Navigating IFRS Accounting Standards in periods of rising inflation and interest rates

GX in depth INT2022-12

Publication date: 28 November 2022

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Key points

This In depth considers the accounting implications of rising inflation and interest rates.

Section 1- The impacts of rising inflation and interest rates to consider across all IFRS Accounting Standards

Section 2- Key IFRS requirements that could be impacted by rising inflation and interest rates:

Presentation of financial statements (IAS 1)	Inventories (IAS 2)	Events after the reporting period (IAS 10)	Income taxes (IAS 12)
Property, plant, equipment and intangible assets (IAS 16 and IAS 38)	Employee benefits (IAS 19)	Government grants (IAS 20)	The effects of changes in foreign exchange rates (IAS 21)
Borrowing costs (IAS 23)	Related party disclosures (IAS 24)	Investments in associates and joint ventures (IAS 28)	Financial reporting in hyperinflationary economies (IAS 29)
Interim financial reporting (IAS 34)	Impairment of assets (IAS 36)	Provisions and contingent assets and liabilities (IAS 37)	Investment property (IAS 40)
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Assets held for sale (IFRS 5)	Operating segments (IFRS 8)	Financial instruments (IFRS 9, IFRS 7 and IAS 39)	Consolidated financial statements (IFRS 10 and IFRS 12)
Fair value measurement (IFRS 13)	Revenue from contracts with customers (IFRS 15)	Leases (IFRS 16)	Disclosures outside the financial statements

What's inside:

Section 1 - The impacts of rising inflation and interest rates to consider across all IFRS Accounting Standards

Rising inflation and interest rates, as well as other market changes that can accompany rising rates, may introduce new challenges when preparing financial statements and increase the relevance of some disclosures.

In light of rising inflation and interest rates, an entity may need to:

Reassess materiality judgements as previously immaterial items may become material	Make significant judgements and estimates about future cash flows considering a wide range of outcomes	More frequently reassess the facts and circumstances considered in its accounting assessments	Rely less on (or adjust) historic trend Information in making predictions about the future	Provide additional disclosures about the Impact that rising inflation and interest rates are having - and are expected to have - on the entity's business

Challenges that an entity faces as a result of rising inflation and interest rates can have a wide-reaching effect on the financial statements and need to be considered when applying many of the IFRS requirements. Some effects will seem relatively obvious (for example, increases in discount rates used to reflect the time value of money and adjustments to cash flows to account for the effect of general inflation). However, there are also many indirect effects that will impact the financial statements, for example:

- predictions for specific price increases, for example rises in energy costs or the impact of volatile foreign exchange rates, and any limits on the extent to which an entity can pass those price increases on to its customers;
- changes in customer behaviour, for example switching to lower-priced goods or reducing consumption; and
- likelihood of financial difficulty of an entity, its customers, suppliers or other counterparties.

This In depth walks through key areas of the IFRS requirements that could be most impacted by rising inflation and interest rates. It is a guide to a number of pervasive accounting implications, rather than being a complete list of considerations.

Section 2 - Key IFRS requirements that could be impacted by rising inflation and interest rates

Presentation of financial statements (IAS 1)

IAS 1 sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content.

<table>
<tr><td>Disclosing material information</td><td>An entity is required to disclose information explaining:
all material accounting policy and other information (that is, information that, if omitted, misstated or obscured, could reasonably be expected to influence decisions of primary users of general purpose financial statements);
judgements that an entity has made in the process of applying its accounting policies and that have the most significant effect on the financial statements; and
assumptions the entity makes about the future, and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Generally, many of the disclosures needed for an entity to comply with these requirements will be disclosures that are also required by another IFRS Standard. However, in light of rising inflation, an entity needs to assess whether any additional disclosures beyond those required by other IFRS Standards are needed to comply with IAS 1. It is a matter of judgement which additional disclosure of material other information is necessary in the absence of a specific disclosure requirement in IAS 1. Possible examples may include, but are not limited to:
Disclosure of the expected replacement costs of key operational assets where their replacement cost is significantly higher than their previous purchase cost. This will give a user of the financial statements an insight into the anticipated impact on future cash flows and profits/losses as a result of higher purchase costs and depreciation/amortisation respectively. This may also be of particular relevance to users if the replacement cost exceeds the amount previously budgeted by management and affects the entity's ability to pursue other planned investments.
Disclosure to provide users with an insight into the future cash flow position of the borrowing entity such as:
(1) debt covenants triggers;
(2) the proximity of the issuer breaching debt covenant triggers; and
(3) the board's view of debt levels and how any potential breach of debt covenant triggers can be addressed.
Entities should also consider the specific disclosures required by IAS 1, some of which may now become material in an economic environment of rising inflation and interest rates. For example, the requirement to disclose any unrecognised contractual commitments which may be of particular relevance to the users if these commitments expose an entity to future inflationary increases.</td></tr>
<tr><td>Line item disaggregation</td><td>An entity may need to consider whether information that was previously aggregated within a line item needs to be disaggregated as they may have become material. For example, if finance income and finance expense have previously been aggregated as 'net finance income', but as a result of interest rate increases each become individually material, they will need to be disaggregated into two line items.

Additional line items, subtotals or headings are permitted, provided that they give more understandable information and do not obscure other material information. Entities should exercise care, when presenting any alternative performance measures in their published</td></tr>
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	documents, to ensure that they are distinguished from the measures that are defined or specified in IFRS. For example, it would be inappropriate to give more prominence to new line items and subtotals to attempt to isolate the impact of rising inflation and interest rates over and above those required by IAS 1 paragraph 55A. Even where such new line items and subtotals do not obscure those required by IAS 1, entities should take care before including any new line items or subtotal because rising inflation is multifaceted and attempting to isolate its impacts might be highly judgemental. Refer to the Disclosures outside the financial statements section for additional considerations of regulatory requirements.
Current/non-current distinction	If an entity's financial position has deteriorated as a result of rising inflation and interest rates, it may no longer be able to meet covenants and service its debt. A breach of covenants typically requires a reclassification of a debt liability from non-current to current in the absence of a formal waiver as at reporting date. Also refer to the section on disclosure above for related considerations.
Going concern assessment	Each period that an entity prepares financial statements, management is required to assess the entity's ability to continue as a going concern. Rising inflation and interest rates may directly impact the going concern assessment, for example when they have a significant negative impact on: • customer behaviour and sales volumes; • operating margins because increased costs such as energy prices cannot be passed onto customers; • the replacement cost of key operational assets; and • funding alternatives. Events after the reporting date that indicate that an entity is no longer a going concern are always adjusting events in accordance with IAS 10.

For further information (for Viewpoint subscribers)

FAQs	FAQ 4.27.1 – How should the requirements in IAS 1 regarding the going concern assumption be applied? FAQ 10.1.1 - What timeframe should management consider when assessing going concern? [Accounting implications of the Russian invasion of Ukraine In depth]

Inventories (IAS 2)

IAS 2 sets out the accounting treatment for inventories, in particular the amount of cost recognised as an asset and carried forward until it is subsequently recognised as an expense as the related revenues are recognised. It also provides guidance on the determination of cost, including cost formulas to assign costs to inventories and any write-down to net realisable value.

Net realisable value	Inventories are measured at the lower of cost and net realisable value (NRV). NRV is the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. The carrying amount of inventory might no longer be recoverable if the estimated cost of completion or the estimated cost to be incurred to make the sale has significantly increased as a result of rising inflation, resulting in a write-down to the NRV. Judgement may need to be used to determine the extent to which the costs of rising inflation can be passed onto customers when estimating NRV. The judgement might be particularly challenging in the absence of historical evidence about the entity's ability to pass on inflationary increases.

For further information (for Viewpoint subscribers)

FAQs	FAQ 25.34.1 - What costs should an entity include as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories? FAQ 25.36.1 – What factors should be taken into account when calculating a write-down to reduce inventory from cost to net realisable value? FAQ 25.40.1 – How should the net realisable value of material inventories to be incorporated into finished goods be determined? FAQ 25.40.2 – How should the net realisable value of inventories held to satisfy a service contract be determined?

