

# What is Happening with International Financial Reporting Standards

March 29, 2023



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# Agenda



Survey



Share-based payments  
IFRS vs. U.S. GAAP



Discount Rates - Inflation



Sustainability



IFRIC and IASB Update



Resources



Audience Q&A

# Survey





# Survey Question

## What is your Home Institute?

- A. The Institute of Chartered Accountants in England and Wales
- B. Chartered Accountants Ireland
- C. Chartered Accountants Australia and New Zealand
- D. The Institute of Chartered Accountants Scotland
- E. The South African Institute of Chartered Accountants
- F. CPA Canada
- G. Other CAW
- H. Other

# Share-Based Payments



# Share-Based Payments: Setting The Scene

- **Source of guidance**
  - USGAAP - ASC 718 - Compensation - Stock Compensation
  - IFRS - IFRS 2 Share-Based Payment
- **Fair value approach applied under both frameworks, and both apply to scenarios where an entity:**
  - Acquires goods or services in exchange for issuing share options or equity instruments
  - Incurs liabilities based on the price of its shares OR that may require settlement in shares
- **Both frameworks apply to transactions with both employees and non-employees**
- **Fair value is defined consistently by both standards**
- **Disclosure requirements are also somewhat similar, with the underlying principle of providing investors with sufficient information to understand the types and extent of the share-based payments an entity is party to**

# Share-Based Payments: Key Areas of Difference

- Share-based compensation plans with graded vesting based on service conditions
  - **Recognition**
    - USGAAP permits accounting policy option
    - IFRS requires the accelerated method
  - **Measurement**
    - USGAAP permits an accounting policy option
    - IFRS again specifies required treatment, this time with award subject to graded vesting being measured separately for each vesting tranche.



# Share-Based Payments: Additional Key Areas of Difference

- **Forfeitures**
  - USGAAP Accounting
    - Policy election for service-based conditions
    - Periodic revisiting of estimates for performance related conditions
  - IFRS Accounting
    - No policy election available, initial estimate to be made, then revised based on subsequent information.
- **Other areas requiring more attention if applicable**
  - Employee awards where service inception is earlier than the grant date
  - Share based payments made to non-employees
  - Share based payments with performance conditions
  - Calculation of deferred tax assets

# Share Based Payments: Graded Vesting Example

- Erling, Inc, is a high growth technology company, based in Manchester, NH
- Financial year end is December 31
- Operates a share-based payment plan for all of its employees, to retain its best people for the long term
- Erling, Inc currently has 50 employees
- Each employee receives 1,000 share options
- The plan vests in installment over the required 4 year service period, with 25% of the instruments vesting at the end of year 1, 25% vesting at the end of year 2 etc
- Once the options vest, the employees are free to exercise them one month later
- The exercise price is equal to the share price at the grant date



# Share Based Payments: Graded Vesting Example

- Estimated Fair value of instruments at each grant date:
  - At December 31, Year 1 \$5
  - At December 31, Year 2 \$7.50
  - At December 31, Year 3 \$10
  - At December 31, Year4 \$15
- Erling, Inc has borrowings in the US and prepares USGAAP financial statements for its lenders
- During the prior year Erling Inc, was acquired by a new parent company Sky Blue Limited, from the Middle East who require IFRS compliant financial information to be presented to them for consolidation purposes.
- For this example, we will assume that because Erling, Inc is so successful, all employees stay loyal to the company throughout the vesting period
- In previous years Erling, Inc made an accounting policy election under USGAAP to recognize service-based employee share-based payments using the straight-line method and measure the fair value of awards by valuing each vesting tranche, each with a different expected term
- Question:
  - How should this stock compensation plan be recognized in accordance with USGAAP and IFRS?

# Share based payments - Graded Vesting example (continued)

## US GAAP :

The total expected value of the compensation would be:

