



**pwc**



**Changes  
in reporting  
of public entities**

**(IFRS Accounting Standards, IFRS Sustainability Disclosure Standards and other changes)**

**Guide for the Audit Committee**

**(November 2023 Edition)**

# Introduction



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This publication has been developed to help Audit Committee members and public entities prepare annual reports and manage other reporting-related tasks. It is not easy to track changes in regulations regarding both accounting standards, law provisions and sustainability reporting guidelines. To meet the needs of Audit Committee members and finance department staff of public entities, we offer this publication.

## **Changes in IFRS Accounting Standards**

The aim of this publication is to summarise and briefly present all the upcoming changes approved by the IFRS Board ("IASB", "Board"). The new accounting standard IFRS 17 "Insurance Contracts" applies for the first time. IFRS 17 was issued in 2017 to ensure greater transparency and comparability of financial statements, and has significant impact on all entities conducting insurance activities, including banks.

For the above mentioned entities, the application of IFRS 17 goes well beyond the financial, actuarial and systems development spheres. For example, it may influence the design and distribution of products, incentive plans and budget preparation. Moreover, the new standard does not apply only to insurance companies - entities conducting non-financial activities should also consider whether the contracts they enter into contain an insurance element. Amendments to applicable accounting standards clarify the guidelines of the standards, in order to facilitate their application for preparers of financial statements. Nevertheless, we would like to call attention to the amendments to IAS 1, which replaces the requirement to disclose "significant" accounting policies with those that are "material". This seemingly insignificant change requires entities to optimise accounting policy disclosures in their financial statements.

## **Changes in non-financial reporting**

Significant changes are expected in the near future in non-financial reporting, as reflected in the first two standards of the International Sustainability Standards Board ("ISSB") published in June 2023. The first two standards establish a basic framework for disclosing material sustainability-related information across an entity's value chain and climate-related risks and opportunities. Accordingly, our publication has been expanded to include up-to-date information on the new non-financial reporting standards, published by the newly established ISSB Board.

Sustainability reporting is further challenged by the fact that a single, universal global standard system has not been developed. Apart from the above Standards issued by the ISSB Board, works on EU sustainability standards are currently ongoing. Therefore, in the last section of our publication, we refer to the topic of sustainability ("ESG"), summarising all possible reporting requirements for Serbian reporters, as Serbia is an EU candidate country. Furthermore, we also draw attention to guidelines and expectations of supervisory and regulatory authorities regarding the disclosure of climate-related issues in financial statements.

## **Other important changes in reporting for public companies**

Matters such as significant increase in interest rates and new upcoming obligations to prepare income tax reports, are also important for financial reporting. Furthermore, we would like to raise a concern about the use of the IFRS Foundation's trademarks in financial statements and auditor's reports.

We hope that this publication will be of benefit to Audit Committee members in discussions involving the new upcoming changes and for those preparing financial and non-financial information.

# Changes in reporting of public entities

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# Amendments to IFRS Accounting Standards

## Comment



The most important change in 2023 is the implementation of the new insurance contracts accounting standard IFRS 17, which has altered dramatically the accounting approach to contracts meeting the definition of an insurance contract. The new standard introduces changes to the principles of measurement and calculation of profit and loss in each reporting period. It also introduces major changes in the reporting of insurance contracts, which will generate fundamental changes in the insurance and reinsurance industry and for financial entities consolidating insurance activities. The standard's requirements are complex and are largely based on estimates and assumptions to reflect current trends, taking into account the companies' experience, history, and the time value of money. After the change, insurers will report results in a different way, and the amounts of liabilities resulting from concluded insurance contracts will also change significantly. However, the introduction of this standard does not affect only insurers. The definition of an insurance contract goes beyond what is perceived as insurance in our everyday life - most of us associate insurance with a concluded insurance policy. However, the standard covers all contracts in which a party assumes non-financial risk. As a result, it may turn out that entities offering various types of guarantees or unlimited service packages may be required to apply the provisions of the new standard.

Other amendments to existing accounting standards introduced in 2023 (and in subsequent years) do not change their key requirements. These amendments clarify and provide additional explanations on how to apply the guidelines included in these standards and may be particularly helpful in resolving any uncertainty or doubt surrounding the interpretation of the standards or recording business transactions. Some of amendments also introduce additional disclosure requirements to provide more useful disclosures in financial statements.

The amendments also aim at clarifying the guidelines in order to facilitate the application of IFRS for those in charge of preparing financial statements. Particular attention should be paid to the amendments to IAS 1, which require that an entity discloses its material accounting policies, instead of its significant accounting policies. The seemingly insignificant change is intended to encourage preparers of financial statements to improve disclosures regarding accounting principles. Instead of the current extensive descriptions of accounting principles, which often repeat the requirements of the standard and are not tailored to the entity's situation, the standard requires the inclusion of information that is specific to the entity and necessary to understand the choices and judgments made in selecting accounting principles. The standard does not prohibit the inclusion of irrelevant information, but clearly states that it must not obscure information that is important for understanding the entity's financial situation and results of operations. It is expected that the application of the revised accounting standard will significantly impact disclosure regarding accounting principles.

Some changes organise and clarify existing requirements. A breach of covenants in a loan agreement and the related requirement to classify debt as a short-term liability has always caused a lot of controversy.

Amendments to the standard clarify the classification rules in the event of failure to meet contractual requirements (covenants) and significantly expand disclosure requirements. Amendments to IAS 12 "Income Taxes" require recognising deferred tax on certain transactions, e.g. leasing, which is very common in the market. Another amendment to the IAS 12 that provides temporary relief from accounting for deferred taxes arising from the implementation of a global minimum corporate tax is equally important.

Some amendments to IFRS relating to ongoing changes in the economic environment in which entities operate, for example, amendments to IAS 7 and IFRS 7 introduce additional requirements for disclosing information related to contracts for financing liabilities to suppliers, i.e. reverse factoring, which has become an increasingly popular liquidity management tool over the past years.



**Nikola Stamenić**  
Director - Assurance

# Summary of approved amendments to IFRS Accounting Standards with information on their approval by the EU and possibility of early application and assessment of the impact on entities applying IFRS in Serbia

## Nature of the amendment

- New standard or interpretation;
- ◐ Amendment to the existing standard or interpretation;
- ◑ Amendment to standard under the IFRS improvements project.

## Impact assessment

- Significant effect on a number of entities in Serbia;
- Significant effect on a small group of entities operating in Serbia;
- The issue applies to a small group of entities in Serbia, or an insignificant impact of the changes, or the changes introduce additional options or simplifications but do not impose new reporting obligations;
- Generally no effect on entities operating in Serbia, potential impact on foreign entities covered by consolidation or on first adopters of IFRS.

## Effective year

**2023** – The year as of which the application of the amendment is required (where financial year = calendar year); **?** – means that the amendment has not yet been endorsed and **NR** that it does not require endorsement, has been rejected or approvals deferred.

## Early application

Can the standard or its amendment be applied early following its endorsement by the EU, if relevant? (✓ = Yes, ✗ = No, !!! – yes, but early application must also apply to other standards).



Approved by the IASB for application after January 1, 2023.					P.
● ●	IFRS 17 Insurance Contracts and amendments to IFRS 17	EU-2023	!!!		6
◐ ●	Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 - a requirement to disclose material information about accounting policies	EU-2023	✓		9
◐ ●	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - definition of accounting estimates	EU-2023	✓		10
◐ ●	Amendments to IAS 12 Income Taxes - deferred tax related to assets and liabilities arising from a single transaction	EU-2023	✓		11
◐ ●	Amendments to IAS 12 Income Taxes - International Tax Reform - Pillar Two Model Rules	EU-2023	✓		12
Approved by the IASB for application after January 1, 2024.					
◐ ●	Amendments to IFRS 16 Leases - lease liability in a sale and leaseback transactions	?	✓		13
◐ ●	Amendments to IAS 1 Presentation of Financial Statements - classification of liabilities as current or non-current	?	✓		14
◐ ●	Amendments to IAS 7 Statement of Cash Flow and IFRS 7 Financial Instrument: Disclosures - supplier finance arrangements	?	✓		16
Approved by the IASB for application after January 1, 2025.					
◐ ●	Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - lack of exchangeability	?	✓		17
Amendments rejected or deferred by the EU (endorsed by the IASB for application after January 1, 2016)					
● ●	IFRS 14 "Regulatory Deferral Accounts"	NR	✓		18
◐ ●	Amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates regarding the sale or contribution of assets between an investor and its associates or joint ventures	NR	✓		18

The above list was prepared as at **November 15, 2023**. The updated version of the list is available on the website: <https://www.pwc.rs/sr/publications.html>. The presentation of the results of the assessment of the impact on the preparers of financial statements is a PwC's assessment, and applying individual amendments may have a different impact depending on the circumstances of each entity applying the IFRS. Where a calendar year is not used as a financial year, entities are required to analyse the transition plan provisions, as the effective dates may be different for these entities.

# Insurance contracts

## IFRS 17



<b>Replaces the standard</b>	IFRS 4 "Insurance Contracts".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2023. Earlier application is permitted if IFRS 15 and IFRS 9 have been adopted.
<b>First application</b>	Retrospective application of one of the following methods: <ul style="list-style-type: none"><li>• retrospective application for each period presented, or</li><li>• if this is impracticable, a modified retrospective approach in accordance with the guidelines of the standard; or</li><li>• the fair value approach as required by the standard.</li></ul>
<b>Impact assessment – ●</b>	Significant impact on all entities conducting insurance business, inclusive of banks. However, companies conducting non-financial activities should also consider whether this standard applies to them, e.g. in guarantee transactions that go beyond the standard guarantees provided for their own products (see expert comment below).

### Issue

The new accounting standard IFRS 17 "Insurance Contracts" was issued in 2017 and introduced the greatest revolution in the reporting of insurance companies and other entities offering products meeting the definition of an insurance contract in decades. The aim is to ensure greater transparency and comparability than has been the situation so far, where in practice it was allowed to apply different accounting principles, often even inconsistent ones, within one capital group. Old standard, IFRS 4, was issued in 2004 as a transitional IFRS standard, which allowed entities to apply already existing accounting practices and focused only on mandating disclosures regarding amounts, timing and uncertainties regarding future cash flows from insurance contracts and therefore did not regulate certain accounting issues precisely enough, leaving the discretion to the entities.

### Consequences

The new standard has the greatest impact on life insurance companies, given that the contracts they sign are often of a long-term nature. However, in the case of non-life insurance, insurers also face changes in reinsurance accounting and a need to discount the value of claims.

The standard is not limited to insurance companies and each entity must consider whether its contracts contain an element that meets the definition of an insurance contract (as defined by IFRS 17).

The following are selected key changes as compared to previous accounting practices:

- all cash flows are based on current assumptions, whereas previously for some insurance contracts, insurance was valued using historical assumptions or those made at the product tariff stage.
- revenue recognition rules are more consistent with IFRS 15, excluding deposit components, and revenue is no longer recognized on cash basis, as was often the case for life insurers.
- historical data such as loss ratios, discount rates and unrealized profits are required for valuation. Such data were not required for previous accounting and regulatory reporting purposes.