Events after the reporting period (IAS 10)

IAS 10 sets out when an entity is required to adjust its financial statements for events after the reporting date and the required disclosures.

Events after the reporting date	Rising inflation and interest rates introduce greater uncertainty when making various accounting estimates in the preparation of the financial statements. Accordingly, the requirement to assess the impact of events after the reporting date, for example the impact of increases in inflation and interest rates, will require a particularly thorough assessment. Refer to Income taxes (IAS 12) regarding changes in tax rates after the reporting date.
Disclosure of abnormally large changes in asset prices or foreign exchange rates	An entity is required to disclose abnormally large changes in asset prices or foreign exchange rates that occur after the reporting period. This may be of particular relevance in periods of rising inflation and interest rates. For example: • large increases in asset prices may occur if the replacement cost of an asset has increased significantly as a result of rising inflation; • large decreases in fixed-rate financial assets may occur if there is a significant increase in interest rates; or • foreign exchange rates may vary significantly as a result of rising inflation and increasing interest rates, which in turn might have a material impact on the performance and position of foreign operations.

For further information (for Viewpoint subscribers)

FAQs	FAQ 9.5.5 – How should events after the reporting date affecting impairment calculations related to non-financial assets with a measurement basis other than fair value be accounted for? FAQ 9.5.6 – How should events after the reporting period affecting remeasurement/impairment calculations related to assets with a measurement basis of fair value be accounted for?

Income taxes (IAS 12)

IAS 12 sets out the accounting treatment for income taxes. This includes how to account for the current and future tax consequences of the recovery of assets and settlement of liabilities.

Deferred tax assets no longer recoverable	Entities may need to reassess forecast profits and the recoverability of deferred tax assets taking into account the additional uncertainty and potential decreases in forecasted future profits resulting from rising inflation and interest rates. For example, forecast profits may be lower if an entity is unable to pass inflationary increases to customers, or volumes of sales decrease as a result of a change in customer behaviour. An entity is required to disclose the amount and expiry date of any deductible temporary differences and unused tax losses or tax credits for which no deferred tax asset is recognised.
Deferred tax assets that become recoverable	If an entity is able to pass on inflationary increases to its customers (for example selling prices have increased in certain industries such as utilities), the entity might be able to recover previously unrecognised deferred tax assets and also might need to recognise more deferred tax assets than before.
Deferred tax liabilities	Higher inflation may affect an entity's plans to distribute profits from subsidiaries and, therefore, whether the entity needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.
Changes in tax rates after the reporting date	Governments may introduce changes to tax rates as part of their fiscal policy in response to rising inflation. Where new tax rates are announced or enacted before the financial statements are issued, entities will be required to disclose the significant effect of the change on current and deferred tax assets and liabilities. The term 'announcement' is not defined by IFRS, therefore reporting entities will need to apply judgement to determine whether changes in tax rates or laws have been announced in their territory. Factors that might be considered in making this judgement could include: • the specificity of the proposed tax changes; • previous history in changes to proposed tax legislation post-announcement; and • the legislative process in a particular territory.
Uncertain tax positions	When the pricing of goods or services becomes more volatile due to rising inflation, an entity may need to revisit transfer pricing agreements between entities within a consolidated group on a more frequent basis to avoid tax positions becoming uncertain. Entities should consider the impacts of inflation on the viability of tax planning strategies and tax filing positions.

For further information (for Viewpoint subscribers)

FAQs	FAQ 14.37.1 – What are the considerations in assessing recoverability of deferred tax assets? EX 14.40.1 – Determining future taxable profits

Property, plant, equipment and intangible assets (IAS 16 and IAS 38)

IAS 16 sets out the requirements for recognising and measuring amounts related to property, plant and equipment. IAS 38 sets out the requirements for recognising and measuring intangible assets.

This section includes considerations that are applicable to both property, plant and equipment, and intangible assets. An entity applies either a cost model or a revaluation model for these assets subsequent to initial recognition.

Revaluation model	Rising inflation may result in a fair value that is significantly different from the carrying value, in which case a revaluation might be required even if it is outside the usual revaluation cycle. This may have additional consequences for the entity, for example an increase in the costs of preparing the financial statements if an external valuator is required, and additional time from both an internal process and audit perspective.
Useful lives and residual value	Residual values are required to be reviewed at least at each year end. Reviews of residual value take account, for example, of price changes and inflation since the last balance sheet date. If expectations differ from previous estimates, the changes are accounted for in the same way as

	changes in useful lives; that is, prospectively as a change in accounting estimate in accordance with IAS 8. A consequence of rising inflation might be a material increase in residual value, in which case depreciation charges will decrease. In some cases, depreciation might cease altogether as a result of increasing residual values. Entities may decide to retire assets earlier than expected. For example, assets that have a higher cost structure to operate as a result of rising inflation. Similar to residual values, useful lives should be reviewed at least annually.
Disclosures	Entities are required to disclose the amount of contractual commitments for the acquisition of property, plant and equipment, and intangible assets. This amount could have increased relevance in a high inflationary environment under which an entity may be incentivised to lock in acquisition prices to avoid further inflationary increases.

For further information (for Viewpoint subscribers)

FAQs	EX 22.101.1 – Revising the residual value of an asset EX 21.119.1 – Factors to consider in determining residual value

Employee benefits (IAS 19)

IAS 19 sets out the accounting and disclosure requirements for employee benefits.

Defined benefit plans	There are a number of financial estimates in the measurement of a defined benefit obligation, for example future increases in salaries and medical costs. When these estimates are affected by rising inflation, the impact on the measurement of the defined benefit obligation should be considered. For example, if management estimates future increases in salaries based on historical average figures, management needs to consider whether this assumption should be adjusted to reflect the expected future salary increases in a relatively higher inflationary environment, as well as how long the higher inflationary environment should be assumed to continue. Some plans also explicitly link ongoing payments for retirees to inflation and such indexation can have an impact on the actuarial obligation for inactive members. Furthermore, discount rates will likely be affected by higher interest rates (in a high-inflation environment you would expect higher yields on bonds). This would impact the measurement of the net defined benefit obligations (assets) including the present value of the defined benefit obligation (due to changes in yield on high-quality bonds), the fair value of plan assets, the asset ceiling on plan surplus and the resulting impact on net interest on the net defined liability (asset) recognised in the income statement and remeasurement of a gain or loss in other comprehensive income. Although the impact of the increase in the discount rate would lead to a decrease of the defined benefit obligation, this may be fully or partially offset by the increase following the changes in estimates (increase in salaries and other benefits). IAS 19 requires disclosure of the regulatory framework in which the plans operate, including their minimum funding requirements. It might be appropriate to disclose the future implications of any additional funding that might be needed as a result of the change in inflation. Similar considerations are applicable to measurement of other long-term benefits such as disability or death-in-service benefits.
Constructive obligations	Constructive obligations related to employee benefits are in the scope of IAS 19. One example of a constructive obligation is when an entity has a history of increasing benefits for former employees in line with inflation when there is no legal obligation to do so. If an entity starts increasing salaries in response to rising inflation, this could create a constructive obligation.
Loans to employees	Employers may offer loans to employees at a favourable interest rate relative to increasing interest rates. Below-market interest rate loans offered to employees will likely need to be fair valued initially in accordance with IFRS 9 and the resulting employee compensation element will need to be separated from the loan and accounted for in terms of IAS 19.

For further information (for Viewpoint subscribers)

FAQs	EX 12.47.1 – Estimates of future cost-of-living increases to be reflected in measurement FAQ 12.28.2 – Established practice of granting annual increases to pensions

Government grants (IAS 20)

IAS 20 sets out the accounting and disclosure for government grants and the disclosure for other government assistance.