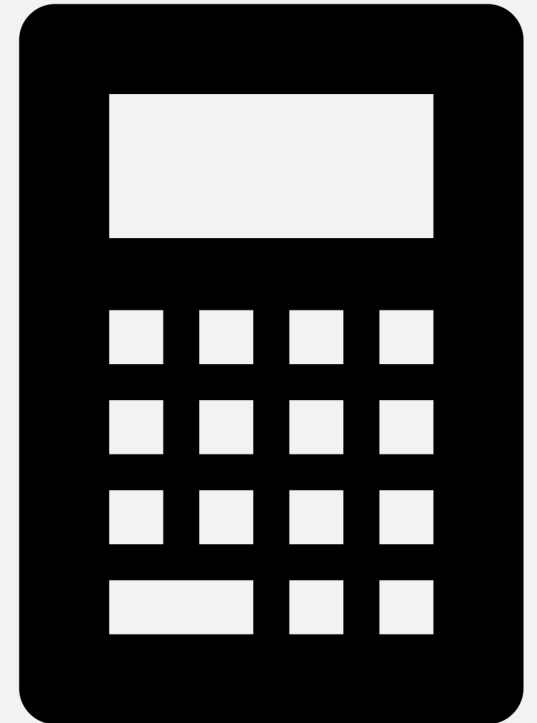
- Tranche 1 - vesting in December of Year 1
  - Portion Vesting this period multiplied by Number of Employees multiplied by Expected fair value
  - 250 share options x 50 employees x \$5 = \$62,500
- Tranche 2 - vesting in December of Year 2
  - 250 share options x 50 employees x \$7.50 = \$93,750
- Tranche 3 - vesting in December of Year 3
  - 250 share options x 50 employees x \$10 = \$125,000
- Tranche 4 - vesting in December of Year 4
  - 250 share options x 50 employees x \$15 = \$187,500
- Total share-based payments = \$468,750

# Share Based Payments: Graded Vesting Example

## US GAAP :

Therefore under USGAAP applying the straight line method, the charge to the income statement would be:

- Year 1 - Total per prior slide  $\$468,750 / 4 = \$117,187.50$
- Year 2 - Total per prior slide  $\$468,750 / 4 = \$117,187.50$
- Year 3 - Total per prior slide  $\$468,750 / 4 = \$117,187.50$
- Year 4 - Total per prior slide  $\$468,750 / 4 = \$117,187.50$