### Amendments introduced to IFRS 17

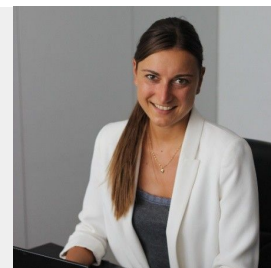
In 2020, IASB published amendments to IFRS 17, including transition changes regarding the exemption of insurance companies from the application of the guidelines of IFRS 9 "Financial Instruments". Moreover, in 2022, another amendment to IFRS 17 was published regarding the initial application of IFRS 17 and IFRS 9 "Financial Instruments" in the presentation of comparative data. The change addressed an important issue relating to "accounting mismatches" between liabilities under insurance contracts and financial assets arising from comparative data presented when applying IFRS 17 and IFRS 9 for the first time.

### Comment

In case of insurance companies, impact of applying IFRS 17 will go well beyond financial, actuarial and systems development spheres. For example, it may affect product design and distribution, incentive plans and broader remuneration policies, as well as the budget preparation.

As the new accounting standard does not apply only to insurance companies, all entities should analyse whether they are affected. Examples where there may be an element of insurance contracts include a credit contract in which the repayment obligation expires upon the death of the holder, an energy sales contract in which the energy supplier undertakes to repair household appliances in the event of faults, or performance guarantees offered to investors by construction companies. As a result, it may turn out that many entities will be affected by new regulations and compliance with requirements of IFRS 17 may pose a significant challenge for many entities.

However, this is seen as a necessary step for an improved accounting practice and better comparability, especially in the insurance industry. Many hope that better accounting practices will have a positive impact on investor perception of the sector and result in lower costs of capital in the future.



**Ana Lapčević**  
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# Insurance contracts

## IFRS 17



### The scope of IFRS 17 - not only for insurers

As mentioned, the requirement to apply the standard is not limited to insurance companies. Each contract should be considered in terms of the existence of an element that meets the definition of an insurance contract (an insurance benefit in the random event).

The above created challenges in the financial sector, resulting in an amendment to the standard excluding credit card contracts and similar from the scope where the price tariffs of such contracts does not reflect the insurance risk of customers. On the other hand, select loan agreements, which meet the definition of an insurance contract and in which the entity's liability is determined as the amount of the liability remaining to be repaid by the customer at the time of the insured event (e.g. loans with exemption from repayment in the event of the borrower's death) have an option to choose the application of IFRS 17 or IFRS 9. This selection is made by the entity at the contract portfolio level.

The standard excludes from its scope warranty services related to the provision of goods and services by the entity to customers (e.g. a car manufacturer's warranty). However if the sales contract includes an obligation to provide a benefit in the random event, then such an element is included in the scope of the standard.

Moreover, the exemption can only be used if the guarantee/warranty of proper performance is provided directly by the manufacturer/service provider. If such a security is provided by the parent company or another company from the group, the exemption does not apply at the level of the guarantor's separate report and it should be considered whether a given contract meets the definition of an insurance contract. This is a very common case in the general contractors and developers industry who issue proper performance guarantees to their special purpose vehicles. Due to the different valuation of liabilities for IFRS 17 compared to IAS 37 or IFRS 9, it is required to re-evaluate such liabilities and, taking into account the risk adjustment for a non-financial risk in the valuation, consequently, recognise them appropriately on the date of implementation of the new standard.

### Expected recoverability of acquisition cash flows

The entity is obliged to allocate part of the acquisition costs to the expected renewals of insurance contracts, as well as to recognise these costs as an asset until the renewal of insurance contracts occurs. At the end of each reporting period, the entity assesses the recoverability of this asset and discloses information about it in the financial statements.

### Profit recognition - CSM (Contractual Service Margin)

The amendment applies to insurance contracts under which services that guarantee return on investment (investment-return service) are provided. In the general valuation model, CSM should be recognised over the insurance coverage period and the investment-return service period.

When there is a change in estimates for the CSM, entity has an accounting policy choice to recognise effects of the change in estimates made in previous financial statements applying IFRS 17. Entity recognises the effect of the amendment in estimates on a year-to-date basis, or it is recognised over the remaining period of insurance cover (period-to-period basis)

### Recognition of loss recovery from reinsurance contracts held

In accordance with IFRS 17, at the time of initial recognition, entity recognizes a loss from insurance contracts from which it expects to incur a loss.

If an entity decides to reinsure these contracts, it modifies CSM for that class of reinsurance contracts and the amount of losses that the entity recovers from its reinsurance contracts is recognised on a one-off basis on initial recognition. The value of recovering losses from reinsurance contracts held at the time of initial recognition depends on the amount of losses recognised on account of insurance contracts and the percentage of losses that the entity expects to recover from reinsurance contracts held.

### Presentation of assets and liabilities from insurance contracts

Assets and liabilities related to insurance contracts are presented in the financial statements on a portfolio basis, not on a group basis.

### Risk mitigation option

IFRS 17's guidelines introduce a possibility of using risk mitigation options when limiting financial risk by using reinsurance contracts and non-derivative financial instruments measured at fair value.

### Simplifications when transitioning to IFRS 17

Transitional provision enables use of simplifications to be applied in the transition to IFRS 17 regarding recognition as at the date of transition of the recovery of losses from reinsurance contracts held, capitalized acquisition costs, estimated values determined in previous reporting periods, investment contracts with the option of voluntary participation, contracts purchased in the period of their settlement and risk mitigation options.



### PwC Support:



We have implemented IFRS 17 using our proprietary In A Box in over 30 companies on four continents. The PwC IFRS 17 In A Box application supports both the implementation of IFRS 17 for the first time and reporting in subsequent financial periods. The In A Box application is also helpful in this respect because it has a separate module dedicated to budgeting and planning.

Our technological solution has proven successful both in large international insurance groups and in small insurance companies and has been used extensively in calculations for reporting purposes as well as for testing other systems for IFRS 17.

### Comment

The implementation of the new accounting standard IFRS 17 means a breakthrough for insurance companies and other entities offering contracts insurance, not only from the perspective of measuring its results, effectiveness and quality of management, but also in terms of processes, risk management and reinsurance.

Proper reporting in the IFRS 17 regime for the first time and in subsequent periods requires collection of policies information as well as claims that have not been collected so far in such granularity, and sometimes were not even available or stored in IT systems.

Our experience to date proves that the biggest challenge for insurance companies in preparing for IFRS 17 implementation was identification and preparation of data as well as the adaptation of IT, actuarial, accounting and reporting processes. It was also necessary to collect historical data for valuation, such as the discount rate and unrealized gains. This data has not always been historically collected for ongoing accounting and regulatory reporting purposes. The implementation proved successful a tedious and demanding process, and the date of the first implementation was approaching inexorably.

Therefore, many companies and groups used a number of simplifications and approximations to report in accordance with the standard for the first time. However, the adopted solutions are not stable and not intended. A completely new challenge for insurance companies is a change in the approach to planning, budgeting and controlling. Therefore, in order to meet the new requirements regarding valuation and reporting, a technological solution is needed that ensures a modern and fully automated reporting process in accordance with IFRS 17, and as a result additional expenditure on the development of IT infrastructure becomes necessary.



**Jelena Stojanović**  
Senior Manager - Assurance



# Materiality with respect to accounting policies

## IAS 1 and IFRS Practice Statement 2 regarding disclosures on accounting policies



### Amends the standard

IAS 1 "Presentation of financial statements" and the IFRS Practice Statement 2 regarding disclosures on accounting policies.

### Effective date

Annual periods beginning after January 1, 2023.

### First application

Applies prospectively from January 1, 2023 with the possibility of earlier application.

### Impact assessment – ●

Limited impact, detailing change, possible long-term impact.

### What does it change?

In February 2021, the IFRS Board published amendments to IAS 1 "Presentation of financial statements" regarding disclosures on the accounting policies

Amendments to IAS 1 require companies to disclose information about their 'material' accounting policies, not their 'significant' accounting policies. As part of the amendments to IAS 1, a definition of material information regarding accounting policies was introduced.

Accounting policy information is material if, when taken together with other information in the entity's financial statements, it could reasonably be expected to influence decisions that the main users of general purpose financial statements make on the basis of those financial statements.

The amendment also clarifies that accounting policies information is material if, in the absence of such information, users of financial statements would not be able to understand other presented material information.

Revised IAS 1 also includes an example illustrating accounting policies information considered material.

In addition, amendment to IAS 1 clarifies that immaterial accounting policies information does not need to be disclosed; however, if it were disclosed, this should not obscure what is considered material information.

In addition, to emphasise the importance of clarifications introduced to IAS 1, the Board also amended the IFRS Practice Statement 2 on the application of the concept of materiality in practice to disclosures regarding accounting policies.

Revised IFRS Practice Statement 2 provides guidance on how to apply the concept of materiality to accounting policy disclosures.

### Comment

Current market practice shows that financial statements contain very extensive descriptions of accounting policies, which very often refer to transactions that do not occur at all in a given entity, or in extreme cases are a summary of IFRS accounting standards guidelines. Such an approach to disclosing accounting policies means that financial statements do not meet their primary purpose, i.e. they do not provide information that is specific to a given company and useful for making economic decisions. Financial statements are more like an educational document, which seems to be unnecessary in case of financial reporting, as the conceptual framework of reporting assumes that the user of the report has necessary knowledge of the standards. As a result, overloading with general information makes it difficult to find information relevant to a given entity.

Therefore, the IFRS Board decided to amend IAS 1 "Presentation of Financial Statements" and the IFRS Practice Statement 2 regarding disclosures of accounting policies, in response to comments received from investors and other users of financial statements. Investors emphasised that additional guidelines are needed to indicate what information on accounting policies should be disclosed. The Board has produced two examples for IAS 1 that illustrate (1) how to disclose significant judgments and how to focus on entity-specific information, e.g. an entity describes how it allocates the transaction price to its separate performance obligations and when an entity recognises revenue (over time or at the point) and (2) what is the assessment of materiality of accounting information so as not to duplicate the requirements of IFRS, e.g. avoiding disclosure of IAS 36 requirements as part of a separate accounting policy for impairment property, plant and equipment, where there was no impairment or reversal of impairment in the current or comparative reporting period, and disclosures on significant judgments and estimates already contain information about significant assumptions used in the impairment assessment.

It should be recognised that this amendment is needed and may contribute to shorter and more succinct financial statements, but only when preparers of financial statements will properly comply with new guidelines of the IFRS Board.



**Hana Andonov**  
Director -  
Assurance

# Definition of accounting estimates

## IAS 8



<b>Amends the standard</b>	IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2023.
<b>First application</b>	Applies prospectively starting January 1, 2023 with the possibility of earlier application.
<b>Impact assessment – ●</b>	Limited impact, detailing change.

### What does it change?

Practice shows that preparers do not use a uniform approach to distinguish accounting principles from accounting estimates. It was often difficult for entities to distinguish a change in accounting policy from a change in accounting estimates, especially when it concerns a change in the valuation method.

Meanwhile, this distinction is important because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events, as well as to the current period. When entities make inconsistent distinctions between the two types of changes, it is difficult for investors to compare companies' financial performance.

As a result, in February 2021, the Board published an amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" regarding the definition of accounting estimates.

The amendment to IAS 8 introduces a definition of "accounting estimates" and clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates.