Government grants and assistance	Governments use fiscal and monetary policy to influence economic conditions. This may include, for example, the use of tax rebates or specific support for businesses. With rising inflation and interest rates, governments might be more likely to provide support that falls within the scope of IAS 20. For example, specific rebates or targeted incentives to mitigate higher energy prices might meet the definition of a government grant depending on the facts and circumstances. Management should consider whether government assistance meets the definition of a government grant and is therefore accounted for under IAS 20. If it does not meet the definition of a government grant it may be another form of government assistance to which certain disclosure requirements in IAS 20 might still apply.

For further information (for Viewpoint subscribers)

FAQs	FAQ 6.2.1 – Six-step framework to account for the receipt of government grants FAQ 6.2.3 – Determining whether a relief or measure is a government grant within the scope of IAS 20

The effects of changes in foreign exchange rates (IAS 21)

IAS 21 prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

Volatility in exchange rates	*Income statement* For practical reasons, to translate income statement amounts, an entity can use an average rate that approximates the actual rate at the transaction date. However, if changes in inflation and interest rates lead to increased volatility in exchange rates, an average rate may no longer be considered an appropriate approximation of the actual rate and therefore may no longer be usable. *Balance sheet* Closing exchange rates must be spot rates at the balance sheet date, and any post- balance sheet movements in these rates are considered non-adjusting events.
Disclosures	Applying IFRS 7, entities are required to disclose their sensitivity to market risks, which includes foreign exchange rates. The sensitivity analysis shows the effect of changes over the period until the entity next presents these disclosures, which is usually its next annual report. This disclosure is based on reasonably possible changes, which may vary from what was considered reasonably possible in prior periods. In addition, entities are required to disclose the methods and assumptions used in preparing the sensitivity analysis, and changes from the previous period in the methods and assumptions used, and the reasons for such changes.

For further information (for Viewpoint subscribers)

FAQs	FAQ 49.44.2 – When would it be inappropriate to use an average exchange rate to translate a foreign subsidiary?

Borrowing costs (IAS 23)

IAS 23 sets out the accounting for borrowing cost and when it is appropriate to capitalise it.

Borrowing cost becoming material	Borrowing costs and the amount of borrowing costs capitalised will likely increase with rising interest rates. Therefore, amounts previously considered immaterial and written off as incurred might now require capitalisation. In addition, lenders might renegotiate the terms of existing borrowings to reflect the rise in inflation and interest rates. If this is the case, this might also result in borrowing costs requiring capitalisation becoming material.
Calculating the general borrowing cost	General borrowing costs eligible for capitalisation are determined with reference to the weighted average borrowing cost of the entity's non-specific borrowings outstanding during the period. If increasing volatility in the cost of borrowing requires more active management of interest rate exposure by an entity, determining the weighted average borrowing cost calculation may become more complex.

For further information (for Viewpoint subscribers)

FAQs	EX 22.53.3 – Calculation of borrowing costs when there are specific and general borrowings

Related party disclosures (IAS 24)

IAS 24 sets out the disclosure necessary to draw attention to the possibility that an entity's financial position and profit and loss may have been affected by the existence of related parties and by transactions, outstanding balances and commitments with such parties.

Off-market transactions and commitments	IAS 24 requires disclosure of balances, transactions and commitments with related parties. Disclosure should clearly explain any off-market aspect that might have been introduced as a result of rising inflation or rising interest rates. For example, disclosure of future commitments with related parties that result in an exposure to inflation, or conversely, that are intended to provide protection against inflation, will be of particular relevance if this exposure is material. The effect of off-market related party transactions or commitments, including letters of support provided within a group structure, may also need to be considered as part of going concern assessment of the entities involved. Refer to Presentation of financial statements (IAS 1) for more information on this topic.

For further information (for Viewpoint subscribers)

FAQs	EX 6.37.2 – Examples of commitments

Investment in associates and joint ventures (IAS 28)

IAS 28 sets out the accounting for investments in associates and the application of the equity method when accounting for investments in associates and joint ventures.

Lag period accounting	The financial statements of associates and joint ventures should be for a consistent period as the financial statements of the investor. However, if this is impracticable, the financial statements can be prepared to a date not more than three months before or after the investor's reporting date. If the reporting dates differ, there might be significant transactions or events that occur between the date of the associate's or joint venture's year end and that of the investor. If the effect is material, the results of the associate or joint venture should be adjusted for such events. General increases in prices would typically not represent a significant event requiring adjustment. However, an identifiable significant event as a result of rising inflation may, in some instances, require a lag period adjustment.
Uniform accounting policies	The accounting by the associate or joint venture may be impacted by many of the same issues discussed throughout this document. Investors should understand the accounting policies and issues in light of inflation faced by the associate/joint venture.
Impairment considerations	The impairment indicators in IAS 28 differ from those in IAS 36. They place an emphasis on whether the associate or joint venture is in significant financial difficulty or evidence of a significant or prolonged decline in the fair value of such investments and the consequences that may arise from this. For example, probable bankruptcy, breach of contract, the need for unusual concessions by the investor entity or the associate or joint venture's financial difficulty. Impairment indicators may exist for investments in some associates or joint ventures to the extent that rising inflation or rising interest rates are likely to have a negative impact on the recoverable amount of such investments.

For further information (for Viewpoint subscribers)

FAQs	FAQ 31.51.2 – Should an investor make adjustments to its equity-accounted earnings for changes to its investee's earnings during the lag period? FAQ 3.11.1 What is a significant or prolonged decline in fair value below cost

Financial reporting in hyperinflationary economies (IAS 29)

IAS 29 sets out the accounting of an entity/group whose functional currency is that of a hyperinflationary economy.

When to apply IAS 29	IAS 29 applies only once an economy has been classed as hyperinflationary. IAS 29 does not specify an absolute inflation rate for an economy to be considered hyperinflationary, instead it sets out the characteristics of such an economic environment. To provide consistent and comparable information to investors, it is preferable for all entities that report in the currency of a hyperinflationary economy to apply IAS 29 at the same date. Therefore, although entities should monitor their local economies, the judgement to apply IAS 29 cannot be made in isolation. Please refer to our latest communications on hyperinflation in Viewpoint.

For further information (for Viewpoint subscribers)

FAQs	Hyper-inflationary economies: April 2022 update Ethiopia and Sri Lanka are expected to be hyper-inflationary in 2022

Interim financial reporting (IAS 34)

IAS 34 sets out the minimum content and principles for recognition and measurement in an interim financial report.

Use of estimates	IAS 34 states that there might be greater use of estimates in interim financial statements, but it requires the information to be reliable and all relevant information to be disclosed. In a stable context, some entities may have used less complex techniques to perform estimates for interim financial statements, for example, placing reliance on the valuation models used when preparing the previous annual financial information, or using prior year information received from experts to measure pension plans or property plant and equipment at fair value. In this environment of rising inflation and interest rates, careful attention should be given to check whether these approaches continue to be appropriate.
Disclosure	Interim financial information usually updates the information in the annual financial statements. However, IAS 34 requires an entity to include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. For example, an entity needs to disclose any changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost. In the context of rising inflation and rising interest rates, such disclosures may be more relevant than previously for some entities. Additionally, IAS 34 requires disclosure of information about seasonality and cyclicality of interim operations, the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence and the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years. The effects of rising/high inflation may have a relevant impact on these required disclosures. Accounting policies that were not applicable in the annual financial statements may need to be included in the interim period to the extent that there are new transactions that had not previously been contemplated. For example, at its prior year end an entity may not have previously used derivatives to hedge interest rate risk and may begin purchasing derivatives to designate in accounting hedges during an interim period. To the extent that the entity did not have accounting policies related to hedge accounting in its prior year financial statements, the accounting policies for hedge accounting might need to be disclosed in the interim period. Disclosures should be entity-specific and should reflect each entity's circumstances.

For further information (for Viewpoint subscribers)

FAQs	FAQ 35.37.1 – What examples of events that might require disclosure are included in IAS 34?

Impairment of assets (IAS 36)

IAS 36 sets out the requirements an entity applies to ensure that its non-financial assets' carrying amounts are recoverable.

