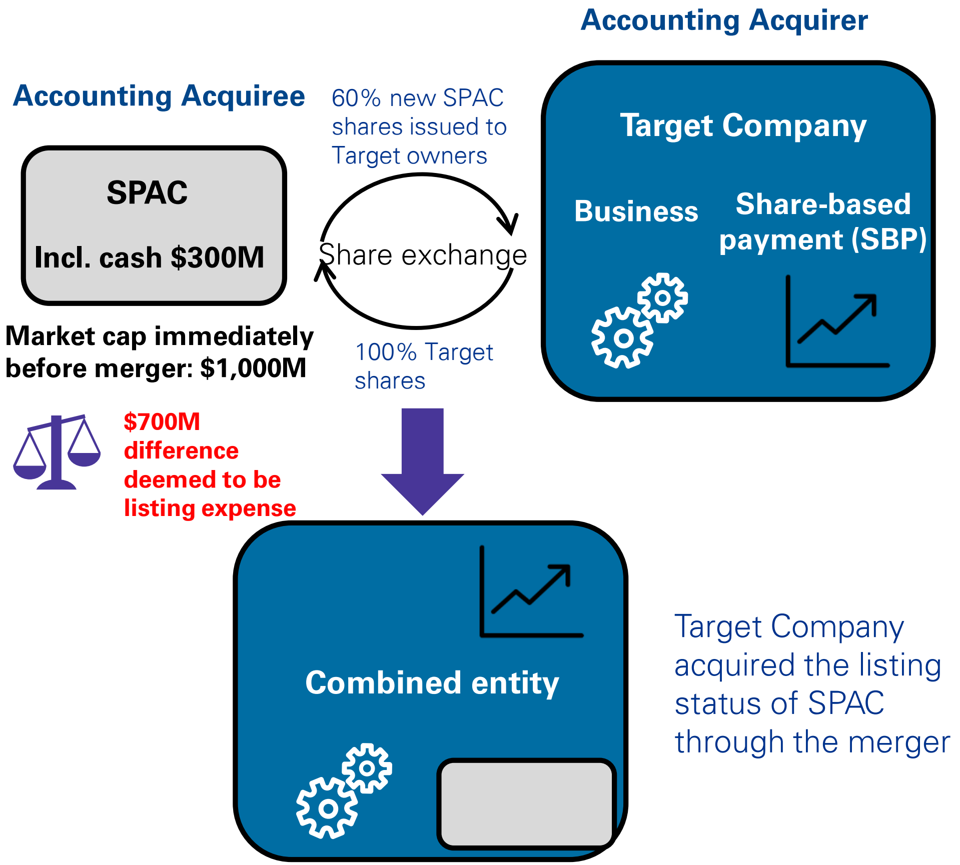
* The first step of the accounting for financial instruments is to determine the unit of account (i.e. whether the shares and warrants constitute separate unit of accounting).

Key IFRS accounting considerations*

- ✓ Debt vs equity classification of shares, which may be affected by:
  - Limited lifespan of SPAC
  - Additional considerations (e.g. puttable instruments exception) for equity classification
- ✓ Classification of warrants:
  - Limited lifespan of SPAC
  - Liability classification is likely required
- ✓ Accounting for issuance cost depends on classification of instruments issued

Key IFRS Accounting Considerations: de-SPAC phase

A simplified case where the Target is the accounting acquirer*



Key IFRS accounting considerations

- ✓ Acquisition of listing status
  - Akin to the principles of reverse acquisition (*IFRIC Agenda Decision Mar 2013*)
  - FV of assets acquired (i.e. market cap of SPAC immediately before the merger) as deemed consideration (*IFRS 3 para. 33*)
  - Listing expense to be recorded upon merger, being the diff between deemed consideration and cash acquired
- ✓ Re-assessment of financial instruments classification upon merger mainly due to:
  - No limited lifespan for combined entity
  - Redemption provisions on shares removed
- ✓ SBP (new, modification & replacement)
- ✓ Presentation issues (EPS, capital structure)

* In some cases, SPAC would be the accounting acquirer in which case *IFRS 3 Business Combination should* be applied

Developments – IASB/IFRS Foundation

Major projects timeline

H1 2021
- Goodwill and impairment
- Management commentary

H2 2021
- Extractives activities
- PIR of IFRS 10/11/12
- PIR of IFRS 9
- BCUCC
- Rate-regulated Activities
- 3rd Agenda consultation
- Sustainability reporting

H1 2022
- Disclosure initiative

Other ongoing projects:
- Primary Financial Statements
- Dynamic Risk Management
- Equity method
- FICE

Resources

KPMG Global IFRS Institute

https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards.html

KPMG Global - IFRS Today (videos, blogs and podcasts on latest developments)

https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards/ifrs-today.html

KPMG China - Financial Reporting webinar series

https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html

Webinar dates and topics for 2021

- 29 January – Navigating potential accounting fraud
- 19 March – IASB project update - Business combinations under common control
- 14 May – Interim reporting update: What's on the horizon
- 16 July – Corporate governance and ESG update
- 17 September – TBD
- 15 October – TBD
- 19 November – TBD
- 17 December – Year-end reporting reminders

For more details and access to our webinar series:

https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html

Speakers

Paul Lau

Head of Professional Practice
and Capital Markets
KPMG China

E paul.k.lau@kpmg.com

Roy Leung

Head of Accounting Change Advisory

KPMG China

E roy.leung@kpmg.com

Serene Seah-Tan

Partner
Department of Professional Practice
KPMG China

E serene.seah-tan@kpmg.com

kpmg.com/cn/socialmedia

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