# Share Based Payments: Graded Vesting Example

## IFRS :

197	Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Year 4 (\$)	Total
Tranche 1	62,500	-	-	-	62,500
Tranche 2	46,875	46,875	-	-	93,750
Tranche 3	41,666	41,667	41,667	-	125,000
Tranche 4	46,875	46,875	46,875	46,875	187,500
Total P&L charge	197,916	135,417	88,542	46,875	468,750

- Calculation of fair value of each tranche is computed in the same way as on the prior USGAAP slide
- Difference arises in how the fair value is allocated to each period

## IFRS & USGAAP Comparison :

December 31,	USGAAP (\$)	IFRS (\$)	Difference (\$)
Year 1	117,187.50	197,916.00	80,728.50
Year 2	117,187.50	135,417.00	18,229.50
Year 3	117,187.50	88,542.00	(28,645.50)
Year 4	117,187.50	46,875.00	(70,312.50)
Total	468,750.00	468,750.00	-

# Share Based Payments: Wrap-Up

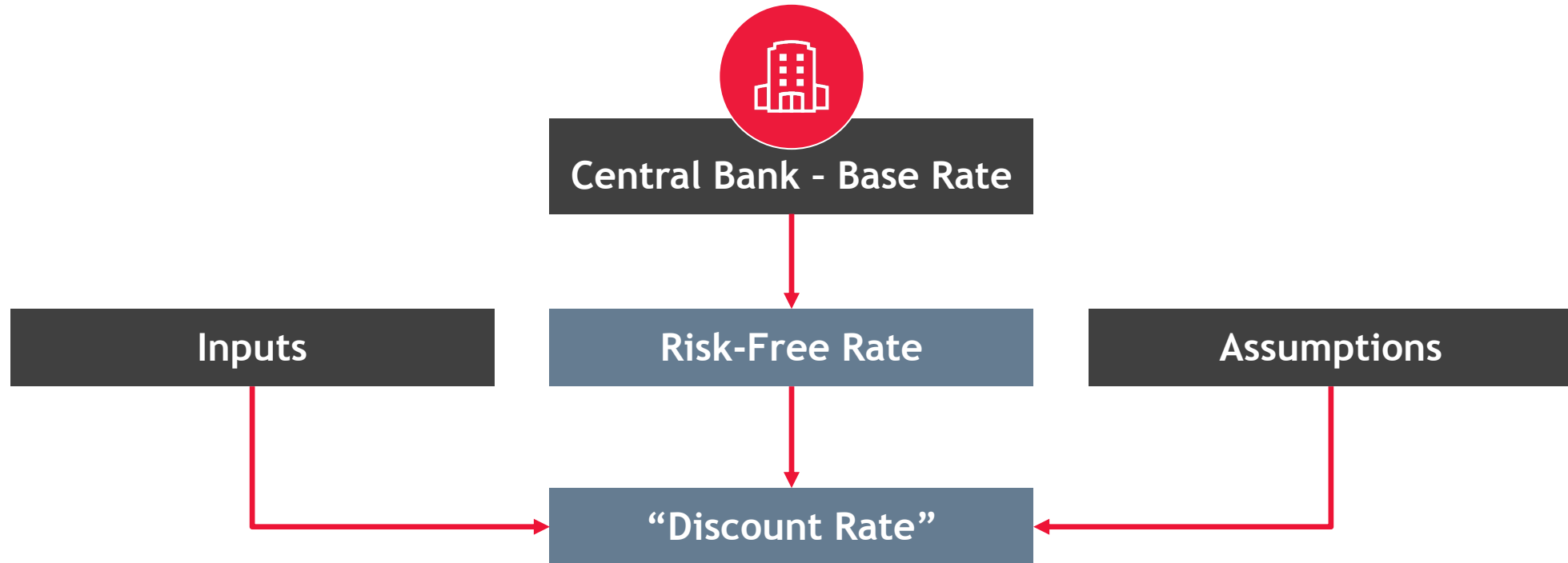
- Complex area
- Lots of differences between the two frameworks
- Seek specialist advice as needed



