



# Year-end reporting reminders

Financial Reporting Webinar Series

—  
Wednesday 14 December 2022



# Loss-making contracts

## How to account for a loss-making contract?

Our seven-step guide sets out a logical approach to accounting for loss-making contracts under IFRS® Accounting Standards.

**01**

**What standard applies to a loss-making contract?**

**02**

**Can the contract be terminated without penalty?**

**03**

**Is the contract part of an overall loss-making operation?**

**04**

**Have you tested the related assets for recoverability?**

**05**

**What are the unavoidable costs under the contract?**

**06**

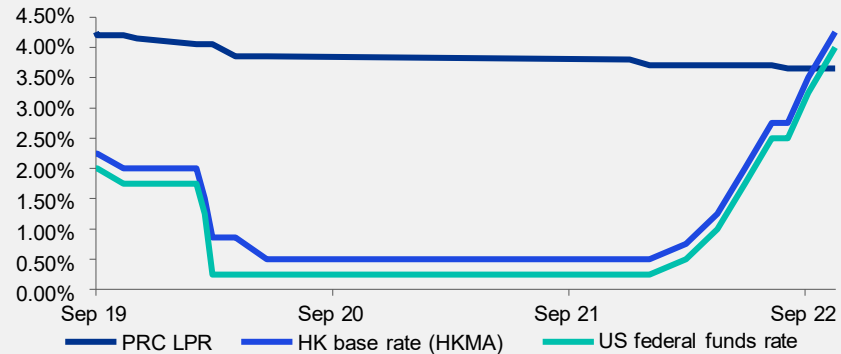
**What are the economic benefits under the contract?**

**07**

**Do the costs exceed the economic benefits?**

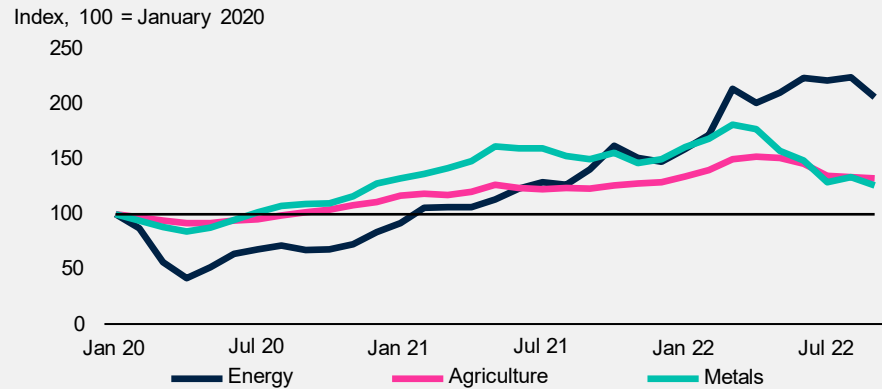
# Impairment indicators and judgement

## Central bank base rates



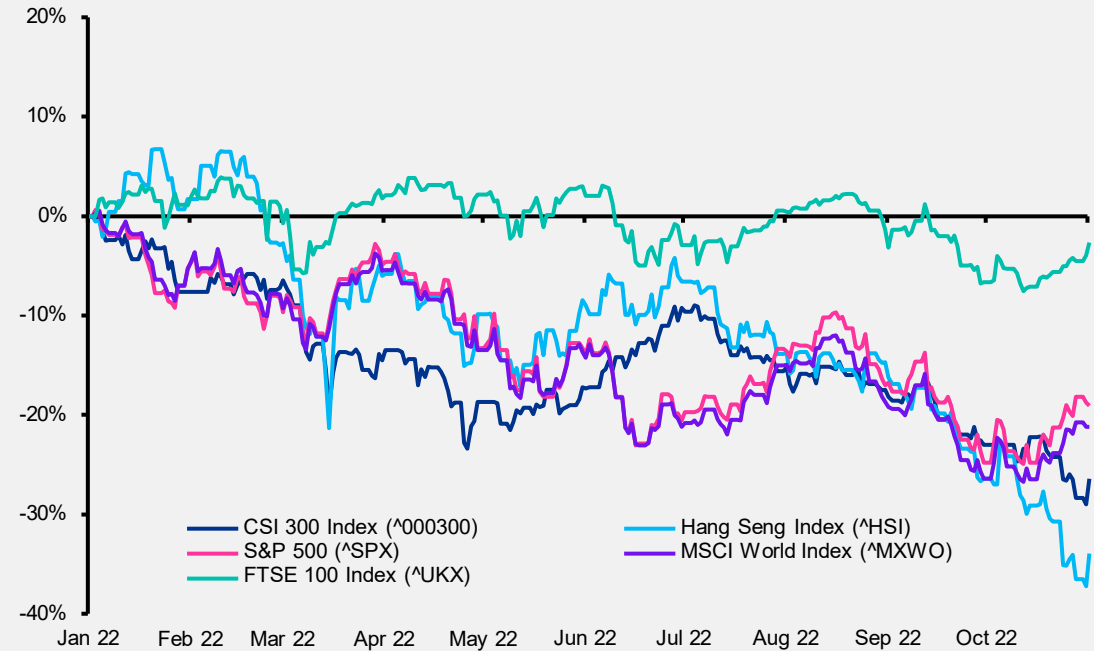
Source: The People's Bank of China, HKMA, Federal reserve