Introduced changes, including:

- (a) clarifying how accounting policies and accounting estimates are related by stating that accounting estimates are used to apply accounting policies;
- (b) introducing a modified definition of accounting policies that is clearer and more concise;
- (c) specifying that the use of a particular estimation or valuation technique when a financial statement item cannot be accurately measured constitutes the making of an accounting estimate; and
- (d) clarifying that making the choice under IAS 2 "Inventory" of the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventory constitutes a choice of accounting policy.

The amendment is mandatory for annual periods beginning on or after January 1, 2023.

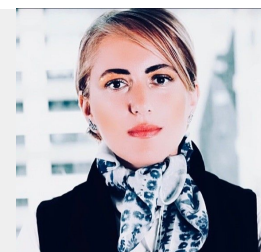
Nevertheless, the change does not appear to require an adjustment to the previously published financial statements.

### Comment

Distinguishing a change in accounting policy from a change in accounting estimates is often a practical problem for preparers; meanwhile, the decision on this issue has a fundamental impact on the financial statements due to the different method of applying this change, i.e. retrospective vs. prospective approach.

The distinction between accounting principles and estimates may be easier in a situation where a given accounting standard presents many variants and gives the possibility of choosing, where the use of one of the alternatives results in a different valuation of the balance sheet item, e.g. in case of inventory valuation methods (FIFO or weighted average cost method). In such a situation, it is clear that we are dealing with a choice of accounting policy and its change should be applied retrospectively.

It is more difficult to determine the calcification of the change when the problem concerns a detailed calculation methodology for which the standard provides general guidelines, e.g. when an entity decides to change the methodology for calculating expected credit losses in relation to financial assets. Then it does not necessarily mean a change in accounting policies. The calculation of the amount of expected credit losses constitutes an estimate in itself, and the selection and establishment of an appropriate methodology for the calculation of this amount is intended to ensure that the estimated amount is reliable and as accurate as possible.



**Ana Krneta**  
Senior Manager  
Assurance

# Obligation to recognise deferred tax on certain transactions

## IAS 12



<b>Amends the standard</b>	IAS 12 "Income Taxes".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2023. with the possibility of earlier application.
<b>First application</b>	Retrospective in accordance with the transitional requirements written in the amendment to the standard.
<b>Impact assessment</b> – ●	It can have a significant impact on entities with significant lease-related balances.

### What does it change?

In 2021, IFRS Board amended IAS 12 "Income Taxes" by introducing a requirement to recognise deferred tax on certain transactions, which on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed changes will typically apply to transactions such as leases to the lessee and decommissioning liabilities.

Before the standard's amendment, there were ambiguities about the recognition of equal amounts of assets and liabilities for accounting purposes (e.g. initial recognition of a lease) with no effects on current tax settlements. This raised a question whether there is a need to recognize deferred tax or whether the initial recognition exemption should be applied, meaning that deferred tax balances are not recognized if the recognition of an asset or liability has no impact on the accounting or tax result at the time of such recognition. In practice, both approaches have been used by preparers of financial statements.

The amended IAS 12 regulates this issue by requiring the recognition of deferred tax in the above situation and introduces an additional provision regarding that the exemption from initial recognition does not apply if the entity at the same time recognises an asset and an equivalent liability and each of them creates temporary differences.

The revised standard provides further detailed clarifications and an example has been added to the standard to illustrate the new guidance.

Amendments to IAS 12 should be applied for annual periods beginning on or after January 1, 2023 using the modified approach retrospectively, i.e. at the beginning of the earliest comparative period presented:

- (a) deferred tax asset should be recognized - to the extent to which taxable temporary differences exist or are likely to be recoverable, and the deferred tax liability for all taxable temporary differences;
- (b) recognise the cumulative effect of the initial application of the changes as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

### Comment

As described above, the issue has not been regulated so far, which resulted in some preparers not recognizing deferred tax on leasing transactions. This approach did not affect the year in which lease transactions were entered into accounting records, but the impact could affect subsequent periods arising from the fact that the right to use assets and the lease liability are not equal at subsequent balance sheet dates. The amendment sorts out this situation. Recognition of the deferred tax asset and deferred tax liability in case of the initial lease recognition will result in the subsequent pre-tax financial result being evenly burdened with income tax and deferred tax balances will provide a better understanding of the tax consequences of possible modifications to leasing agreements. It is worth noting that previous regulations did not exclude the calculation of "full" deferred tax.



**Tatjana Skopelja**  
Senior Manager  
Assurance

# Global Minimum Income Tax (Pillar Two Model Rules)

## IAS 12



<b>Amends the standard</b>	IAS 12 "Income Taxes".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2023.
<b>First application</b>	Companies can apply the change immediately, but disclosure requirements are required in respect to the annual periods beginning on or after January 1, 2023.
<b>Impact assessment – ●</b>	Impact on entities within large international corporate groups covered by the Pillar 2 model rules that operate in a jurisdiction where Pillar 2 legislation has been adopted or entered into force.

### What does it change?

In December 2021, the Organisation for Economic Co-operation and Development (OECD) published model rules for the so-called Pillar Two, aimed at reforming the international tax system of business entities. Large multinational companies falling within the scope of these rules are required to calculate their effective tax rate and will be liable to pay a supplementary minimum tax equal to the difference between the effective tax rate and the minimum rate of 15%.

In response to legislative changes and numerous concerns raised regarding the accounting treatment of the effects of the Pillar Two tax reform, in May 2023 the IFRS Board issued narrow-scope amendments to IAS 12. The amendments introduce a temporary exemption from the requirement to recognise and disclose deferred tax arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

Changes also introduce information requirements for entities covered by Pillar Two regulations and oblige entities to disclose:

- the fact of application of the exemption to recognise and information about deferred tax assets and liabilities related to Pillar Two income taxes;
- its current tax expense (income) related to Pillar Two income taxes;
- periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect. Entity shall disclose known or reasonably estimated information that helps financial statements users to understand the entity's exposure to Pillar Two income taxes arising from that legislation.

Amendments to IAS 12 should be applied immediately (subject to any local legislative processes) and retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

### Comment

Published amendments to IAS 12 constitute a significant simplification for entities that will be affected by the global tax reform. By introducing an exemption from calculating deferred tax in relation to the effects of the Pillar Two reform, the Board resolved the numerous doubts relating to its deferred tax recognition, in particular, since in many jurisdictions, tax regulations are still in the legislative process.

It could be argued that the Pillar Two requirements imposing a minimum tax of 15% would not apply in Serbia as the basic tax rate is 15%. Nevertheless, entities benefiting from significant tax reliefs, such as relief for research and development work, and operating within the capital groups qualifying for the application of Pillar Two requirements may be required to pay minimum tax. Moreover, apart from deferred tax issues, adapting to the new Pillar Two requirements will also be a challenge for such companies.



**Sonja Ralenac**  
Director  
Assurance

# Lease liabilities in sale and leaseback transactions

## IFRS 16



<b>Amends the standard</b>	IFRS 16 "Leases".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2024 with the possibility of earlier application.
<b>First application</b>	Retrospective in accordance with the transitional requirements laid down in the amendment to the standard.
<b>Impact assessment</b> – ●	It may affect entities entering into significant leaseback transactions.

### What does it change?

To date, there have been discrepancies in practice regarding recognition of certain effects of sale and leaseback transactions when IFRS 15 criteria are met (the so-called "real sale" transaction).

In the above situation, the standard requires the seller-lessee to measure the right-of-use asset resulting from a sale and leaseback transaction in proportion to the previous carrying amount of the asset, which relates to the seller's right-of-use that the lessee retains. Accordingly, in such transactions, gain is limited to the amount that relates to the rights transferred to the buyer-lessor. As a result, the initial measurement of the lease liability is a consequence of how the seller-lessee's right-of-use asset is measured and gain or loss recognised at the date of the transaction. However, until now, IFRS 16 did not include any specific requirements for subsequent measurement for such transactions, which created significant discrepancies in situations where future lease payments were variable, particularly when variability went beyond an adjustment for a change in the rate or index.

Accordingly, in March 2021, the IFRS Board issued amendments to IFRS 16 that supplement requirements for the accounting treatment of sale and leaseback transactions. Revised examples in the standard illustrate how to apply Board's new guidance.

The introduced amendment requires the seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. Accordingly, amendments:

- define the proportion of previous carrying amount of an asset under a sale-leaseback as a comparison of the present value of the expected lease payments discounted using a discount rate with the fair value of the asset sold;
- define the components of lease payment that should be included in the measurement of the lease liability arising from a sale-leaseback;
- clarify how right-of-use assets should be measured after initial recognition (subsequent measurement in accordance with paragraphs 29-35 of IFRS 16, and therefore consistent with measurement of right-of-use assets not included in a sale or leaseback transaction) and how to measure the lease liability.

The amendment does not change general rules on sale and leaseback under IFRS 16 and, therefore, it is expected to affect only a limited number of entities in the market.

### Comment

As of today, the measurement of right-of-use assets and lease liabilities arising from sale and leaseback transactions has not been sufficiently precise, which could cause interpretation problems for entities that carry out this kind of transactions in practice and result in the application of a different approach by different entities.

Due to the fact that such transactions often involve significant assets with a relatively long useful life, a different approach could have had a significant impact on the result of the transaction.

The new requirements are particularly relevant where leasebacks involve variable lease payments that do not depend on index or rate, as these payments are excluded from 'lease payments' under IFRS 16. If the payments include variable lease payments, there was the risk that, due to the lack of appropriate regulations, the seller-lessee could recognise a profit in relation to the right of use, which it retains only as a result of remeasurement (e.g. as a result of modification of the lease agreement or change of the lease term), due to the fact that it would apply the general requirements for the subsequent measurement of lease liabilities not specifically related to a sale and leaseback transaction. Such a gain would be recognised even though no transaction or event occurred that could give rise to that gain.

The amendment to the standard sorts out this situation, and the amended examples explain in particular what should be done when measuring, after initial recognition, a right-of-use asset and a lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rates.



**Ivana Stanković**  
Director  
CMAAS

# Classification of liabilities as current and non-current

## IAS 1



<b>Amends the standard</b>	IAS 1 "Presentation of financial statements".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2024.
<b>First application</b>	Retrospective in accordance with IAS 8 with the possibility of earlier application.
<b>Impact assessment – ●</b>	It may have a significant impact on entities with significant debt.

### Amendments to the standard introduced by the Board

In 2020, the IFRS Board introduced amendments to IAS 1 with regard to the classification of liabilities as long-term or short-term, which were originally supposed to apply from 2021, but were deferred until 2024. In October 2022, the IFRS Board issued further amendments to IAS 1, which address the issue of classification of liabilities in relation to which the entity is obliged to meet specific contractual requirements, i.e. covenants. This change was also a response to stakeholders' concerns regarding classification of such liabilities as current or non-current. These changes will also come into effect in 2024.

### What does it change?

The amended IAS 1 provides that liabilities are classified as current or non-current depending on the rights existing at the end of the reporting period. Neither entity's expectations or events after the reporting date (for example, covenant waivers or breaches) affect classification.

Liabilities are classified as non-current if the entity has a significant right to defer settlement of the liability for at least 12 months from the end of the reporting period.

The amended guidelines specify that the assessment should be made as at the balance sheet date on the basis of the rights held by the entity, and it should not be taken into account whether the entity will exercise these rights.