Impairment indicators	Rising inflation has far-reaching implications and may impact not only product pricing and the cost of expenses, but also product volume as customer behaviours change. These factors may alter the cash flows an entity is able to generate, giving rise to impairment indicators. IAS 36 specifically identifies market interest rates or other market rates of return on investments having increased during the period as an impairment indicator, where those increases are likely to affect the applicable discount rate. For goodwill and indefinite-lived intangible assets, a test for impairment might be required outside the annual cycle if their annual impairment test is not performed at the reporting date and an impairment indicator exists at this date.
Value in use calculation – interaction between	Higher inflation in isolation will not necessarily result in an impairment, to the extent that increased sale prices mitigate any increases to input costs, or to the extent that increases in the discount rate are offset by increases to margins due to inflation. However, the economic climate demands a detailed assessment of the broader consequences on the forecast cash flows, rather than a mechanical adjustment for inflation. An impairment might be necessary if these broader

cash flows and discount rate	consequences impact the forecast cash flows, in the absence of offsetting market adjustments to the discount rate; for example, a change in customer behaviour impacting volume of sales or the ability to achieve inflationary price increases. Consistency between the cash flow forecast and discount rate is a fundamental principle in IAS 36. Therefore, they should either both be estimated on nominal terms, or both estimated on real terms. If the value in use calculation is done in nominal terms, it is important that the market expectations of inflation as at the reporting date are fully taken into account within both the cash flow forecast and the discount rate. This may require consideration of the market's inflation expectations in the short, medium and long term when periods of rising or decreasing inflation rates are anticipated. For example, if a nominal market WACC is used as a proxy for the risks inherent to the asset being tested for impairment, this discount rate would incorporate a market view of the returns required to compensate investors for the risks associated with their investments (both equity and debt investors), including the impact of inflation. In this instance, the cash flow forecast to which this nominal discount rate is applied should also reflect the impact of inflation. This example is explored further in the section below on terminal value.
Value in use calculation – terminal value	The cash flows used to extrapolate a terminal value should be representative of a steady state to which a long-term growth rate can be applied. The long-term growth rate used to extrapolate cash flow projections to estimate a terminal value is typically a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. Usually the projected long-term inflation is considered to be the long-term growth rate. There is judgement in assessing what represents a steady state for an entity, especially if forecast inflation estimates are changing. In making this judgement, all market information at the reporting date on inflation forecasts should be taken into account, including the short, medium and long-term market expectations. For example, if there is a market expectation of rising inflation in the short term, with a tapering off in the medium term and no change to the long-term inflation expectation, this should be reflected in the extrapolated cash flow forecast. It may therefore be appropriate for management to extrapolate their budget using different growth assumptions in the medium term and long term when deriving the cash flow forecast. This might be needed if a five-year timeframe does not incorporate all the years that the market anticipates to be impacted by rising or falling inflation before reaching a steady state long-term inflation.
Value in use calculation – increased uncertainty over forecasts	If an entity is significantly affected by the uncertainties arising from rising inflation or interest rates, it may be advisable to use multiple cash-flow scenarios and apply relative probability weightings to derive a weighted average set of cash flows. The alternative would be to use a single cash flow forecast and instead adjust the discount rate to reflect the higher degree of uncertainty, which is often a highly subjective adjustment.
Fair value less costs of disposal	The fair value less costs of disposal model reflects market participant assumptions. Some assets may be negatively impacted by inflation to the extent that the discount rate inherent in their valuation increases faster than inflationary adjustments to cash flows that can be earned from the assets. In other cases, the fair value of assets may increase relative to historical cost because of price increases. To the extent that it is clear that the fair value of assets has increased and exceeds the carrying value of the asset, a value in use calculation will not be required, regardless of whether the asset is being operated sub-optimally. It should be considered whether disclosure may be required under IAS 1 or IAS 10 to ensure the users of the financial statement are presented with all material information. Also refer to Presentation of financial statements (IAS 1) and Events after the reporting period (IAS 10) within this document. Further, many of the considerations in **Fair value measurement (IFRS 13)** are equally relevant here.
Disclosure	Disclosure about the sensitivity of the recoverable amount to key assumptions and the impact on headroom may be of heightened relevance when there is greater uncertainty surrounding forecast cash flow projections. Management should carefully identify the key assumptions to ensure the applicable disclosures are provided.

For further information (for Viewpoint subscribers)

FAQs	FAQ 24.12.6 – Is an economic downturn always an impairment indicator? FAQ 24.66.1 – What factors might influence cash flows? FAQ 16.49.4 – How does inflation affect the discount rate? FAQ 5.79.1 – Additional considerations for discount rates used in Level 3 fair value measurements in periods of significant economic uncertainty FAQ 24.107.2 – How are discount rates impacted in times of uncertainty? FAQ 3.1.3 – How can impairment tests that incorporate cash flow forecasts be more reliably performed in periods of uncertainty? FAQ 5.77.3 – Uncertainties in cash flows and change in valuation technique for Level 3 fair value measurement FAQ 3.2.1 - Which impairment disclosures will be of particular interest to users of financial statements this year?

Provisions and contingent assets and liabilities (IAS 37)

IAS 37 sets out the appropriate recognition criteria and measurement bases, as well as disclosure requirements for provisions, contingent liabilities and contingent assets as applicable.

Measurement	A provision is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, which could be a higher amount than previously expected as a result of rising costs and inflation. There may also be additional uncertainty in estimating this amount. Decommissioning liabilities is an example of a provision for which this may be of specific relevance given that these provisions are generally long term. In addition, IAS 37 requires provisions to be discounted when the effect of discounting is material (see IAS 1 section for description of 'material' in the context of IFRS requirements). Rising interest rates could mean that more provisions need to be discounted as the effect of discounting is more likely to be material. The impact of discounting should also be assessed for provisions where the expected outflow is in less than a year, to determine if this impact might now be material. There should be consistency between the inflation assumption reflected in the estimate and the discount rate used. The expected increases in costs to settle obligations may be offset by the effect of discounting the provisions. However, in many cases, the impact of the two phenomena will not be equal and opposite when the cash outflow in the future is affected by more than just time value of money.
Onerous contracts	Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. With rising inflation affecting the costs to meet obligations, it is possible that contracts have now become onerous, when previously they were not. Also, for provisions already recognised for onerous contracts, management should reassess the estimates taking into account the latest market information on inflation as at the balance sheet date. For example, consider a fixed price revenue contract where the costs to fulfil the contract are impacted by rising inflation. The costs of fulfilling such contracts may now exceed revenue in some instances and the contract would need to be evaluated under the typical approach used for considering whether a contract is onerous including consideration of the appropriate unit of account.
Future operating losses	IAS 37 does not permit provisions for future operating costs or future business recovery costs. Entities may anticipate future operating losses stemming from the impact of inflation. These anticipated future losses cannot be provided for in advance of the transactions having taken place, therefore entities need to be mindful of the difference between an onerous contract and a future operating loss.

For further information (for Viewpoint subscribers)

FAQs	FAQ 16.49.1 – What factors influence the discount rate to be used for measuring the present value of provisions? FAQ 16.49.4 – How does inflation affect the discount rate? FAQ 16.51.1 – How should re-assessment of provision from changes in estimated cash flows and discount rates be accounted for? FAQ 16.74.1 – How should a provision for a long-term purchase contract be assessed? EX 16.85.7 – Applying the recognition criteria to abandonment and decommissioning costs

Investment property (IAS 40)

IAS 40 sets out the accounting treatment and related disclosure for investment property.