**START NOW!**

# Discounted Rates Inflation

# Discount Rates vs. Risk-Free Rates



(e.g., VIU, Provisions, Fair value, lease liabilities share-based payments, etc.)

# Discount Rates: Determining an Appropriate Discount Rate

## VALUE IN USE (ASSET)

- ▶ Estimating cash flows
- ▶ Applying an appropriate **discount rate**
  - **Market assessment** of the time value of money
  - Determined at the valuation date
  - Incorporates risk
  - Usually, WACC



## PROVISIONS (LIABILITIES)

- ▶ Estimating cash flows
- ▶ Applying an appropriate **discount rate**
  - Incorporates risk



# Discount Rates: Determining an Appropriate Discount Rate

Optimal Capital Structure

$$\text{WACC} = K_d \times \left[ \frac{D}{D+E} \right] + K_e \times \left[ \frac{E}{D+E} \right]$$

## Cost of Debt

$$K_d = \text{Interest rate} * (1 - \text{tax rate})$$

- ▶ Interest rate
- ▶ Tax rate

## Cost of Equity

$$K_e = R_f + (\text{Beta} * \text{EMRP}) + \text{Alpha}$$

- ▶ Risk free rate of return
- ▶ Beta
- ▶ Equity market risk premium
- ▶ Alpha
  - Small company risk premium
  - Company specific risk premium

# Inflation: Real & Nominal Discount Rates

## NOMINAL

- ▶ Cash flow (includes effect of inflation)
- ▶ Discount rate (includes effect of inflation)

INFLATION

## REAL

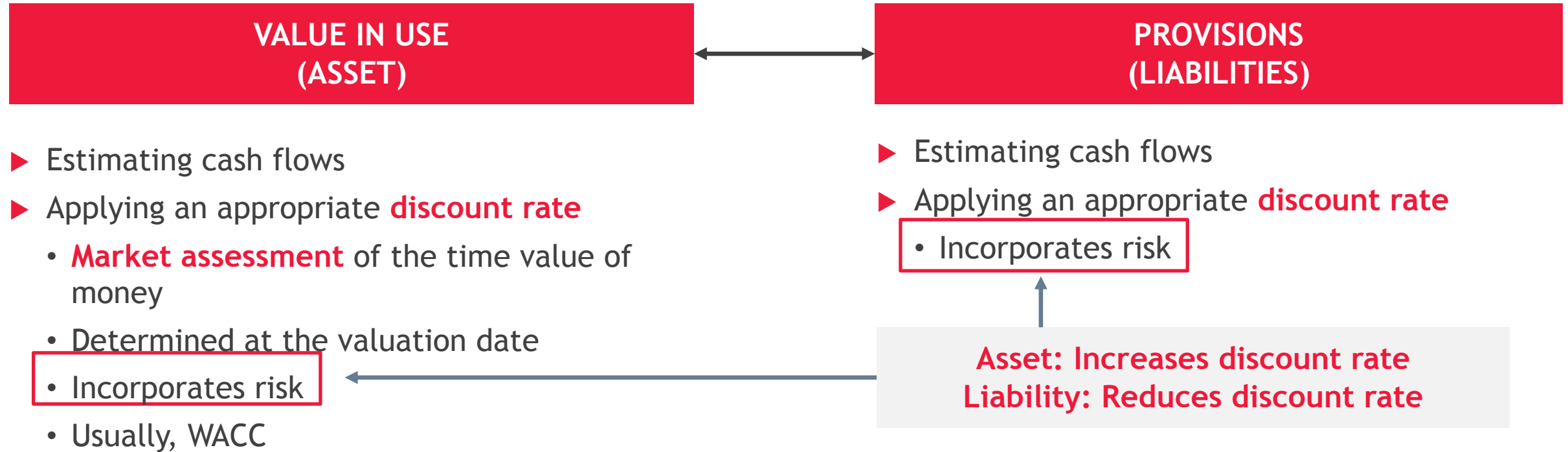
- ▶ Cash flow (excludes effect of inflation)
- ▶ Real (excludes effect of inflation)