# Classification of liabilities as current and non-current

## IAS 1



The right to defer exists only if an entity meets all relevant conditions at the reporting date.

IAS 1 amendments clarified that loan agreement covenants, which the entity must comply with only after the balance sheet date, will not affect classification of liabilities as non-current or current as at the reporting date. However, covenants that an entity must meet at or before the balance sheet date would affect classification of liabilities as current or non-current, even if that condition is assessed only after the entity's balance sheet date.

Amendments also clarify what is meant by the phrase "settlement" of the liability. "Settlement" is defined as settling a liability with cash, other economic resources or the entity's own equity instruments.

The change introduced in October 2022 resulted from discussions introduced in 2020, and in particular doubts relating to the moment of confirming compliance with contractual conditions (covenants).

In response to the doubts, the Board clarified solutions dated 2020, but at the same time introduced significant disclosure obligations.

Information that will require disclosure includes:

- what covenants the company has in its contracts;
- whether the company complied with them at the reporting date;
- whether the company expects to comply with them in the future (and how it will do so).



### Comment

Classification of credit liabilities as long-term or short-term considering the fulfillment of contractual conditions, i.e. covenants, has been rising many questions for the years. This is due to the fact that many covenants are constructed on the basis of financial data from annual financial statements (e.g. calculation of the Net Debt/EBITDA ratio), while preparation of this report and its delivery to financial institutions often takes place several months after the balance sheet date. The Board consistently presents the view that status as at the balance sheet date, e.g. December 31, is important for classification, and any events after that date have no impact on the classification. Entity's rights to defer payments should be assessed as at that date and liability should be classified as long-term only if deferral is longer than 12 months from the balance sheet date. Nevertheless, this view was not always clearly reflected in the standard. Recent changes have replaced the wording that the right to defer should be "unconditional", as credit agreements rarely contain any conditions. On the contrary, contracts often contain arrangements for periodic testing of contractual terms. As a result, the term "significant right to defer payment" has been used, which should be understood as a right that exists at the balance sheet date, not taking into account events after the balance sheet date.

According to detailed requirements of the standard, when classifying liabilities, an entity considers only its rights, and ignores its expectations and intentions. Thus, the entity's intention to settle a liability in the short term, that meets the requirements to be classified as long-term, does not affect the classification (such liability is non-current). The method of settling the liability also does not affect the classification. So far, when classifying, it has not been clear how to take into account the entity's intention to repay, or how to proceed when a liability can be converted to equity.

Prior to the amendment, requirements of the standard regarding the disclosure of contractual terms relating to the entity's lending were not strictly defined. Certain obligations could be inferred from the disclosure requirements regarding capital management (IAS 1), significant judgments (IAS 1) or liquidity risk management (IFRS 7). Nevertheless, there were no strict requirements regarding disclosure of information on when and what conditions an entity must meet in order not to be forced to accelerate loan repayment. Amendments to the standard address this issue and introduce a number of disclosure requirements. I believe that investors will appreciate extended disclosures, as the terms and conditions of loan agreements are often a key element for the entity's performance assessment.



**Aleksandar Crnjanski**  
Manager  
CRS

# Supplier finance arrangements

## IAS 7/IFRS 7



<b>Amends the standard</b>	IAS 7 "Cash Flow Statement" and IFRS 7 "Financial Instruments - Disclosures".
<b>Effective date</b>	Annual periods starting on or after January 1, 2024.
<b>First application</b>	Financial statements for the year ended December 31, 2024, no need to present comparative data.
<b>Impact assessment – ●</b>	Limited impact, amendments do not affect the recognition or measurement principles, but only require disclosures in relation to a specific transaction.

### What does it change?

In May 2023, the IFRS Board published amendments to IAS 7 and IFRS 7 requiring disclosure of certain information about supplier finance arrangements (also called "reverse factoring").

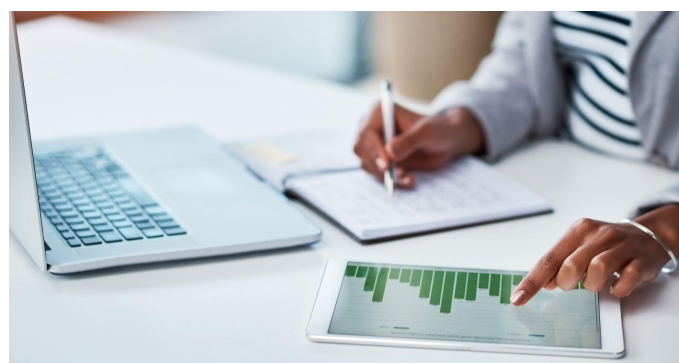
Amendments respond to investors who said they urgently needed more information about reverse factoring agreements, to be able to assess how these arrangements affect entity's liabilities, cash flows and liquidity risk.

To meet investor's needs, the IFRS Board introduced new requirements into the accounting standards to ensure that new disclosures provide information about:

- The terms and conditions of supplier finance arrangements,
- The carrying amount of financial liabilities that are part of supplier finance arrangements and line items in which those liabilities are presented,
- The carrying amount of financial liabilities for which suppliers have already received payment from finance providers,
- The range of payment due dates for both financial liabilities that are part of supplier finance arrangements, and comparable trade payables that are not part of such arrangements,
- The non-cash changes in the carrying amount of financial liabilities,
- The access to supplier finance arrangement facilities and concentration of liquidity risk with the finance providers.

Entities will be required to aggregate information they provide about such arrangements. However, entities should disaggregate information about terms and conditions that are dissimilar, disclose explanatory information when the range of payment due dates is wide, and disclose type and effect of non-cash changes that are needed for comparability between periods.

All entities that use supplier finance arrangements in their operations will be required to provide the new disclosures, provided that they are material.

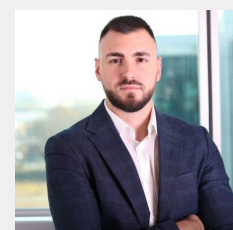


### Comment

The issue of financing using reverse factoring became a subject of a heated debate a few years ago when several entities which used this method of financing declared insolvency while information on reverse factoring and its impact was not sufficiently disclosed in their financial statements.

It should be expected that the amended standards and their new disclosure requirements will ensure greater transparency regarding financing through factoring transactions and will contribute to improve the quality of information included in financial statements. To date, this information could not always be read directly from companies' reports.

Some disclosures may pose a challenge for entities when collecting information that should be disclosed. In particular, preparing disclosures for financial liabilities for which suppliers have already received payment from finance providers may be challenging, as many entities may not have easy access to adequate historical data to provide an appropriate level of details for these disclosures. Companies may need to implement new processes and controls to ensure complete and accurate gathering of this information.



**Mladen Bozic**  
Manager  
CMAAS



# Lack of exchangeability

## IAS 21



<b>Amends the standard</b>	IAS 21 "The effects of changes in foreign exchange rates".
<b>Effective date</b>	Annual periods starting on or after January 1, 2025, with earlier application is permitted.
<b>First application</b>	When an entity applies new requirements for the first time, it is not permitted to restate comparative information. Instead, an entity is required to translate affected amounts at an estimated spot exchange rates on the date of initial application, and adjust retained earnings (if exchange is between foreign and functional currency) or adjust the reserve for cumulative translation differences (if exchange is between functional and presentational currency).
<b>Impact assessment – ●</b>	It may affect entities conducting transactions in foreign currencies.

### What was the issue?

IAS 21 sets out the exchange rate that an entity uses when it reports foreign currency transactions in the functional currency or translates the results of a foreign operation in a different currency. Until now, IAS 21 set out an exchange rate to use when exchangeability between two currencies is temporarily lacking, but not what to do when lack of exchangeability is not temporary. Furthermore, assessing exchangeability between two currencies requires an analysis of various factors; such as time frame of the exchange, ability to obtain the other currency, markets or exchange mechanisms, purpose of obtaining the other currency, and an ability to obtain only limited amounts of the other currency.

Therefore, in August 2023, the IFRS Board published amendments to IAS 21, which are intended to help entities to determine whether a given currency is exchangeable into another currency and to determine a spot exchange rate when exchangeability is lacking. The objective in estimating the spot exchange rate at a measurement date is to determine the rate at which an orderly exchange transaction would take place at that date between market participants under prevailing economic conditions.

Amendments to IAS 21 are a response to numerous comments from users of financial statements who raised concerns about diversity in practice in accounting for a lack of exchangeability between currencies.

### What does it change?

However, amendments to IAS 21 do not provide detailed requirements on how to estimate a spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date by using:

- (a) an observable exchange rate without adjustment, for example
- spot exchange rate for a purpose other than that for which an entity assesses exchangeability; or
  - first exchange rate at which an entity is able to obtain the other currency for a specified purpose after exchangeability of the currency is restored.
- (b) another estimation technique, for example, could be any observable exchange rate adjusted as necessary to meet the objective of new requirements.

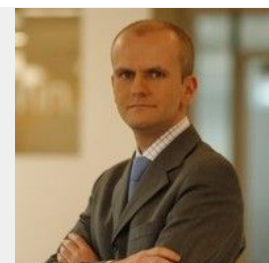
As a result, the revised standard will require companies to use a consistent approach when assessing whether a currency can be exchanged into another currency, and if this is not possible, to provide required disclosures about how the alternative exchange rate was determined.

### Comment

In developing the amendments to IAS 21, the IFRS Board decided not to set a hierarchy of observable exchange rates to use in estimating a spot exchange rate. Whilst a hierarchy generally has a benefit of increased consistency, in this case, it might have imposed additional costs without providing more useful information.

Therefore, the IFRS Board set a clear objective for the exchange rate estimation, but at the same time, the Board left a choice of what approach the entity takes to make this estimation, taking into account the entity's specific circumstances.

It is also worth noting that the amendments to the standard also include accompanying new disclosures to help investors understand effects, risks and estimated rates and techniques used when a currency is not exchangeable.



**Saša Todorović**  
Director  
Assurance

# IFRS amendments rejected or deferred by EU decision



<b>Amends the standard</b>	IFRS 14 "Regulatory Deferral Accounts".
<b>Effective date</b>	Annual periods beginning on or after January 1, 2016. Earlier application is allowed.
<b>First application</b>	Retrospective.
<b>Impact assessment – ●</b>	No impact on entities operating in Serbia.

## What does is change?

It is an interim standard for the accounting of balances arising from rate-regulated activities ("regulatory deferral accounts"). IFRS 14 applies only to entities adopting IFRS for the first time that apply IFRS 1 and operate based on regulated prices (e.g. tariffs approved by the authorities). It allows such entities, upon adoption of IFRS accounting standards, to continue to apply their previous accounting policies for the recognition, measurement, impairment and derecognition of regulated activity balances.

The interim standard additionally contains guidance on the selection and change of accounting policies (when applied for the first time or subsequently), as well as presentation and disclosure.

There is currently no standard that specifically addresses price-regulated activities. The purpose of the interim standard is to allow IFRS adopters to avoid major changes in accounting policies for regulatory accruals before the IFRS Board finalise the broader IFRS project, which is under development.

By decision of the EU, IFRS 14 will not be approved.

<b>Amends the standard</b>	Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"
<b>Effective date</b>	Annual periods beginning on or after January 1, 2016. Earlier application is allowed.
<b>EU approval</b>	The effective date of the amended regulations has not been determined by the IASB.
<b>First application</b>	Retrospective.
<b>Impact assessment – ●</b>	No impact on entities operating in Serbia.