Relevance of fair value	An entity has an accounting policy choice to apply either the fair value model or the cost model to measure investment property. Regardless of the entity's choice, it always needs to determine the fair value (either for measurement if the fair value model is used, or for disclosure if the cost model is used). The disclosure of fair value may be of heightened relevance in a high inflationary environment if the outcome of using the cost model becomes materially different to the outcome of using the fair value model.
Fair value model	If the fair value model is elected, many of the considerations in respect of impact of high/rising inflation on fair value under IFRS 13, as detailed in Fair value measurement (IFRS 13), are equally relevant. Fair value of investment properties considers 'in-place' leases as an element of fair value. If lease payments are fixed for a period of time (that is, not reset to market or indexed to inflation), the 'in-place' leases may be off-market and impact the valuation of the investment property. Even if such leases are short term, the impact of increasing inflation may have a more significant impact than experienced in the past, and entities should consider the materiality of such off-market adjustments.
Cost model	If the cost model is applied to investment property, the considerations pertaining to property, plant and equipment measured under the cost model as described in Property, plant, equipment and intangible assets (IAS 16 and IAS 38) also apply.

For further information (for Viewpoint subscribers)

FAQs	FAQ 23.58.2 – Determining fair value of investment property in uncertain environments FAQ 23.49.1 – Disclosure of fair value under the cost model

Agriculture (IAS 41)

IAS 41 sets out the accounting treatment and disclosure related to agricultural activity.

Related considerations	Biological assets (excluding bearer plants related to agricultural activity) and agricultural produce are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when the fair value cannot be measured reliably. The considerations in Fair value measurement (IFRS 13) are relevant for measurement of these assets, when fair value is impacted by rising inflation. If the fair value cannot be measured reliably, these biological assets can be measured at cost. If this is the case, considerations in Impairment of assets (IAS 36) are relevant.

For further information (for Viewpoint subscribers)

FAQs	FAQ 33.17.1 – How is the fair value of bearer produce ascertained?

Share-based payment (IFRS 2)

IFRS 2 sets out the financial reporting by an entity when it undertakes a share-based payment transaction.

Valuation assumptions	Assumptions used to measure the grant date fair value of new share-based awards (for example, risk-free rates, volatility, etc.) made in an economic climate of rising inflation may need to be revised from those assumptions used in the valuation of previous awards. In addition, assumptions used in the ongoing valuation of existing (and new) cash-settled share-based payment liabilities should be reconsidered and may need to be revised.

	For example, for options that can be exercised at any time prior to expiration (American-style options), the estimate of when employees are going to exercise their options might change when estimating the grant date fair value of these types of awards. The change in assumptions may be due to employees potentially needing cash sooner as a result of higher costs of living, or employees may have a different investment approach in terms of cashing out their options as opposed to continuing to hold a non-monetary asset in a higher inflationary environment. Although fair value calculation under IFRS 2 is not the same as in IFRS 13, most of the considerations mentioned in Fair value measurement (IFRS 13) would apply.
Non-market performance conditions	Management should also consider the impact that inflation may have on its estimate of the extent to which non-market performance conditions will be met and therefore on the number of awards that will ultimately vest. For example, it may be easier to achieve a non-market performance condition based on growth in revenue if an entity is able to adjust its sales prices with inflation. The inverse may also apply where revenue growth is adversely affected by a volume decrease resulting from changes in customers behaviour due to rising inflation.
Change in terms	Management should consider the impact of any changes made to the terms of a share-based payment plan in response to rising/high inflation. To the extent that such changes are beneficial to the employee, they would be accounted for as a modification and an additional expense would be recognised. Management should be aware that cancelling a share-based payment award, even if the vesting conditions are unlikely to be satisfied, results in immediate recognition of the remaining expense.

For further information (for Viewpoint subscribers)

FAQs	FAQ 13.41.2 – How should an entity account for revised estimates due to service or non-market conditions?

Business combinations (IFRS 3)

IFRS 3 defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. This includes requirements for recognising and measuring identifiable assets and liabilities, non-controlling interest in the acquiree, and goodwill or gain from a bargain purchase.

Provisional amounts	When provisional amounts have been recognised upon the initial accounting for a business combination, these may be updated retrospectively during the measurement period. The measurement period must not exceed one year from the acquisition date and ends as soon as the acquirer receives the outstanding information. These retrospective adjustments to the provisional amounts should reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date. For example, subsequent inflationary impacts in the post-acquisition period that affect contingent consideration would typically not be adjusted when finalising the provisional amounts.
Fair value	An acquirer must measure the identifiable assets and liabilities at their acquisition-date fair values. The assumptions underlying fair value estimates should incorporate the relevant guidance in IFRS 13.

Insurance contracts (IFRS 4 and IFRS 17)

This section covers:

- IFRS 4 (for annual reporting periods beginning before 1 January 2023). IFRS 4 specifies some aspects of the accounting for insurance contracts by an entity that has not yet applied IFRS 17.
- IFRS 17 (for annual reporting periods beginning on or after 1 January 2023). IFRS 17 specifies how an entity recognises, measures, presents and discloses information about insurance contracts issued and reinsurance contracts held.

IFRS 4

Measurement	IFRS 4 permits entities to continue to use a wide range of practices based on local GAAP, which range from a full current estimate basis through to a historic cost basis. The extent to which an entity reflects assumptions about inflation changes, if at all, therefore varies entity by entity. IFRS 4 requires an entity to perform a liability adequacy test on a current basis that will reflect economic changes including rising inflation. This test covers intangible assets recognised in IFRS 4 on a historic cost basis that may no longer be recoverable.
Disclosures	All entities, regardless of measurement approach, are required to disclose information about the amount, timing and uncertainty of future cash flows arising from insurance contracts, which can all be impacted by rising inflation.

IFRS 17

Assessments at initial recognition of a contract	Expectations about the effect of rising inflation and interest rates will need to be considered as part of the assessments an entity is required to make at initial recognition of a contract, namely: • grouping—including whether contracts are subject to similar risks, and whether a contract has no significant possibility of becoming onerous; • premium allocation approach (PAA)—whether a contract with a coverage period of more than one year is PAA eligible which can be impacted by expected variability in cash flows; and • variable fee approach—whether a contract meets the definition of an insurance contract with direct participation features which can be impacted by, for example, minimum guaranteed returns.
Inflation and expected future cash flows	To the extent that expected cash flows of a group of insurance contracts are sensitive to inflation, the measurement reflects current estimates of possible future inflation rates. Inflation assumptions are reflected in the fulfilment cash flows either by measuring: • nominal cash flows (that is, reflecting inflation) discounted at rates that include the effect of inflation; or • real cash flows (that is, excluding inflation) discounted at rates that exclude the effect of inflation. Rising inflation can have many effects on an entity's cash flow expectations, for example, on: • claims payments that are directly linked to inflation indices, such as annuity payments; • the use of historic measures or assumed levels of claims inflation may no longer be appropriate; • the likelihood of lapses, terminations, renewals and surrenders due to changes in policyholders' financial circumstances; • the effect of financial options and guarantees that exist in many insurance contracts may become more significant; • the likelihood, timing or amount of claims for reasons other than those above (for example, for asset theft or loss cover, increases in the costs to replace the insured asset); and • expected amount of expenses and other costs included in the measurement of insurance contracts including wages, utilities, rent, lease expenses and taxes.
Financial risk or non-financial risk	In practice, inflation assumptions reflected in the expected cash flows will be a mixture of inflation assumptions based on market indices, and the entity's internal assumptions about specific price changes. Applying the general measurement model, an entity's internal assumptions about specific price changes are considered to be non-financial variables. Accordingly, changes in such assumptions adjust the contractual service margin and are subsequently recognised in the insurance service result. In a period of rising inflation, these assumptions may be more judgemental, and inflation can have a more significant impact on the entity's insurance service result as well as its financial result.
Discount rates	Rises in inflation and interest rates generally increase the time value of money resulting in higher discount rates. Particular considerations to note during periods of rising inflation and interest rates are that: • the effect of the IFRS 17 requirements to measure the fulfilment cash flows at current discount rates and measure the contractual service margin at discount rates determined at initial recognition (when applying the general measurement model) may become more prominent; • the judgements in determining discount rates may become more significant due to increases in market volatility, for example the illiquidity premium in a bottom-up approach or the credit default allowance in a top-down approach; and • for contracts measured applying the PAA, more contracts may be considered as having a 'significant financing component' to be reflected in the measurement.