Bank rate: 3%

INFLATION :2%

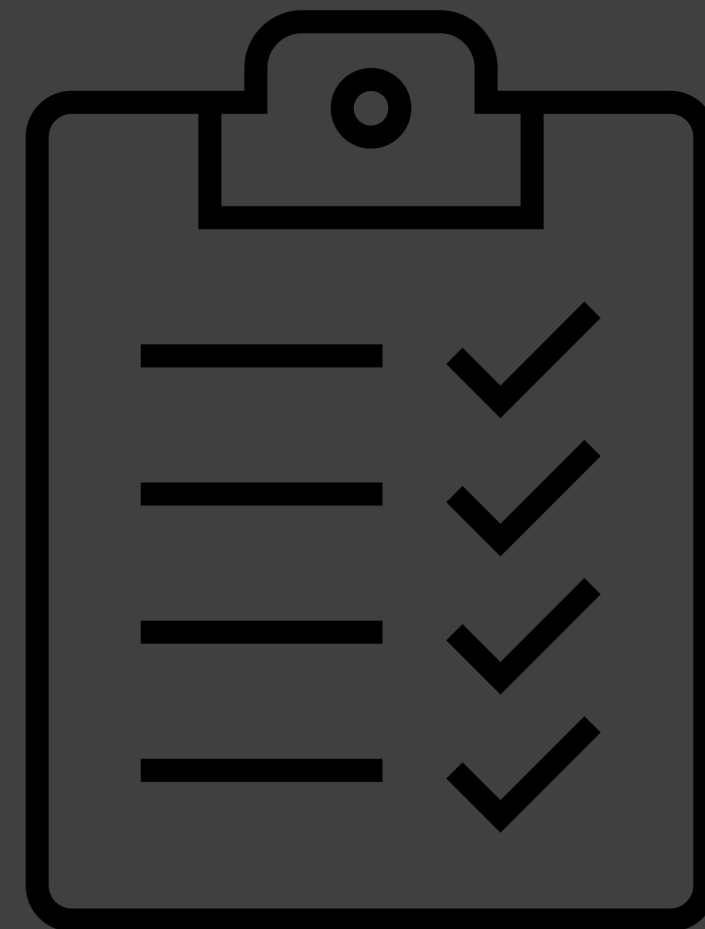
Real rate: 1%

# Inflation: Real & Nominal Discount Rates



## Other Areas To Consider

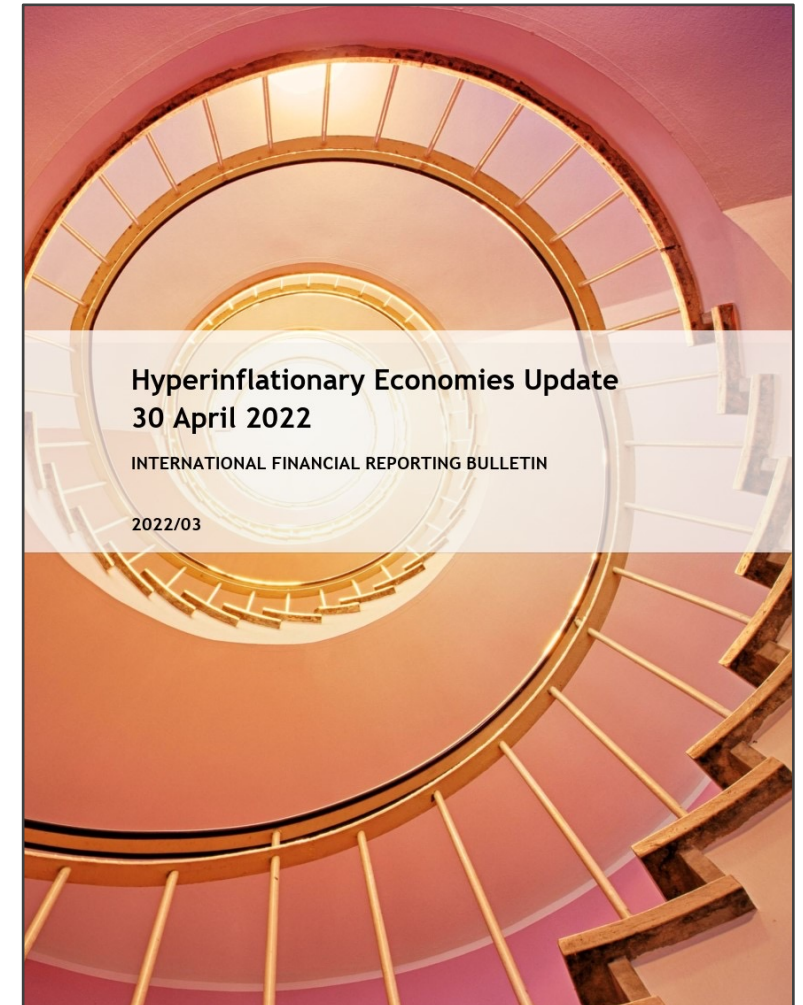
<b>Impairment of assets</b>	<b>Discount rate:</b> Market yield on high corporate bonds. Nominal vs real.
<b>Employee benefits</b>	
<b>Leases</b>	<b>Discount rate:</b> Incremental borrowing rate - New leases could be affected.
<b>Provisions</b>	<b>Discount rate:</b> Risk-free rate used in option pricing models.
<b>Share based payments</b>	
<b>Fair value</b>	<b>Discount rate:</b> WACC - updated for inflation and for the correct entity in a business combination.



# Hyperinflationary Economies Update

## What is the Issue?

- BDO Annually issues a list of hyperinflationary economies at 31 December.
- These jurisdictions must apply IAS 29, which results in financial statements (both current and prior comparative periods) being restated to reflect current inflation rates.
- The list of hyperinflationary economies is continuing to evolve rapidly due to deteriorating economic conditions and high inflation in several countries.
- In the 3-year cumulative inflation exceeds 100% (generally based on IMF data), a jurisdiction is considered hyperinflationary.