## What does it change?

The amendments solve the current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". Where the non-monetary asset is a "business", the investor shows a full gain or loss on the transaction.

If the assets do not meet the definition of a business, the investor recognises a gain or loss only to the extent of the share of other investors.

The amendments were published on September 11, 2014, but the approval of this change is deferred by the European Union.

# New IFRS Sustainability Disclosure Standards (ISSB)

## Comment



Considering the current interest in climate change and its impacts, entities should ensure that they conduct a rigorous assessment of disclosures to ensure that all material information affecting the financial statements in this regard is presented.

As climate-related issues become increasingly important, management should consider a number of specific issues related to this topic, e.g. "green loans" (i.e. bonds/loans issued at an interest rate that is to some extent dependent on key performance indicators related to sustainable development), estimates used in creating provisions and calculating the recoverable amounts, accounting effects of participation in a voluntary "green certificates" market and many other issues.

In addition, entities should also ensure consistency between financial statements and non-financial information on key sustainability-related matters. This issue is one of the priorities of public supervision authorities, including European Common Enforcement Priorities (ESMA). The consistency between financial and non-financial reporting should also be the focus of auditors of financial statements, other practitioners providing assurance on sustainability reporting and audit committees.

Therefore, in order to ensure that entities apply uniform principles for disclosing and measuring climate-related matters and thus, ensure the comparability of those disclosures, in June 2023, the International Sustainable Standards Board (ISSB) has published the first two standards on this topic. These two standards are the first two elements of a sustainability reporting framework collectively referred to as IFRS Sustainability Disclosure Standards.

At the moment it may be perceived that applicability of the IFRS Sustainability Disclosure Standards may not be relevant to European entities. Unlike the SEC's proposed rule on climate-related disclosures and EU Corporate Sustainability Reporting Directive (CSRD), the IFRS Sustainability Disclosure Standards do not define or prescribe which type of entity should apply the standards. In order to address the global baseline objective, and to provide the widest possible application of the standards, the scope of IFRS S1 states that an entity may apply IFRS Sustainability Disclosure Standards where the entity's related financial statements are prepared using IFRS Accounting Standards or other Generally Accepted Accounting Principles (GAAP). This means that entities can apply the IFRS Sustainability Disclosure Standards on a voluntary basis regardless of their primary accounting framework.

Individual jurisdictions, via securities and/or other regulators, can determine whether the IFRS Sustainability Disclosure Standards are required or permitted as a basis for sustainability reporting, akin to the process for adopting IFRS Accounting Standards for financial reporting. In Europe with its CSRD regulation and the Green Deal ambitions it is probable that the IFRS Sustainability Disclosure Standards will not be endorsed in the foreseeable future. Therefore, companies may apply IFRS Sustainability Disclosure Standards on a voluntary basis and only when full compliance with CSRD regulation is ensured (if an entity is within the scope of CSRD).



**Teodora Pasulj**  
ESG Manager

# Table of IFRS standards on sustainability disclosures (ISSB)

## Nature of the amendment

- New standard or interpretation
- Amendment to the existing standard or interpretation

## Application to earlier periods

✓ = Yes, ✗ = No – means whether a given standard can be applied to earlier periods

!!! – means that a given standard may be applied to earlier periods, provided that other standards are also applied.



Approved by the ISSB for application after 1 January 2024.		P.
● IFRS S1 "General Requirements for Disclosure of Sustainability-related Financial Information"	!!!	20
● IFRS S2 "Climate-related Disclosures"	✓	21



The above list was prepared as at **November 15 2023**.  
Where a calendar year is not used as a financial year, entities are required to analyse the transition plan provisions, as the effective dates may be different.

# General Requirements for Disclosure of Sustainability-related Financial Information

## IFRS S1



<b>Standard</b>	IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
<b>Effective date</b>	Annual periods starting on or after January 1, 2024 with early adoption permitted provided that IFRS S2 is simultaneously applied.
<b>First application</b>	The entity is not required to disclose the information specified in this standard for any period prior to the date of its first application. Therefore, the entity is not required to disclose comparative information in the first annual reporting period in which it applies IFRS S1. The standard is applicable to entities preparing financial statements in accordance with both the IFRS Accounting Standards and in accordance with local regulations.

### What is covered by the new standard?

IFRS S1 prescribes how an entity prepares and reports its sustainability-related financial disclosures. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity.

The purpose of IFRS S1 is to require companies to disclose information about sustainability-related risks and opportunities that are useful to primary users of general purpose financial reporting and that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S1 sets out the requirements for disclosing information about an entity's sustainability-related risks and opportunities. In particular, an entity is required to provide disclosures about:

- the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities;
- the entity's strategy for managing sustainability-related risks and opportunities;
- the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and
- the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.

### Comment

The comprehensive guidance on sustainability reporting marks a turning point in this respect. It is expected that more entities will report in accordance with the IFRS Sustainability Disclosure Standards, so the quality of sustainability reporting is will continue to increase.

It is also important to point out the location for the disclosures under the Sustainability Disclosure Standards. The ISSB Board notes that there are several locations where required information may be disclosed. Sustainability-related financial disclosures may be included in a management report or other appropriate report if it forms part of the entity's general purpose financial reports.

Entities may disclose information required under IFRS Sustainability Disclosures Standards in the same place as information disclosed to meet other requirements, such as information required by local regulators. However, companies should ensure that sustainability-related financial disclosures are easily identifiable and not obscured by other information.



**Nikola Stamenic**  
Director  
Assurance

# Climate-related disclosures

## IFRS S2



<b>Standard</b>	IFRS S2 "Climate-related disclosures"
<b>Effective date</b>	Annual periods starting on or after January 1, 2024 with early adoption permitted.
<b>First application</b>	The entity is not required to disclose the information specified in this standard for any period prior to the date of its first application. Therefore, it is not required to disclose comparative information in the first annual reporting period in which this standard is applied. There are also some additional exemptions that entities can use when first applying the Standard. The standard is applicable to entities preparing financial statements both in accordance with IFRS Accounting Standards and in accordance with local regulations.

### What is covered by the new standard?

IFRS S2 is a thematic standard that builds on the requirements of IFRS S1 and is focussed on climate-related disclosures.

IFRS S2 requires an entity to identify and disclose climate-related risks and opportunities that could affect the entity's prospects over the short, medium and long term.

The standard provides guidelines for disclosing climate-related issues by reference to the type of activity (so-called industry guidelines). The entity considers the scope of disclosures in accordance with the industry-based guidance.

In addition, IFRS S2 requires entities to consider seven cross-industry metrics when disclosing qualitative and quantitative components on how the entity uses metrics and targets to measure, monitor and manage the identified material climate-related risks and opportunities.

The cross-industry metrics include disclosures on greenhouse gas (GHG) emissions, risks related to the entity's climate transition, risks of adverse physical impacts of climate events on the entity, climate-related opportunities, capital deployment, internal carbon prices and remuneration.

In particular, IFRS S2 requires an entity to disclose information that enables users of general purpose financial reports to understand:

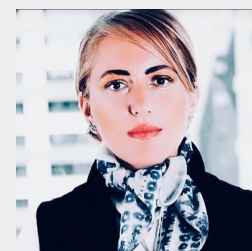
- the governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities;
- the entity's strategy for managing climate-related risks and opportunities;
- the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

### Comment

A special feature of this Standard is that it introduces industry-based guidance that have been taken from the standards issued by American non-profit organisation, i.e. the Sustainability Accounting Standards Board (SASB). 68 industry categories have been introduced from the following sectors: Consumer Goods, Extractives & Minerals Processing, Financials, Food and Beverage, Health Care, Infrastructure, Renewable Resources & Alternative Energy, Resource Transformation, Services, Technology and Communications, and Transportation.

When preparing disclosures in accordance with industry guidance, entities are required to determine their primary industry classification. It will be helpful in this respect to refer to the Sustainable Industry Classification System (SICS), on which the industry-based guidance organised in IFRS S2 is based.

Some entities participate in a range of activities that are likely to span more than one industry. For entities whose operations are integrated horizontally across industries (such as conglomerates) or vertically through the value chain, more than one volume of industry-based guidance may be necessary for completeness. Using more than one volume of industry-based guidance would allow such an entity to detail the full range of climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.



**Ana Krneta**  
Senior Manager  
Assurance

# Other important changes in reporting of public companies

# 3.

<b>ESG, i.e. current and upcoming obligations regarding reporting on non-financial information and EU Taxonomy</b>	23
<b>European Sustainability Reporting Standards (ESRS)</b>	25
<b>Disclosure of climate-related matters in financial statements</b>	27
<b>Use of IFRS Foundation trademarks in financial statements and auditor's reports</b>	29
<b>Effects of high inflation and interest rates</b>	30
<b>Report on income tax information</b>	31

## Comment

The purpose of this chapter is to draw your attention to other regulations and issues, both domestic and international, that concern and may directly or indirectly affect the reporting area of public companies.

In particular, we would like to draw your attention to an important point. Due to the increasing importance of climate issues and the imposition of new obligations on companies to report information regarding sustainable development, climate-related risks have a significant impact on both non-financial reporting and financial statements.

Consequently, in such a rapidly changing economic and regulatory environment, reporting entities should monitor both changes in IFRS-related issues and also stay up to date with updates and new requirements and guidelines for non-financial reporting.

The ISSB's current guidance on sustainability reporting is described in Part 2 of this publication. In this part of the publication, we will introduce you to the upcoming European Union guidelines on reporting on sustainable development (i.e. European ESRS Standards). Additionally, we will indicate what climate-related aspects should be considered for the purposes of preparing financial statements.

In addition, we draw your attention to the guidance of public supervision authorities on taking into account the impact of high inflation rate on financial reporting. We also report on questions relating to the use of the IFRS Foundation's trademarks in financial statements and auditor's reports in connection with the publication of a statement on this subject by the IFRS Foundation ("Trade Mark Guidelines").

Finally, we would like to draw your attention to a new report that will be prepared by companies that meet certain requirements as a result of the announced amendment to the provisions of the Accounting Act.



**Biljana Bogovac**  
Country Managing Partner  
Serbia & Montenegro

# ESG, i.e. current and upcoming obligations regarding reporting on non-financial information in Serbia



<b>Source of regulation</b>	Articles 37 and 38 of the Law on Accounting in relation to the disclosure of non-financial information by large entities and groups (the "Law").
<b>Effective date</b>	Articles 37 and 38 of the Law on Accounting are in force as of October 2019
<b>First application for periodic reporting</b>	First application of Law provisions being applied to non-financial reports covering FY 2021

## Sustainable development - the inclusion of ESG factors in company operations

The abbreviation ESG (Environmental, Social, Governance) is commonly used today and defines factors relating to elements concerning environmental, social issues and proper management. ESG factors have become the main criterion for the concept known as sustainable business development. European Green Deal - the action plan adopted by the European Commission is a strategy for the EU's sustainable development, setting out both the goals of the ESG program and the instructions how to implement ESG in company operations. The European Green Deal set out the blueprint for this transformative change, with all 27 EU Members committed to turning the EU into the first climate-neutral continent by 2050. To achieve EU goals, in particular climate and energy and resource-efficient economy goals, it is necessary to direct investments towards sustainable projects and activities - which is the aim of the Taxonomy and Regulation (EU) 2019/2088 on the disclosure of information related to sustainable development in the financial services sector.