Disclosures	An entity is required to disclose information about each type of risk the entity is exposed to, which will include inflation risk and interest rate risk. An entity also needs to explain any changes in risk exposure compared to the previous period, and provide additional disclosure if the exposure to risk at the end of the period is not representative of the exposure to risk during the period. An entity should also consider whether additional disclosures about inflation and interest rates are needed to meet the overarching disclosure objective in IFRS 17 to enable investors to evaluate the nature, amount, timing and uncertainty of future cash flows from insurance contracts.

Assets held for sale (IFRS 5)

IFRS 5 sets out the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

Classification criteria	In periods of rising inflation and interest rates, the number of potential buyers may be more limited as a greater number of entities experience cash flow pressure and higher finance costs. There may be a resulting increase in uncertainty in management's judgement whether a sale of an asset is expected to be completed within one year from the date of classification and, therefore, whether it can be classified or continue to be classified as held for sale. However, as an exception, IFRS 5 does permit an entity to continue to classify an asset as held for sale in these circumstances if: • the delay is caused by events or circumstances beyond the entity's control; and • there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).
Measurement and impairment	IFRS 5 requires an entity to measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The considerations of the impact of rising/high inflation on fair value as defined in IFRS 13 may therefore also be relevant, refer to Fair value measurement (IFRS 13).

For further information (for Viewpoint subscribers)

FAQs	FAQ 30.15.5 – How long can the sale period be extended? EX 30.15.4 – Externally imposed conditions

Operating segments (IFRS 8)

IFRS 8 sets out the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Reportable segments	IFRS 8 includes quantitative thresholds which are used to identify which of the operating segments qualify as a reportable segment. These thresholds are associated with revenue and profit/loss of each operating segment, which may be affected by rising inflation. The potential financial impact of rising inflation on the results of an operating segment might cause a change in the reportable segments. If a segment is identified as a reportable segment in the current accounting period, because it meets the relevant thresholds, comparatives should be restated to show the newly reportable segment as a separate segment, even if that segment did not meet the 10% threshold in the comparative period. This comparative information should be given, unless the necessary information is not available and the cost to develop it would be excessive. In addition, it may no longer be appropriate to aggregate operating segments that were previously aggregated on the basis of having similar economic characteristics. This might be the case if the operating segments are affected differently by the effects of rising inflation and interest rates.

For further information (for Viewpoint subscribers)

FAQs	EX 8.18.2 – Reportable segments: revenue and results thresholds

Financial instruments (IFRS 9, IFRS 7 and IAS 39)

IFRS 9 specifies how an entity classifies and measures financial assets, financial liabilities and some contracts to buy or sell non-financial items. Some entities may apply IAS 39 for the purposes of hedge accounting. IFRS 7 specifies the disclosure requirements for financial instruments in the scope of IFRS 9.

This section covers:

- Classification (IFRS 9)
- Expected credit losses (IFRS 9)
- Hedge accounting (IFRS 9 and IAS 39)
- Other financial instrument requirements (IFRS 9)
- Disclosures (IFRS 7)

Classification (IFRS 9)

Classification and reclassification of financial assets	*Classification* The classification of financial assets that are debt instruments depends on both: (a) the entity's business model for managing the financial assets; and (b) whether the contractual cash flows of the financial asset are solely payments of principal and interest. Rising inflation and interest rates may impact the initial classification of these financial assets, in particular if the entity's business model for managing financial assets has changed in response to changing economic conditions. *Reclassification* An entity might change its intention for a financial asset as a result of changes in the economic climate. For example, an entity may hold assets that it previously intended to sell. Reclassification is permitted only if an entity changes its business model for managing financial assets. IFRS 9 describes a number of criteria to be met for a change to be considered a change in business model. A change in business model can be described as an event in which an entity either begins or ceases to perform an activity that is significant to its operations – that is, it is a significant and infrequent event that is externally demonstrable. Changes in intention related to particular financial assets are not changes in business model, even if they arise because of significant changes in market conditions. It is unlikely that the reclassification criteria will be met even in a rising inflation and interest rate environment.

For further information (for Viewpoint subscribers)

FAQs	FAQ 42.59.2 – How are the criteria for reclassification of financial assets and the timing of reclassification assessed?

Expected credit losses (IFRS 9)

Simplifications and practical expedients	Entities might have previously used simplifications or other expedients to measure expected credit losses (ECLs). In many cases, these simplifications were developed and tested in benign economic conditions. Market volatility and uncertainty resulting from rising inflation and interest rates may result in these simplifications no longer being appropriate.
Provision matrix	Rising inflation and interest rates can have an impact on the recoverability of short-term trade or lease receivables. Entities that use a provision matrix may need to apply additional stratification to reflect this, for example, for industries that are impacted differently by inflation and interest rates. In addition, historical loss rates may need to be adjusted more significantly for changes in expectations than in the past. Particularly, if historical data used to derive loss rates was gathered in periods of low inflation it may not be representative of current economic conditions.
Stages of impairment	At each reporting date, unless the simplified model is applied, financial assets are classified as 'stage 1', 'stage 2' or 'stage 3 ' based on their credit risk, and the ECL requirements differ for each stage.

	In cases of rising inflation and interest rates, assets that might otherwise be considered stage 1 may change to stage 2 or even stage 3, meaning an entity will need to measure full lifetime expected credit losses instead of 12-month expected credit losses. For floating rate instruments, cash flows for borrowers may be immediately impacted and their earnings may not adjust as quickly as interest rates, leading to a decrease in their ability to pay interest cash flows. The resilience of borrowers to interest rate shocks may vary depending on the resilience of the industry in which the entity operates, and whether (and for how long) the borrower has hedged its exposure to floating rates. Lenders may need to consider new factors in their assessment of whether there has been a significant increase in credit risk that was not considered material in a low interest rate environment. For fixed-rate instruments, the impact may be less direct or immediate. However, refinancing risk for borrowers may have increased. For example, an entity borrowing at a fixed rate with a loan maturing in one year's time may not be expected to meet a lender's minimum interest coverage required for a borrower upon maturity of the loan. Accordingly, the borrower may experience difficulty in their ability to refinance debt and this may increase the probability of default on maturity of the loan if the borrower's plan to repay principal was through refinancing. Such refinancing risk may actually be higher for instruments with shorter terms to maturity because there is less possibility for the earnings of the borrower to adjust to a higher-inflation environment. If the credit risk has increased significantly since initial recognition, a lifetime ECL (stage 2) is recognised which may be significantly higher than a 12-month ECL. Determining what is a significant increase in credit risk is judgemental and is typically made up of three elements: • quantitative element (for example, changes in the relative risk of default since initial recognition); • qualitative element (for example, changes in the borrower's behavioural scoring used to assess credit risk); and • the 30 days past due 'backstop' indicator in paragraph 5.5.11 of IFRS 9. Stage 3 assets that are credit impaired could be evidenced by, for example, known or probable significant financial difficulty of the borrower or, a breach of contract such as a default. More broadly, an asset is credit impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of that asset. This could be evidenced by, for example, indicators that the borrower is or is expected to be in financial difficulty (for example, if the borrower is a retailer of non-essential goods and is incurring specific significant increases in costs).
Changes in ECL calculation	The ECL measurement needs to reflect a range of possible outcomes, considering reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Resiliency to cash flow and refinancing risk discussed above under 'stages of impairment' will impact the measurement of ECL. Forecasting future conditions is always subjective, but it is more challenging in an environment of rising inflation and interest rates. Entities will need to rely less on, or make adjustments to, historical information as an indicator of future conditions. Rising inflation and interest rates can impact the estimate of ECL itself, which may include: • the risk or probability of default; • the amount at risk if the debtor defaults (exposure at default) for example, in difficult conditions, there may be changes in the debtor's payments patterns including reductions in discretionary over-payments so that outstanding balances remain higher; • the expected life of the asset based on the likelihood of exercising prepayment or extension options; and • the estimated loss as a result of default (loss given default), for example, if there is a decrease in the fair value of a non-financial asset pledged as collateral. The value of collateral may need to be assessed more frequently if it is sensitive to the inflation/interest rate environment. An entity may measure expected credit losses on a collective basis. In periods of rising inflation and interest rates, an entity needs to consider whether the groupings or level at which it calculates ECL is appropriate, or whether it might need to subdivide groups of financial instruments further to reflect increasingly differing credit risks.