# Hyperinflationary Economies Update

## Which economies were hyperinflationary as at 31 December 2021?

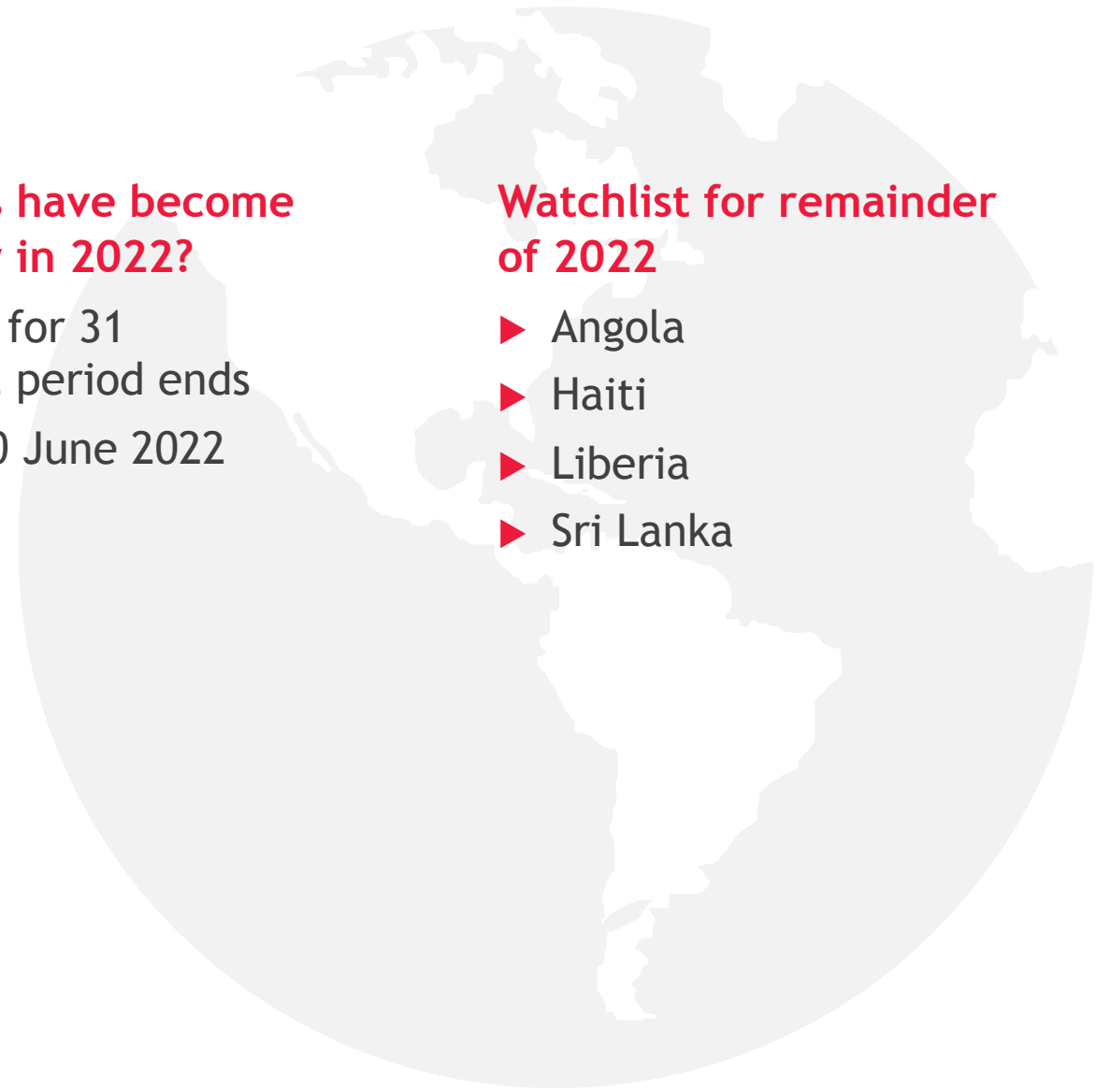
- ▶ Argentina
- ▶ Iran
- ▶ Lebanon
- ▶ South Sudan
- ▶ Sudan
- ▶ Suriname
- ▶ Venezuela
- ▶ Yemen
- ▶ Zimbabwe

## Which economies have become hyperinflationary in 2022?

- ▶ Ethiopia: likely for 31 December 2022 period ends
- ▶ Turkey: from 30 June 2022 periods onward

## Watchlist for remainder of 2022

- ▶ Angola
- ▶ Haiti
- ▶ Liberia
- ▶ Sri Lanka



# Sustainability



# Proposed Timeline for Implementation of Sustainability Reporting

	Class of Entities	2023	2024	2025	2026	2027	2028
US SEC	Large accelerated filers	All proposed disclosures, but excluding scope 3 (Upstream and downstream, 15 categories)	Scope 3 disclosure and limited assurance		Reasonable assurance		
	Accelerated filer and non-accelerated filer		All proposed disclosures, but excluding scope 3	Scope 3 disclosure and limited assurance		Reasonable assurance	
	Small reporting companies			All proposed disclosures; exempted from scope 3			

# Timeline for Implementation of Sustainability Reporting

	Class of Entities	2023	2024	2025	2026	2027	2028
EU CSRD	Companies already subject to the NFRD (Non-Financial Reporting Directive)		ESRS and EU Taxonomy; limited assurance				EU to develop standards for reasonable assurance by October 2028
	Companies not subject to the current NFRD, which meet certain size criteria			ESRS and EU Taxonomy; limited assurance			
	Listed SMEs, small and non-complex credit institutions and captive insurance undertakings				ESRS and EU Taxonomy; limited assurance		