## Commodity prices



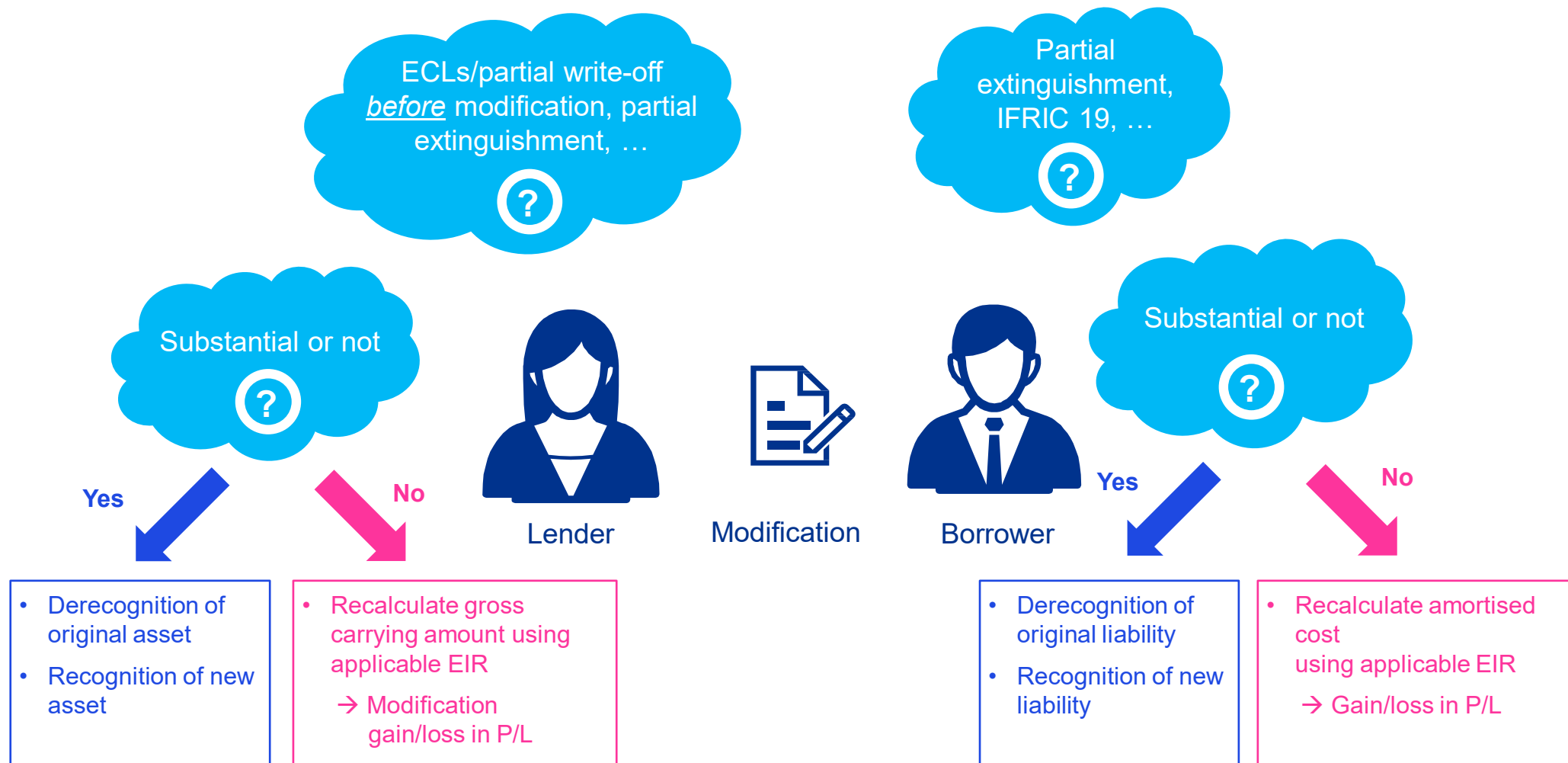
Source: World Bank

## Stock market indices



Source: Capital IQ

# Modification of financial instruments



EIR: Effective interest rate

# Lessor forgiveness of operating lease payments



**Issue:** How does the lessor apply IFRS 9 and IFRS 16 in accounting for the rent concession?

## Operating lease receivables

Before the payments are forgiven:  
Apply **impairment requirements in IFRS 9**

When the payments are forgiven:  
Apply **derecognition requirements in IFRS 9**

## Future lease payments

Apply **modification accounting under IFRS 16**

**IFRIC agenda decision  
(September 2022)**

# How does the lessee account for the reduction in useable area associated with proportional rent reductions?

Due to the downsizing of the operations, the lessee and the lessor agree to reduce the leased space by 50% and the lease payment is also reduced by 50% in the remaining lease term.



**Reduce the pre-modification ROU asset due to the reduction in space and the pre-modification lease liability due to the reduction in rent, using original discount rate**



**Recognise the difference as a gain or loss to reflect the partial termination of lease**



**Remeasure the