This is the first milestone towards comprehensive systemic and regulatory change. Further regulations will require organisational and operational changes in order to meet the requirements and goals related to reducing greenhouse gas emissions and reducing negative environmental, social and governance impacts, taking into account the value chain.

## Non-financial reporting today

Under current Serbian regulations, the following companies are required to produce a non-financial information statement:

- All large PIEs exceeding on their balance sheet dates the criterion of the average number of 500 employees during the reporting year.
- A consolidated non-financial information statement must be produced by a large legal entity operating within a group and that on the balance sheet date on a consolidated basis exceeds the criterion of an average number of 500 employees during the business year.

This statement covers environmental, social and labor issues, including respect for human rights, as well as counteracting corruption and bribery.

Currently, there are no official guidelines and recommendations that could be used to prepare non-financial reports.

Legal entities subject to this obligation are required to obtain a confirmation from their statutory auditor that non-financial report is prepared in accordance with the Law.



# ESG, i.e. current and upcoming obligations regarding reporting on non-financial information and EU Taxonomy in the EU



## Additional obligations in the area of non-financial information resulting from the Taxonomy

The taxonomy, partially in force from 2021, defines the criteria for determining whether a business activity qualifies as environmentally sustainable. Based on Article. 8 of Regulation (EU) 2020/852 and the issued implementing acts, companies subject to the non-financial reporting obligation must make taxonomic disclosures. Taxonomic disclosures are part of the non-financial information and should be included in the management report (non-financial information statement) or in a separate non-financial information report.

As a result, non-financial companies for the first time disclosed in their non-financial information prepared for 2022 which types of business activities contributed to environmental objectives relating to climate change mitigation and adaptation to climate change. In 2023, the Commission adopted a new implementing regulation regarding other environmental goals, i.e. sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. Under this act, companies will be obliged to disclose for the first time for FY 2023 information on activities qualifying for other environmental objectives, there is no obligation to determine the alignment of these activities with the technical screening criteria set out in this regulation. However, this obligation will arise in the next reporting period, i.e. in 2024, the entities will be obliged to assess the compliance of their activities with all environmental goals.

When disclosing taxonomic information, non-financial companies disclose, in particular:

- turnover-related key performance indicators (turnover KPIs)
- Capital Expenditure (CapEx) Key Performance Indicators (Capex KPIs)
- Key Performance Indicators for Operational Expenditure (OpEx) (OpEx KPIs).

## Further changes in non-financial reporting, which will apply to all large and other companies, will automatically result in additional entities being subject to Taxonomy.

The described obligations arising from the Taxonomy impose taxonomic disclosure obligations on companies currently covered by non-financial reporting.

Further changes regarding companies' reporting in the field of sustainable development introduced by the CSRD Directive expand the group of companies subject to reporting obligations, which means that the obligations arising from the Taxonomy will cover a much wider group of entities. In addition to companies currently subject to reporting obligations, all large companies (both private and listed), as well as small and medium-sized listed companies, as well as certain entities from third countries, after meeting the financial criteria resulting from the CSRD, will be subject to the obligations arising from the Taxonomy.

The extended scope of disclosures resulting from the CSRD regulations is described on the following pages of this publication.

## Comment

The taxonomy is the first regulation that requires an assessment of the extent to which a company's activities are environmentally sustainable, based on uniform criteria. This will ensure that investors receive comparable information within the same industries. Not all industries are covered by the Taxonomy. For example, the construction, energy, transport and some manufacturing industries have been largely covered by the Taxonomy. In 2023, technical screening criteria were issued for remaining environmental goals and covered new economic activities. However, in reporting for 2023, there is no obligation to check alignment with these criteria, only the extent to which the company's activities qualify for the description contained in this regulation should be checked. Therefore, reporting for 2023 against these targets will not be complete.

To assess how much entity's activities contribute to achieving climate goals, non-financial companies must assess whether they meet the following requirements:

- 1) they make a significant contribution to the implementation of one of the climate goals. To do this, they must collect data and calculations, e.g. on greenhouse gas emissions, taking into account the life cycle. In some cases it is necessary to have a third party confirm these calculations;
- 2) respect the principle "do no serious harm" in the course of their business, which requires checking compliance with the requirements introduced by European regulations for a given activity, as well as specific requirements introduced by the Taxonomy;
- 3) meet the so-called minimum safeguards, which means, in particular, introducing solutions that ensure respect for human rights in particular in the own capital group and in the value chain.



**Teodora Pasulj**  
ESG Manager

# European Sustainability Reporting Standards (ESRS)

<b>Source of regulation</b>	Directive (UE) 2022/2464 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting. Commission Delegated Regulation (EU) of 31/07/2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards to sustainability reporting standards (ESRS).
<b>Effective date</b>	The directive entered into force in January 2023, but requires implementation into the national legal order. The regulation will enter into force immediately ((pending publication, expected in December 2023).
<b>First application for periodic reporting</b>	The first reporting under the reporting standards applies to financial years beginning on January 1, 2024.
<b>Impact assessment – ●</b>	After the implementation of CSRD, initially, it will affect companies currently subject to non-financial reporting (for FY 2024), in the next year (for FY 2025) it will cover all large companies, then (for FY 2026) listed SMEs, and for FY 2028 also certain entities from third countries.

The new EU Directive on corporate sustainability reporting (the so-called CSRD) imposes on large companies, small and medium-sized listed companies and certain entities from third countries that meet the criteria indicated in the CSRD, the obligation to disclose in the report on activities, information necessary to understand the impact of a given entity on sustainability issues and the financial impact of identified risks and opportunities related to sustainable development on its development and results in the short, medium and long term. In July 2023, a Commission delegated regulation was published containing the first set of European reporting standards (2 cross cutting standards: ESRS 1 and ESRS 2 and 10 ESRS topical standards: E1, E2, E3, E4, E5 and S1, S2, S3 and S4 a also G1), that companies will be obliged to use when preparing sustainability reports. The regulation is directly applicable for EU Member states and does not require implementation. The first reporting based on the adopted reporting standards applies to financial years starting on January 1, 2024 and will cover among others: listed companies, financial institution and other PIEs. In the next period (for FY 2025) it will cover large private companies, then listed SMEs (for FY 2026 ) and finally (for FY 2028) certain entities from third countries. The European Financial Reporting Advisory Group (EFRAG) develops a reporting standard for SMEs and industry-specific standards (ultimately an additional 39 standards are planned).

## ESRS 1 General requirements

This standard constitutes the methodological basis for preparing disclosures based on other standards. Specifies and explains, among others: principles of preparing information, basic concepts, processes, including double materiality, and specifies general requirements for the preparation and presentation of information related to sustainable development.

## ESRS 2 General disclosures

ESRS 2 establishes the disclosure requirements that an entity should provide at a general level in relation to all material sustainability issues. These requirements are established for areas concerning among others governance, strategy, business model, impact, risk and opportunity management, and metrics and goals. Disclosures under this standard are mandatory irrespective of the outcome of materiality assessment. ESRS 2 establishes the disclosure requirements (including their data points) that an entity should present at a general level in relation to all material sustainability issues. The thematic standards are divided into topics and sub-topics and, where appropriate, into sub-sub topics listed in tabular form in Appendix A.

## ESRS E1 Climate change

The purpose of the standard is to define disclosure requirements that enable users of sustainability information to understand how a company impacts climate change and what actions it takes to mitigate climate change. Based on the standard, the entity discloses whether it has a transformation plan consistent with the goal of limiting global warming to 1.5°C and whether it has the capacity to adapt its strategy and business model to the transition to a sustainable economy. It also presents the results of the analysis of climate risks and opportunities arising from climate impacts and dependencies, along with financial impacts in the short, medium and long term. Additionally, the standard requires disclosure of metrics, e.g. gross greenhouse gas emissions from scope 1, 2 and 3, energy consumption from fossil fuels, renewable sources, etc.

## ESRS E2 Pollution

The purpose of the standard is to define disclosure requirements that will enable users to understand whether and how an entity has a significant impact or potential impact (positively and negatively) on air, water and soil pollution. The entity describes the process of identifying such significant impacts, risks and opportunities, taking into account its own operations and value chain. Following this process, the entity discloses in particular policies, plans, objectives and actions to prevent or remediate pollution, including their costs. Additionally, it is required to describe the management of significant risks and opportunities resulting from pollution reduction as well as the financial consequences for the entity in the short, medium and long term. In addition, the entity reveals metrics regarding, among others: pollutant emissions (e.g. sulfur dioxide), water emissions (e.g. phosphates and pesticides) and microplastics produced or used.

## ESRS E3 Water and marine resources

The standard establishes requirements that enable users of a sustainability statement to understand whether and how an entity significantly impacts or has the potential to impact (positively and negatively) water and marine resources. The entity describes the process of identifying such significant impacts, risks and opportunities, taking into account its own operations and value chain. After completing this process, the entity discloses in particular the policies, plans and actions, including their costs, undertaken to reduce water consumption, water treatment, recovery and regeneration of the water ecosystem. In addition, the entity presents the management of risks and opportunities arising from the sustainable use of water and the financial consequences. Additionally, it is required to present metrics regarding, among others: water consumption in m3, including in areas exposed to water-related risks, water storage and the amount of water recycled and reused in m3.

# European Sustainability Reporting Standards (ESRS)



## ESRS E4 Biodiversity and ecosystems

Based on this standard, an entity discloses how it affects biodiversity and ecosystems in terms of significant positive and negative, actual and potential impacts, including the extent to which the entity contributes to drivers of biodiversity and ecosystem loss and degradation. The entity is required to present a process for identifying such significant impacts, risks and opportunities taking into account its operations and value chain and disclose a list of significant locations within its operations, including those under its operational control, the ecological status of areas and biodiversity sensitive areas. The entity primarily describes biodiversity and ecosystem resources, policies, sustainable practices, transformation plan, goals and actions taken to prevent or mitigate negative impacts and restore biodiversity and ecosystems. The standard requires to disclose information about the management of identified risks and opportunities as well as the financial consequences. It is also required to present indicators illustrating its impact for locations located in or near biodiversity-sensitive areas that have a negative impact.

## ESRS E5 Resource use and circular economy

The standard specifies requirements in particular regarding resource inflows, including circularity (circular economy), including renewable and non-renewable resources, and resource outflows, including information on products and materials as well as waste. The standard requires to present how sustainably the entity uses resources and processes, produces, consumes and manages waste. The entity identifies and presents significant impacts, risks and opportunities related to resources and circular economy, as well as policies, actions and goals related to them. It will also evaluate the expected financial consequences related to the risks and opportunities occurring in this area. The entity also discloses the indicators regarding, among others: expected durability of products placed on the market, reparability of products, indicators of the content of recyclable materials in products and packaging. With regard to waste, the entity is supposed to provide information on the total amount of waste generated, disposed of or not recycled, and also subjected to recovery processes.