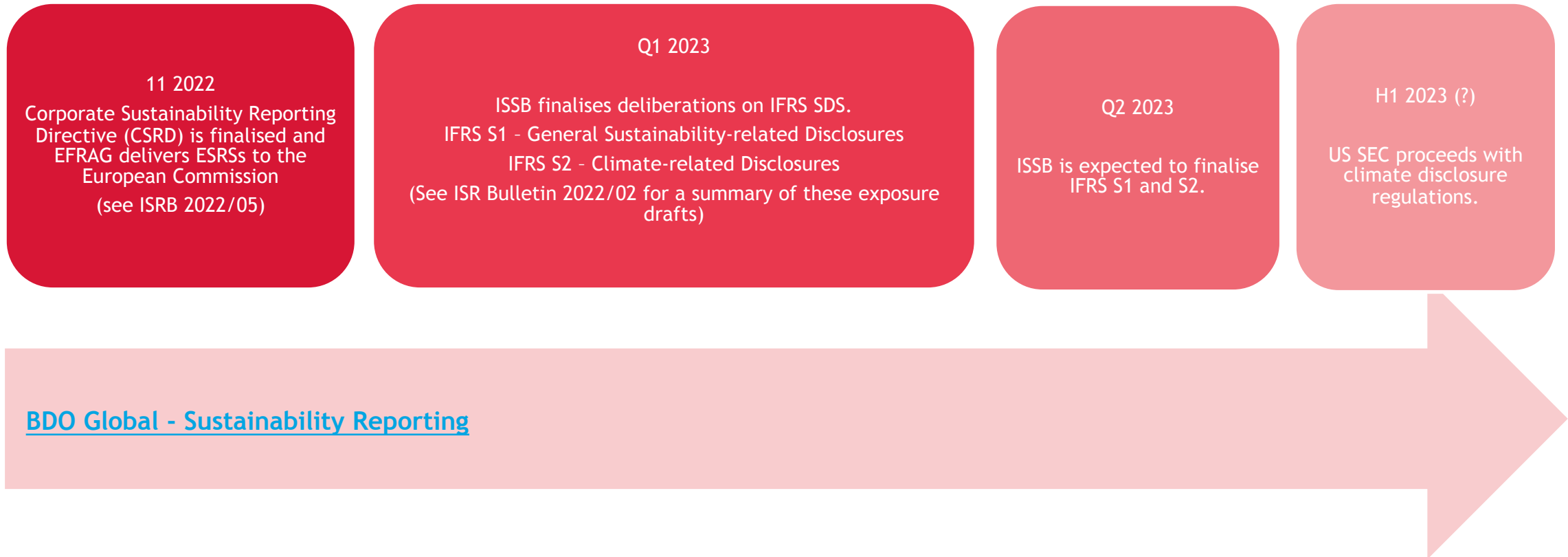
# Timeline for Implementation of Sustainability Reporting

	Class of Entities	2023	2024	2025	2026	2027	2028
ISSB *							

\* The ISSB IFRS Sustainability Disclosure Standards do not include a proposed effective date. Additionally, local standard setters, regulators and governments will need to decide whether to endorse or otherwise require IFRS Sustainability Disclosure Standards for use in their own jurisdictions. Consequently, IFRS Sustainability Disclosure Standards could become effective in different reporting periods around the world. Given the proposed effective dates for other sustainability standards, it is not expected that jurisdictions will require the use of IFRS Sustainability Disclosure Standards until at least 2025.

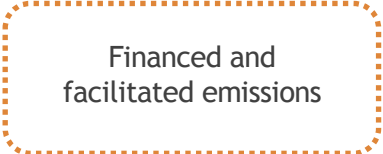
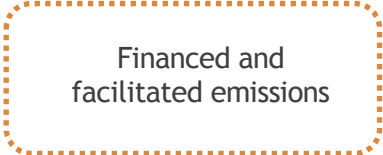


# Standard Setting Timeline



# Updates on Developments in Standard Setting: ISSB 'Global baseline' in practice

Continuum of disclosure requirements; an entity complying with ESRs may be able to comply with other standards, but not vice versa



NOTE: This illustration is hypothetical and is subject to final standards being issued

# IFRIC and IASB Update



# IASB Update

## February 2023 IASB Board Meeting

The February meeting was focused on:

- ▶ Dynamic Risk Management
- ▶ Financial Instruments with the characteristics of equity
- ▶ Business combinations - disclosures, Goodwill and impairment
- ▶ Post implementation review of IFRS 9 - impairment



# IFRIC Update

## March IFRIC Meeting

- ▶ Tentative agenda decision
  - Definition of a lease - substitution rights
- ▶ Other matters
  - Business Combinations - disclosure, Goodwill and impairment