remaining carrying amount of the lease liability using a revised discount date at modification date, with corresponding adjustment to ROU asset (assuming the modification does not qualify for the COVID-19-related practical expedient)**

# Amendments effective from 1 January 2022

## Amendments:

- *IFRS 16 Covid-19-Related Rent Concessions Beyond 30 June 2021*

Note:

- 1) Effective for annual periods beginning on or after 1 April 2021
- 2) Extension granted to 30 June 2022

## Amendments:

- *IFRS 3 Reference to Conceptual Framework*
- *IAS 16 Property, Plant and Equipment – Proceeds Before Intended Use*
- *IAS 37 Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvements to IFRSs 2018–2020 Cycle

Proposed amendments to provide temporary exception from deferred tax accounting for global minimum top-up tax (GloBE) expected in January 2023

## IFRS 17 Insurance Contracts and amendments

### Other amendments:

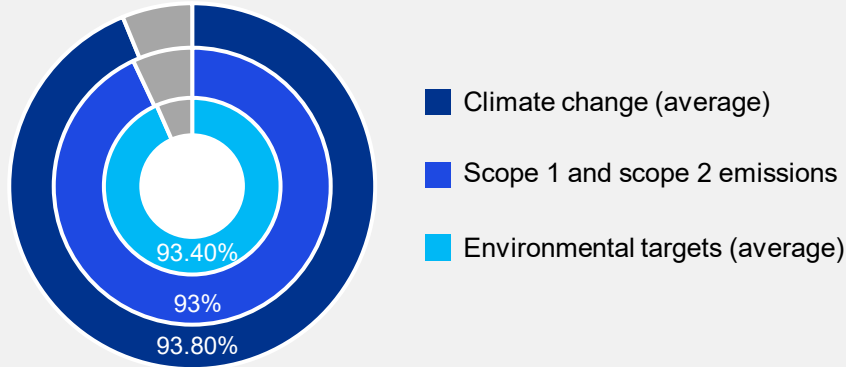
- *IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies*
- *IAS 8 Definition of Accounting Estimates*
- *IAS 12 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*
- *IAS 1 Classification of Liabilities As Current or Non-Current*
- *IFRS 16 Lease Liability in a Sale and Leaseback*