## ESRS S1 Own workforce

This standard requires presenting the way in which the entity influences its own employees including positive and negative impacts. Additionally, it requires the presentation of all actions taken to prevent negative impacts, and presentation of significant risks and opportunities related to its own employees and their management and their financial consequences for the entity (in the short, medium and long term). The standard uses the definition of own workforce, also including other people working for the entity, e.g. B2B. The standard requires disclosure of policies, activities, goals and indicators in basic areas, including: safety, health, remuneration, equal treatment, inclusiveness, association, social dialogue.

## ESRS S2 Workers in the value chain

The standard applies to people performing work in the value chain, on whom the entity can have a significant impact. The standard requires an explanation of how such impacts, as well as the entity's dependencies on those performing work in the value chain, may create significant risks or significant opportunities. Negative impacts on employees in the value chain may, for example, disrupt an entity's operations. The entity presents processes of cooperation with people performing work in the value chain in terms of impacts and mitigating negative impacts, as well as channels for reporting problems by employees in the value chain. The required indicators concern at least: reducing negative impacts on workers in the value chain and managing significant risks and opportunities for workers in the value chain.



# European Sustainability Reporting Standards (ESRS)



## ESRS S3 Affected communities

The standard sets out disclosure requirements that will enable users to understand the material impacts on affected communities in the value chain associated with an entity's own operations and value chain, including through its products or services, and business relationships, and the associated material risks and opportunities. The entity describes processes of cooperation and remediation of negative impacts and channels for reporting problems by affected communities. In addition, the entity discloses activities and goals regarding, among others: reducing negative impacts and managing significant risks and opportunities for affected communities.

## ESRS S4 Consumers and end-users

The standard introduces requirements regarding significant impacts on consumers and end users. The entity discloses information regarding the impacts on consumers or end-users related to products or services and the management of those impacts in relation to, for example, privacy, freedom of expression and access to information, health and safety, and inclusivity. It is also required to disclose cooperation and methods of remediation of negative impacts, as well as goals related to, among others, limiting negative impacts and managing significant risks.

## ESRS G1 Business conduct

The standard focuses on business ethics and corporate culture, including anti-corruption and bribery, whistleblower protection and animal welfare. It also regulates disclosures relating to business conduct, including management and relationships with suppliers, and payment practices, particularly in relation to late payments to SMEs. The standard also requires disclosures related to exerting political influence, including lobbying activities. Please note that many of the disclosure requirements in the area of corporate governance, including the role of the supervisory board and management board in relation to ESG issues, are included in ESRS 2.

## Comment

The unification and significant extension of reporting obligations constitutes a serious challenge for companies in the context of identifying detailed areas of disclosure and collecting the necessary data. The purpose of ESRS is to provide high-quality information on the future financial impact related to identified risks arising from ESG practices. Stakeholders will learn about both negative and positive significant impacts caused by the company's own activities as well as by entities from its value chain. For some companies, a sustainable economy will create opportunities for new products or markets. Companies will be required to engage stakeholders such as employees, customers and local communities in preparing sustainability reports.

Information prepared on the basis of the harmonised sustainability reporting standards will be prepared in a structured digital format, using XBRL tagging, which will improve the accessibility and usability of the information, enabling more effective analysis.

The CSRD introduced mandatory attestation of sustainability reporting. Companies will be obliged to have these reports certified by an independent auditor.



**Teodora Pasulj**  
ESG Manager

# Disclosure of climate-related matters in financial statements



<b>Source of regulation</b>	ESMA Public Statement European common enforcement priorities for the year 2021, 2022 and 2023 Effects of climate-related matters on financial statements - educational materials of the IASB Board (dated 2020 and re-published in July 2023)
<b>Effective date</b>	Published in 2020-2023.
<b>First application</b>	Recommendations and guidelines apply from the date of publication.
<b>Impact assessment – ●</b>	Expected impact on most entities operating in Serbia.

## The growing importance of climate issues and investors' expectations

In addition to the climate-related issues described above in the ESG section, it is also extremely important to consider the impact of climate-related matters on financial statements.

Investors and regulators are increasingly looking for information on how an entity has considered environmental issues, and in particular climate-related risk factors, when making estimates and judgments in the preparation of financial statements. Climate-related risks can include both transition impacts and physical impacts, such as property damage from fires and floods.

Accounting standards impose overarching disclosure requirements that users need to understand the impact of particular transactions, events and conditions on an entity's position and financial performance. Therefore, in light of the current focus on climate change issues and their impacts, entities should ensure that they have assessed the impact of climate change and consider what disclosures are necessary in this context to comply with IFRS. This issue is of a particular interests of the regulatory authorities, in particular ESMA identified it as its priority for 2021, 2022 and 2023.

## Educational materials of the IASB on the effect of climate-related effects on financial statements

In light of issuance of new IFRS Sustainability Disclosure Standards, IASB re-published its educational materials on the effects of climate-related matters on financial statements. The material, originally published in 2020, was updated in 2023 and explains how entities can include climate-related issues and risks in their financial statements under IFRS. The IASB noted that consideration of IFRS Sustainability Disclosure Standards may help to identify the client-related matters that affect the financial statements.

Climate risks may impact an entity's operations and financial results. Therefore, when applying IFRS Accounting Standards, entities need to consider climate-related issues, in particular when the impact of these issues is material in the context of the financial statements as a whole.

## What should be disclosed in the financial statements?

The educational materials have been issued by the IASB to ensure uniform, consistent application of existing requirements in IFRS.

Although IFRS Accounting Standards do not directly address climate risk, the principles underlying various judgments and estimates made in the preparation of financial statements often include climate risk factors. The educational materials provide a non-exhaustive list of examples of how climate risk may affect the measurement and disclosure requirements of various standards and various paragraphs of those standards. In addition to the specific requirements of IFRS Accounting Standards, IASB reminds the overarching requirement of IAS 1 to provide disclosures of transactions or events, not required by other IFRS Accounting Standards, that are relevant for understanding financial statements. In our publication we briefly discuss how climate-related matters may affect certain items and thus related disclosures in the financial statements. However, please note that the following list is not exhaustive and each case should be considered on a case-by-case basis.

The material also discusses materiality, and while it does not add or change requirements in the standards, it is a useful guideline that users and preparers can use when considering the inclusion of climate-related issues and risks in financial reporting in accordance with IFRS Accounting Standards.

## Next steps?

In 2023, the IASB has added a project to its work plan to explore whether and how entities can provide better information about climate-related risks in their financial statements. The IASB will consider the work of the ISSB to ensure that any proposals work well with IFRS Sustainability Disclosure Standards and that any information required by the two Boards would complement each other.

For example, disclosures required by the IFRS Sustainability Disclosure Standards might explain the sustainability-related risks and opportunities arising from an entity's activities, its assets and liabilities. These disclosures might provide early indications of matters that will subsequently be reflected in an entity's financial statements.

# Disclosure of climate-related matters in financial statements



## Property, plant and equipment and intangible assets

Climate risk can have a significant impact on the impairment of non-financial assets. Climate change may be an indicator of impairment and make it necessary to carry out an impairment test. In addition, the inputs and assumptions used in both the value-in-use and fair value less costs of disposal models may be significantly affected by climate change and changes in climate policies. The entities should consider these issues in determining the length of cash-flow forecasts and in calculating the residual value and use of discount rate.

In addition to impairment, entities may also need to reassess useful lives and residual values of property, plant and equipment and intangible assets. In relation to the climate change, entities should take into consideration additional factors when determining the useful life of assets, such as changes resulting from the introduced laws regulating climate issues.

## Provisions

Climate risks may affect the recognition, measurement and disclosure of provisions – restructuring provisions, onerous contract provisions or provisions for decommissioning obligations. Actions taken by the entity may give rise to constructive obligations for which provisions should be made, even in the absence of regulations requiring the entity to make them. For example, an entity has a power plant that is highly dependent on fossil fuels and for which it has recognized a decommissioning provision. The company's sustainability strategy guarantees carbon neutrality by 2030. This can realistically only be achieved by replacing the power plant with a newer hybrid model earlier than originally assumed. As a result of this plan, the entity must bring forward the expected cash flows for the liquidation of the plant.

## Deferred tax assets

Entities should assess the impact of climate-related matters on the estimated future taxable profits and whether the corresponding deferred tax asset is recoverable.

This can lead to derecognition of already recognised deferred tax asset or to not recognising deferred tax asset at all.

The assumptions used in the assessment of recoverability of deferred tax asset should be consistent with the assumptions used elsewhere in the financial statements, e.g. in impairment test. Those assumptions should be disclosed to the extent that it is relevant to understanding the estimates and judgments made in recognising deferred tax assets.

## Inventories

Inventories may be impaired if their cost is not recoverable, and accordingly, a write-down to the net realisable value is required. Certain industries may experience increased volatility in market prices of assets as a result of changes in demand patterns for certain commodities, which may expose these inventories to greater risk of impairment. In other cases, assets may be withdrawn from use or production, which may result in the impairment of inventories used for its servicing and maintenance.

## Trade receivables and loans

Climate change may affect the entity's exposure to credit losses on financial assets. The expected credit loss ("ECL") model in IFRS 9 requires the use of reasonable and supportable information that is available without undue cost or effort. Climate change may affect the assumptions made to estimate ECL. Range of physical, regulatory and reputational risks may affect the credit risk of borrowers or their probability of default. This is particularly relevant for long-term financing to entities that may be affected by climate change and changes in the climate policies.

IFRS 7 requires entities to provide qualitative and quantitative information about nature and extent of the risks from financial assets and how the entity is managing those risks. The climate related risks can affect the way in which the entities provide concentration disclosures (more focus on geographic, industry concentrations) or liquidity risk disclosures. Also, any changes in ECL and the reasons for these changes as well as changes made in assumptions about climate change impacts or other climate-related risks should be disclosed.

## Emission trading schemes

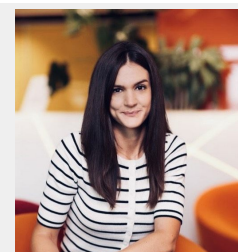
There is no specific accounting standard that applies to the accounting of emissions trading schemes. As IFRIC 3 was withdrawn in 2005, entities should use IAS 8 to develop an appropriate accounting policy which leads to diversity in accounting.

Emission allowances granted by a government are generally accounted for under IAS 20 as receipt of a non-cash asset. However, IAS 20 allows for different accounting policy choices with respect to measurement at initial recognition and presentation in both the balance sheet and the income statement. Disclosure of accounting policies for these programs is key to understanding the impact of these schemes on the financial statements and is directly related to the climate risk to which the company is exposed (in the context of the increase in prices of emission allowances and their availability).

## Comment

Issuers should pay special attention to the need to present consistent and relevant information for a given entity as well as comprehensive disclosures about the impacts of climate risk on the issuer's financial statements.

As described above, such risks can significantly affect many accounting areas and accordingly, elements presented in the primary financial statements. That is why it is very important to provide clear and reliable disclosures and specific information explaining the impact of climate-related changes on the entity. It is also necessary to maintain the consistency and completeness of information disclosed in financial statements and in other non-financial information.



**Maja Vukadinović**  
Manager  
Assurance

# Use of IFRS Foundation trademarks in financial statements and auditor's reports



<b>Source of regulation</b>	IFRS Foundation® Trade Mark Guidelines.
<b>Effective date</b>	Published in 2023.
<b>First application</b>	The guidance applies prospectively from the date of publication, but local regulations on this matter should be taken into account.
<b>Impact assessment – ●</b>	Potential impact on entities preparing financial statements in accordance with IFRS.