Post-model adjustments	Since transition to IFRS 9 and in earlier data used to build IFRS 9 models, many entities have not experienced rapidly rising inflation and interest rates. Accordingly, an entity's usual ECL model may not be designed to adequately capture these economic events, or to capture significant changes compared to past periods. In such cases, an entity might need to use 'post-model adjustments' to measure ECL in accordance with IFRS 9. An example of a post-model adjustment could be an adjustment to ECL based on borrower vulnerability analysis, considering factors such as employment and affordability of repayments following increasing interest rates, and the estimate of the incremental impact not already reflected in the modelled ECL.
Events after the reporting period	Information about economic conditions that exist at the reporting date, for example inflation rates and interest rates, may become available only after an entity's reporting date. In a more volatile economic environment, there is also a greater likelihood that such information shows more significant changes. Applying IAS 10 to IFRS 9 ECL can be challenging, as it can be difficult to distinguish whether, and to what extent, information and events after the reporting date reflect information available and circumstances that existed at the reporting date.

For further information (for Viewpoint subscribers)

FAQs	FAQ 45.13.1 – Use of an impairment provision matrix EX 45.13.2 – Example of a provision matrix for corporates FAQ 45.31.2 – Factors to take into account in determining a significant increase in credit risk FAQ 45.49.8 – Possible revisions to ECL estimates required in a downturn Banking - Post-model adjustments for expected credit losses during COVID-19 FAQ 3.2.7 - To what extent should additional COVID-19 related information after the reporting date be included in the ECL estimate?

Hedge accounting (IFRS 9 and IAS 39)

Hedging interest rate risk	In periods of rising interest rates, an entity may enter into new hedge relationships to hedge the risks that arise from rising interest rates, for example the risks of: • variability in interest cash flows on variable-rate instruments; or • declining fair value of fixed-rate instruments. Such hedge relationships need to meet specific criteria to qualify for hedge accounting, and the criteria are different depending on whether the entity applies IFRS 9 or IAS 39 hedge accounting. An entity may also decide to apply hedge accounting using pre-existing derivatives that are already in place. When a pre-existing derivative is designated as a hedging instrument, it will usually have a non-zero fair value because of its 'off-market terms'. In a high-interest-rate environment, the fair value of a pre-existing interest derivative may be more significant than previously observed fair values and this may impact whether the hedge relationship qualifies to be designated or may be a source of ineffectiveness in the hedge relationship.
Hedging commodity risk	In periods of rising inflation and interest rates, it is likely commodity and energy prices will also increase. Entities may choose to start to hedge their exposure to rising commodity prices using commodity derivatives and there can be a number of complexities with such hedges particularly due to mismatches between the derivative and the underlying hedged item (for example, mismatches in quality, location, timing etc.). Such mismatches can impact the ability of an entity to demonstrate sufficient effectiveness to designate the hedge relationship or could result in additional ineffectiveness being recognised. Unlike IAS 39, IFRS 9 also provides the ability to hedge a specified component of a non-financial item, such as a commodity price component, so long as the component is separately identifiable, and the changes in fair value or cash flows of the item attributable to the risk component are reliably measurable.
Hedging inflation risk	More entities may be looking to economically hedge inflation risk in periods of rising inflation.

	IAS 39 prohibits the designation of inflation as a non-contractually specified risk component. IFRS 9 introduced a rebuttable presumption that, unless inflation risk is contractually specified, inflation risk is not separately identifiable and reliably measurable, and hence cannot be designated as a risk component of a financial instrument.
Time value of money and ineffectiveness	In accordance with IFRS 9, an entity is required to consider the time value of money when measuring hedge ineffectiveness. Rising inflation and interest rates will increase the time value of money which, for hedge relationships with mismatches in timing of cash flows, could result in a more significant amount of ineffectiveness being recognised in profit or loss and in more extreme circumstances may disqualify the hedging relationship from designation.
Forecast transactions and recoverability of hedging reserves	Entities may have hedged highly probable forecast transactions in cash flow hedging relationships, such as inventory purchases, sales, issuances of debt etc. The IFRS Glossary defines probable as 'more likely than not'. Therefore, in the context of forecast transactions, the term 'highly probable' indicates a much greater likelihood of happening than 'more likely than not'. In a difficult economic climate, certain forecast transactions may no longer be highly probable to occur. If hedged cash flows are no longer highly probable to occur, hedge accounting must be discontinued. If the cash flows are, however, still expected to occur, any cumulative gain or loss on the hedging instrument, previously recognised in other comprehensive income, remains recognised in equity and is reclassified to profit or loss when the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, any cumulative gain or loss on the hedging instrument, previously recognised in other comprehensive income, must be reclassified to profit or loss immediately. Additionally, entities are required to assess the recoverability of their hedging reserves. IFRS does not provide specific guidance on how the recoverability test should be applied, and entities should follow their existing accounting policies for the assessment of recoverability of these amounts. In addition, where debit balances in accumulated other comprehensive income relating to cash flow hedges are significant, an entity should consider whether disclosure about the accounting policy – and about significant judgement in the application of that policy – is required.

For further information (for Viewpoint subscribers)

FAQs	FAQ 46.105.1 – What is the effect of hedging with pre-existing derivatives? FAQ 46.5.3 – Is it permissible to designate a fair value hedging relationship with an inflation linked basis swap? FAQ 46.55.1 – In a hedge of the spot foreign currency rate, how is the time value of money included when measuring ineffectiveness? EX 46.55.2 – Implications of requirement to consider time value of money when measuring ineffectiveness FAQ 46.71.4 – What should be considered when hedging components in a long-term commodity supply contract?

Other financial instrument requirements (IFRS 9)

Below-market rates	Increases in interest rates could lead to more related party or intercompany transactions being made at below-market rates. In these instances, entities should consider how to treat any day one difference between the consideration and the fair value on initial recognition. Some fixed-rate instruments (for example, loans and loan commitments) may become off market as a result of the increase in interest rates. The below-market rates compared to current rates will impact the fair value of such instruments and for those that are not measured at fair value through profit or loss, the amount of expected credit losses may also be impacted as discussed in the 'expected credit losses' section. In addition, for those instruments not carried at fair value, the fair value disclosures in the notes may be significantly impacted.
Amortised cost and effective interest rate	Rising inflation and increases in interest rates may require entities to revisit how they determine the effective interest rate for financial instruments measured at amortised cost. For example, when estimating expected pre-payments on a portfolio of mortgage loans to reflect in the effective