December 2022

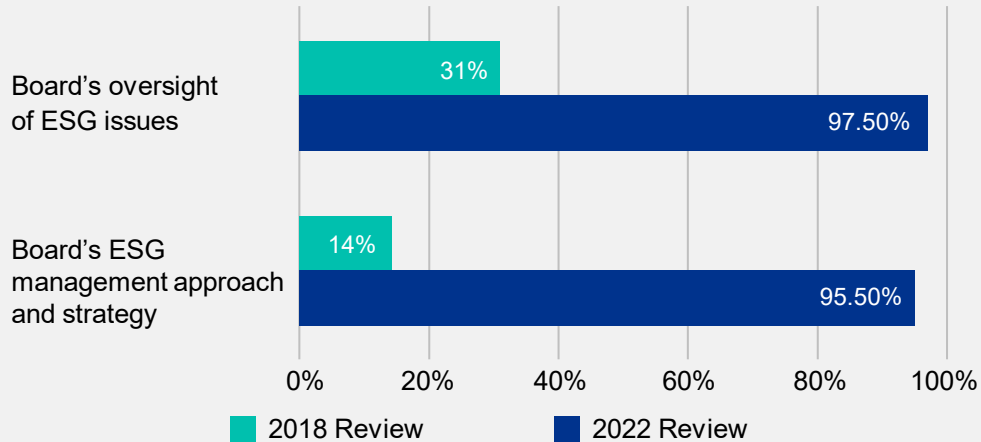
December 2023 and beyond

# HKEX 2022 Analysis of ESG Practice Disclosure

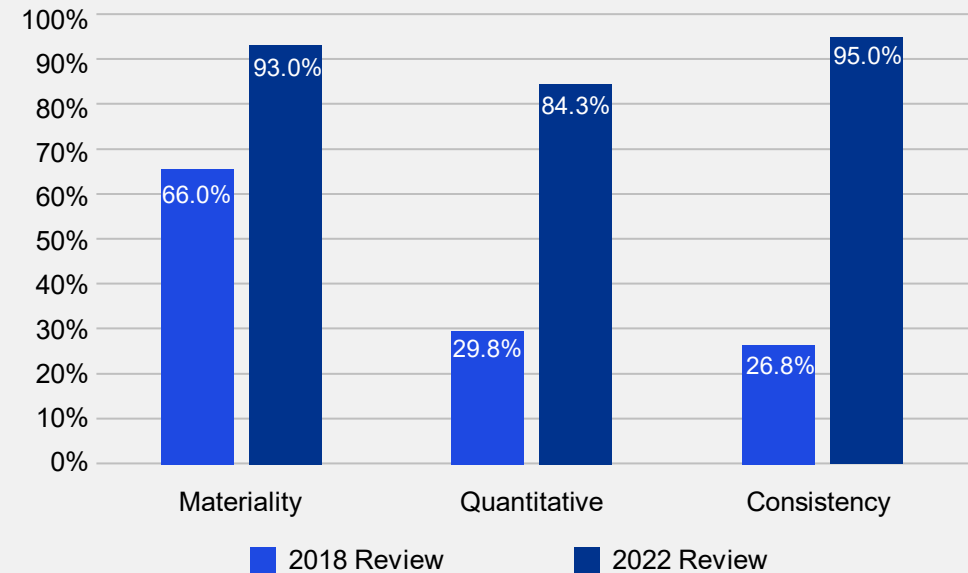
## Reporting rate of climate-related matters



## Disclosure on board's governance over ESG matters








## Application of Reporting Principles



Source: [HKEX "2022 Analysis of ESG Practice Disclosure"](#)



# Expectations of good reporting of potential ESG risks in the financial statements

Topics	Expectation
<b>Connectivity with TCFD/ESG Disclosures</b> 	<ul style="list-style-type: none"> <li>• Consistency between ESG risks and uncertainties and impact on FS judgements and estimates;</li> <li>• Relationship between ESG scenarios (i.e. TCFD scenarios) and assumptions/sensitivities in FS;</li> <li>• ESG commitments, scale of business growth appropriately reflected in FS</li> </ul>
<b>Judgement and estimates</b> 	<ul style="list-style-type: none"> <li>• Clear explanation of longer term uncertainties vs those not expected to result in a material impact in next financial year;</li> <li>• Consider government targets and plans for ESG matters in measuring assets/liabilities and impact on IFRS disclosures</li> </ul>
<b>Impairment</b> 	<p>Explain how uncertainties and transition plan arising from ESG matters have been incorporated into assessment, including where relevant, impacts on budget periods and terminals growth rate</p>
<b>Useful economic life</b> 	<p>Ensure useful lives of assets are appropriate in the context of ESG matters (i.e. both published plans of replacement and anticipated regulatory changes) and make adequate explanation</p>
<b>Revenue &amp; segment disclosures</b> 	<p>Consider ESG risk exposures and uncertainties to determine extent of aggregation under IFRS 8 &amp; 15 as businesses evolve</p>

Source: FRC CRR Thematic review of TCFD disclosures and climate in the financial statements July 2022

# Resources

## Accounting in uncertain times

[Loss-making or onerous contracts](#)



[Financial reporting resource centre](#)



## Leases

[Testing leased office space for impairment](#)



[Lease modifications](#)



## Other topics

[IFRS 17 for non-insurers](#)



[KPMG Global IFRS Institute](#)



## UK FRC and HKEX ESG review resources

[CRR Thematic review of TCFD disclosures and climate in the financial statements](#)



[2022 Analysis of ESG Practice Disclosure](#)



# Webinar dates and topics for 2022

- 26 January – HKEX Listing Rules Update
- 18 March – IFRS Sustainability Standards – The climate-related and general disclosure prototypes
- 20 May – Get ready for 2022 Interim Reporting season
- 10 June – Closing the gap between climate risk and climate strategy
- 15 July – Crypto-assets – tax and financial reporting considerations
- 7 October – Valuation challenges in the current environment
- 17 November – Accelerating pace of mandatory ESG reporting
- **14 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>**

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