# Resources





# IFRS Resources

## IFRS GLOBAL

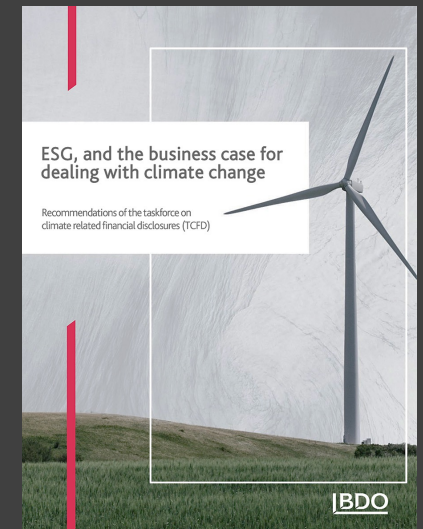
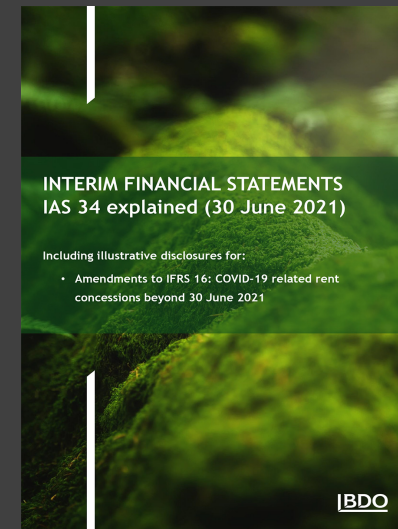
- ▶ International Financial Reporting Bulletin (IFRB)
- ▶ IFRS at a Glance
- ▶ IFRS in Practice
- ▶ Year-end Illustrative Financial Statements (December 31, 2022)
- ▶ Interim Illustrative Financial Statements (June 30, 2022)
- ▶ IFRS FAQs series

▶ [LEARN MORE](#)

## Other

- ▶ Sustainability Resources
  - ▶ Global ISR Bulletins
  - ▶ Global semi-annual IFRS trainings - regulatory update and sustainability update sessions
- ▶ Global IFR Advisory Rise trainings
- ▶ US ESG group website

▶ [LEARN MORE](#)



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- Recognize recently released, project and proposal stage accounting and financial reporting guidance developed by the FASB, EITF and PCC.
- Describe timely SEC guidance, topics and resources and their general impact on accounting and financial reporting.
- Describe project and proposal stage literature that may have a broad impact on financial reporting.
- Describe evolving corporate governance activities including those of the PCAOB, CAQ and other organizations.

View the full 2023 Quarterly Technical Update Webinar Series or register for each quarter below. Programs are offered as a live presentation on Wednesday followed by rebroadcasts on Thursday and Friday, monitored for Q&A.

**Quarterly Technical Update - Q1 2023-**  
April 12, 2023  
1PM to 2PM EST

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- ▶ Internal Audit in the Age of Digital Revolution
- ▶ The Internal Auditor of the Future
- ▶ Internal Audit and IT Audit's Role in Cyber Maturity
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## UPCOMING WEBINARS

Internal Audit of the Future  
May 23, 2023- 3:00-4:00 PM ET  
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Robotic Process Automation: Risk and  
Audit Considerations  
September 26, 2023- 3:00 - 4:00 PM ET  
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# BDO Upcoming / Archived Webinars

TITLE	DATE
<a href="#">Quarterly Technical Update - Q1 20223</a>	April 12, 13, 14, 2023
<a href="#">Q1 2023 IFRS Quarterly Update</a>	April 19, 20, 2023
2023 BDO Spring Pulse Survey	April 26, 2023
Audit Committee Best Practices for the Oversight of Internal Audit	May 10, 2023
<a href="#">Quarterly Technical Update - Q2 20223</a>	January 12, 13, 14, 2023
<a href="#">Q2 2023 IFRS Quarterly Update</a>	July 19, 20, 2023
<a href="#">Quarterly Technical Update - Q3 2023</a>	October 11, 12, 13, 2023
<a href="#">Q3 2023 IFRS Quarterly Update</a>	October 18, 19, 2023
<a href="#">Quarterly Technical Update - Q4 2023</a>	January 10, 11, 12, 2024
<a href="#">Q4 2023 IFRS Quarterly Update</a>	January 17, 18, 2024

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# Audience Q&A



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