## What is the result of the new guidelines?

In 2023, the IFRS Foundation® Trade Mark Guidelines on the use of IFRS trademarks in financial statements and auditor's reports were published on the IFRS Foundation website.

In accordance with the published Foundation's Guidelines, the accounting standards issued by the IASB should be referred to/identified as "IFRS Accounting Standards".

Nevertheless, the IASB Board did not introduce any changes in this respect to the texts of the IFRS itself.

## What do the new guidelines mean for entities?

The publication of new guidelines raised numerous uncertainties associated with the use of the "IFRS" terminology in the financial statements.

In particular, it raised doubts as to whether it is appropriate to introduce modifications to the entities' financial statements and auditor's reports in situations where there are no changes in the IFRS standards themselves. In particular the definition of IFRS contained in IAS 1 was not changed by the IFRS Board.

What's more, it was argued that it is not clear which terms and expressions should be used because the translation from English into local language for the term indicated by the IFRS Foundation may be different.

Therefore, it seems that in this situation further communication on this matter should be expected from the IFRS Foundation or local supervisory authorities or regulators in response to these doubts. In the absence of such communication, it appears that entities preparing their statutory financial statements in accordance with the IFRS will continue to refer to IFRS as endorsed by the European Union.

# Effects of high inflation and interest rates



<b>Source of regulation</b>	ESMA Public Statements 2022.
<b>Effective date</b>	Published in 2022.
<b>First application</b>	Recommendations and guidelines apply from the date of publication.
<b>Impact assessment – ●</b>	Expected impact on most entities operating in Serbia.

## What is the issue?

High inflation and increased interest rates can have far-reaching effects on financial statements and require consideration when applying many of the requirements of IFRS. Some of the effects will seem relatively obvious (e.g. an increase in discount rates reflecting the time value of money and adjustments to cash flows to account for the impact of inflation). However, there are also many indirect effects that will affect the financial statements, such as projections of price increases (e.g. estimated increase in energy costs, the impact of volatile exchange rates) as well as changes in customer behaviour (e.g. switching to cheaper goods or reducing consumption) and the likelihood of financial difficulties for the entity, its customers, suppliers or other business partners.

## Guidance and expectations of financial supervisory authorities

The issue of high inflation and interest rates is noticed by financial supervisory authorities, and ESMA has added the issue of the impact of the macroeconomic environment on the financial reporting of companies as one of its priorities for 2022 and it is expected that it would be similar in 2023. ESMA notes that the current macroeconomic environment, resulting from a combination of many factors, including increase in interest rates is a source of uncertainty and poses serious challenges to issuers and their activities. Therefore, it is important that companies make a fair assessment of the impact that the macroeconomic environment and uncertainties will have on their financial statements (for example, on the issuer's ability to continue as a going concern) and provide clear and detailed disclosures to ensure that investors receive appropriate, accurate and up-to-date information.

Financial areas that may be particularly affected by high inflation and interest rates include:

### Impairment of non-financial assets

The potential decrease in the value of assets in the residual period in relation to previous periods raises the need to explain the impact of interest rates on impairment tests and the need to consider the assumptions made in sensitivity analyses.

### Provisions for long-term employee benefits

It is necessary to pay particular attention to the actuarial assumptions adopted, regarding both the discount rate and the estimated increase in remuneration due to inflation.

### Contract fulfilment costs

Since some costs for fulfilling the contract with the customer may not be recoverable, the recoverability of the identified contract assets should be reassessed. In addition, in case of changes in the transaction price, attention should be paid to the requirements of IFRS 15 regarding the recognition of variable consideration.

### Financial instruments

It is necessary to provide comprehensive disclosures about the issuer's exposure to interest rate risk, price increase risk and liquidity risk; explanations on the impact of the macroeconomic situation on credit risk management and calculations of impairment losses; and disclosures about the business model change.

## Comment

An increase in the cost of capital caused by an increase in interest rates may reduce the recoverable amounts under impairment tests performed in accordance with IAS 36, unless there are other compensating factors (e.g. the impact of inflation on cash flows by increasing the generated margin). Nevertheless, the occurrence of possible compensating effects for a given project will require their detailed analysis.

Moreover, in an environment where inflation expectations are high in the short term, assuming a decline in the medium term and stabilisation in the long term, the implications for the applied discount rates should be considered. In certain situations, the adoption of different discount rates for individual periods may be justified if there are different risks for these periods. At the same time, the indicated scenario may have an implication for the growth rate after the detailed forecast period. The detailed forecast period may not be sufficient to establish a stable level of cash flows and the assumed growth rate in the residual period and thus, may require different assumptions as to increases in the medium and long term. In a situation of high uncertainty in relation to the macroeconomic environment and the company's forecasts, a possible approach to estimates of future cash flows would be to use different probability-weighted scenarios, instead of the traditional model assuming a single set of cash flows.

In the context of the models used, both for the purposes of IAS 36, and other models referring to future cash flows (e.g. specific provisions under IAS 37), attention should also be paid to the consistency of assumptions regarding inflation and discount rates. Where cash flows are prepared taking into account the effect of inflation (in nominal values), an appropriate nominal discount rate should be applied. It should also be noted that in both cases, (when using cash flows in nominal values, discounted with a nominal rate, and when using the real cash flows, discounted with a real rate, the result should be the same.



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## PwC tools and publications on IFRS, company reporting and corporate governance

# PwC tools and publications on company reporting and corporate governance

## Manual of accounting – IFRS 2022

Global IFRS Guide with comprehensive practical guidance on the application of IFRS. It contains hundreds of practical examples and guidelines for all areas. The manual is a two-volume publication. The publication is also available as an electronic e-Book.

The manual can be ordered via the website:

[Manual of accounting IFRS 2022](#)

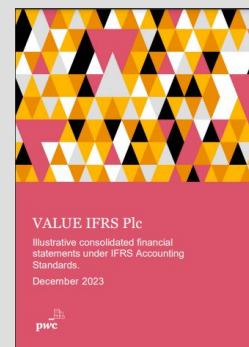
The publication is available in English.

## Sample consolidated financial statements in accordance with the IFRS

Sample consolidated financial statements for 2022 for entities preparing their financial statements in accordance with the IFRS. They contain exemplary information and disclosures resulting from the requirements of the standards.

The publication is available on the website [www.pwc.rs](http://www.pwc.rs).

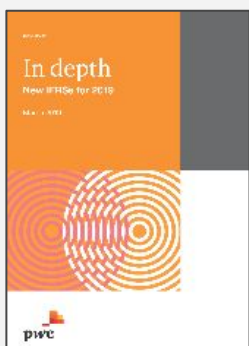
The publication is available in English.



## „In depth”

A periodically published newsletter, various analyses and practical examples of the application of key IFRS guidelines.

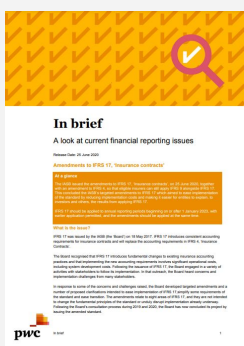
The publication is available on the online platform [Viewpoint](#).



## „In brief”

A regularly published newsletter focusing on the impact of both the IASB standards and new business standards.

The publication is available in English on the online platform [Viewpoint](#).



## Viewpoint – Accounting and auditing

Viewpoint is a global online tool for financial professionals.

Viewpoint provides access to the latest news, PwC guidelines, complete research materials and the full text of IFRS, ISSB and ESRS standards.

The search function and intuitive layout allow users to easily access everything they need relating to financial and non-financial reporting.

Access to Viewpoint can be ordered on the website [viewpoint.pwc.com](http://viewpoint.pwc.com). There is also an option to use a trial version of the tool.

Content: PwC accounting manuals in accordance with the IFRS; Texts of IFRS and IAS standards as well as of SIC and IFRIC interpretations; thematic pages; Sample financial statements; Examples from real reports; Corporate governance guidelines.

The platform also includes a new section dedicated to ESG-related issues, inclusive of new standards for non-financial reporting and numerous thematic bulletins and studies.

This tool can be used on iPads and mobile phones; It provides users with many ways to find their search; and the possibility to create your own virtual documents. It includes a PDF creator, a "library" with links to key content, a news page and email notifications.

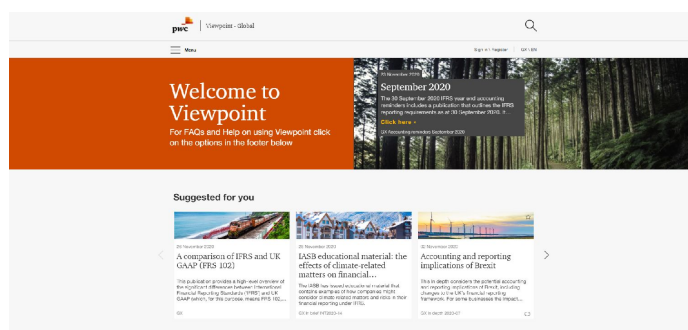
## Application of IFRS in periods of rising inflation and interest rates

[In depth](#): Navigating IFRS Accounting Standards in periods of rising inflation and interest rates

[Year end reminders](#): Impacts of high inflation and interest rates

Both publications contain a description of the issues that we believe should be considered regarding the impact of inflation on the company's financial situation and financial statements.

The publications are available in English on the online platform [Viewpoint](#).



# PwC tools and publications on company reporting and corporate governance

## Global PwC sustainability reporting newsletter - monthly

Global newsletter containing the most important information on changes in standards and new climate-related legislation.

We invite you to read the newsletter in English via the link:

[Global PwC sustainability reporting newsletter](#)

## Examples of non-financial disclosures

The publication presents sample disclosures under Article 8 of the Taxonomy Regulation in the consolidated non-financial information statements. The publication was created for the automotive and pharmaceutical industries.

The publication is available in English on the website

[Viewpoint](#)



## Visit the site

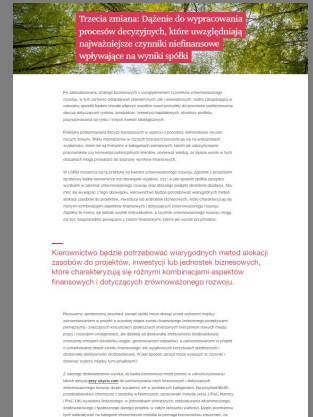
[www.pwc.com/corporatereporting](http://www.pwc.com/corporatereporting), to view and download our publications and listen to our podcasts.

Information about the full range of our services can be found on the website [www.pwc.rs](http://www.pwc.rs).

## New website with a cross-sectional article about the Corporate Sustainability Reporting Directive (CSRD) and the benefits of preparing your business for CSRD.

Contains a compendium of knowledge regarding the CSRD.

CSRD Directive



## Navigating sustainability reporting: Practical application and analysis

The latest publication that systematically and thoroughly discusses the three main pillars of sustainability reporting.

The publication is available in English on the website [Viewpoint](#)

[Global PwC sustainability reporting newsletter](#)



## European PwC sustainability reporting newsletter - monthly



European newsletter containing the most important information on changes in standards and new climate-related legislations.

We invite you to read the newsletter in English at the following link:

[EU sustainability newsletters](#)

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