	interest rate, an entity that would ordinarily rely on historic data for its estimation may no longer be able to do so or may need to adjust the historical data to incorporate changes in expectations. For existing financial assets, entities may also need to revise their assessments of the timing of the estimated cash flows. For example, considering changes in expectations of prepayment or extension options. Similar considerations would apply to the amortised cost of financial liabilities where the prepayment or extension options have not been bifurcated as separate embedded derivatives.
Inflation escalator clauses and interest rate caps and floors	In periods of rising inflation and interest rates, an increasing number of contracts may include inflation escalator clauses or interest rate caps and floors. For a host contract that is a financial liability or a non-financial item, an entity needs to assess whether such a feature is an embedded derivative that needs to be separated from the host contract and measured at fair value through profit and loss. An entity makes this assessment when it first becomes a party to the contract, and revises the assessment only if there is a significant change in contractual terms. A change in market conditions does not give rise to reassessment. Entities may enter into new contracts that are linked to inflation given the increase in inflation rates. In some cases, inflation clauses may be considered closely related (for example, for a lease, contract inflation adjustments are closely related if the embedded derivative is an inflation-related index provided the adjustment is not leveraged and relates to inflation in the entity's own economic environment). However, an entity should carefully analyse all relevant contracts with such features (for example, financial liabilities, purchase/sale contracts and leases). Applying IFRS 9, the accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether the embedded derivative should be separated. The classification approach (referred to above) in IFRS 9 applies to all financial assets, including those with embedded derivatives. That is, an entity should apply the business model assessment and SPPI criterion to the entire contract, including any embedded derivatives, in order to determine its measurement category.
Renegotiating debt obligations	Rising inflation and interest rates might lead to a borrower or a lender looking to renegotiate the terms of a debt contract. The accounting treatment of a renegotiation will depend on whether the change is considered to be a derecognition event for the original contract or not.
'Own-use' exception	Applying IFRS 9, contracts to buy or sell a non-financial item that can be settled net in cash are within the scope of IFRS 9 (with the result that they are typically accounted for as derivatives), unless the contracts were entered into and continue to be held for the purpose of receipt or delivery of non-financial items to meet the entity's expected purchase, sale or usage requirements. In an environment of rising inflation and costs, often accompanied by supply chain disruptions or changes in sale/purchase forecasts, some of these contracts may no longer meet these 'own use' requirements, for example, when certain commodity contracts will be settled net in cash rather than by physical delivery. Such contracts must be reclassified and accounted for in the scope of IFRS 9. Conversely, if an entity determined at inception of a contract to buy or sell a non-financial item that can be settled net in cash that the contract did not meet the 'own-use' requirements, subsequently, the entity would not be able to reclassify the contract. The contract would remain in the scope of IFRS 9 for its remaining life.

For further information (for Viewpoint subscribers)

FAQs	FAQ 42.34.2 – Do 'off-market' assets automatically fail the SPPI test? EX 41.29.2 – Correlation as alternative to inflation guidance FAQ 44.109.1 – Why do entities exchange or modify debt instruments?

Disclosures (IFRS 7)

Disclosures	In a period of rising inflation and interest rates, an entity may need to provide additional disclosures or update existing disclosures. For example, sensitivity disclosures would need to be updated if the magnitude of a reasonably possible change in interest rates is different from previous periods. Where there are changes in expected volatility, prior year disclosures should not be restated. An entity could choose, however, to present additional sensitivity information for the comparative period in addition to the required comparative figures from the prior year. In a difficult economic climate, it is likely that entities will encounter increasing margin calls on derivatives requiring the posting of collateral, which can pose a significant liquidity risk. If collateral calls pose a significant liquidity risk, entities need to provide quantitative disclosures of their collateral arrangements to explain how this liquidity risk is managed. The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities should also be disclosed together with the terms and conditions relating to its pledge. IFRS 7 does not limit disclosure of risks to only credit risk, liquidity risk and market risk. Hence, an entity may need to provide specific disclosures relating to inflation risk, if this information is not already captured in other market-risk disclosures. For example, if an entity has an inflation-linked financial instrument, the sensitivity of such an instrument to changes in inflation rates should be disclosed. Changes in the economic climate can lead to the fair value of a financial instrument differing significantly from the amortised cost carrying amount. In such instances, financial instruments that previously qualified for the exemption from disclosing fair value information may no longer qualify for that exemption.

For further information (for Viewpoint subscribers)

FAQs	FAQ 47.111.2 – Should prior year disclosures be restated if the magnitude of reasonably possible change is different? FAQ 47.110.1 – Why should disclosure be considered for instruments that could require the posting of collateral?

Consolidated financial statements (IFRS 10 and IFRS 12)

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 12 sets out the disclosure requirements of interests held in other entities.

IFRS 10 – control assessment	An investor must, on a continuous basis, reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Either the investor or investee may be significantly impacted by rising/high inflation, the rise in interest rates or the effect of high energy prices. IFRS 10 notes that an investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (for example, a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control or changes the overall relationship between a principal and an agent.
IFRS 12 – disclosure of financial support	IFRS 12 requires disclosure when a parent provides financial support to a subsidiary, associate, joint arrangement or unconsolidated structured entity, including intentions to assist a subsidiary, associate, joint arrangement or unconsolidated structured entity in obtaining financial support. This disclosure becomes increasingly relevant where either the parent or group entity is greatly affected by rising/high inflation, high-interest rates or other associated economic factors such as high cost of energy. The potential impact of the financial support may create additional uncertainty about the parent's going concern ability, as well as that of the group entities, depending on the extent of reliance on the financial support provided.

For further information (for Viewpoint subscribers)

FAQs	FAQ 26.151.1 – When should the restructuring of a loan result in consolidation by the lender?

Fair value measurement (IFRS 13)

IFRS 13 defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements.

General principles	The fair value of an asset or liability at the reporting date is determined in accordance with the applicable IFRS Standard. When fair value is based on an observable market price, an entity is required to use the quoted price at the reporting date. The fair value of an asset reflects a hypothetical exit transaction at the reporting date. There may be increased market volatility during periods of rising inflation. Changes in market prices after the reporting date are not reflected in the asset valuation. Valuation best practices support the use of multiple valuation techniques when estimating the fair values. Changing methodologies (for example, from a market multiple approach to a discounted cash flow approach) or changing the weighting when multiple valuation techniques are used, would be appropriate if the change results in a measurement that is equally or more representative of the fair value. This change would be considered a change in accounting estimate. Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation.
Non-financial assets and liabilities	When assessing the impact of inflation on expectations, entities need to consider all implications of inflation. For example, while inflation may lead to an increase in costs, this may not necessarily lead to an equivalent increase in margin as some costs will not be accepted by customers. In addition, an increase in the price of goods and services may lead to a decrease in the volumes of those goods or services sold. The discount rate used in a discounted cash flow technique includes a number of market inputs, including a risk-free rate and a cost of debt. Many central banks have increased lending rates and this could result, for some entities, in a higher weighted average cost of capital, and thus a higher discount rate, which would reduce the fair values. However, entities should remember that the discount rate needs to be calibrated to the risks in the cash flow forecast, including the long-term growth rate. Commodity broker-traders measuring their inventories at fair value less cost to sell follow a mark-to-market approach rather than a net realisable value approach. The considerations of the impact of inflation on fair value as defined in IFRS 13 will therefore also be relevant.
Financial assets and liabilities	Counterparty credit risk and the credit spread that is used to determine fair value of debt instruments might also increase as entities struggle to deal with increasing costs and whether those can be passed on to customers. Equity instruments will similarly be impacted by changes in estimates of cash flows available for distribution and the cost of equity applied.
Disclosures	A change in the fair value measurement affects the disclosures required by IFRS 13, which requires entities to disclose the valuation techniques and the inputs used in the fair value measurement, as well as the sensitivity of the valuation to changes in assumptions. It might also affect the sensitivity analysis required for recurring fair value measurements categorised within level 3 of the fair value hierarchy. The number of instruments classified as level 3 might increase.

For further information (for Viewpoint subscribers)

FAQs	FAQ 5.77.1 – Single cash flow versus probability-weighted cash flows FAQ 5.77.2 – Uncertainties in cash flows for fair value measurement of financial instruments FAQ 5.77.3 – Uncertainties in cash flows and change in valuation technique for Level 3 fair value measurement FAQ 5.79.1 – Additional considerations for discount rates used in Level 3 fair value measurements in periods of significant economic uncertainty FAQ 4.7.1 – Determining whether a market is still active in a period of market disruption FAQ 4.7.2 – Assessing prices in inactive markets FAQ 5.111.1 – Determining whether transactions are orderly FAQ 5.94.2 – Adjustments to the quoted price in an active market in times of significant market volatility FAQ 4.7.6 – Post market closure events FAQ 5.22.3 – Should possible future modifications be considered when determining the fair value of a debt instrument? FAQ 5.53.2 – Consideration of fair value where an entity has breached a debt covenant FAQ 5.113.1 – Determining fair value where an entity might be forced to liquidate assets FAQ 5.89.3 – Reassessment of inputs categorisation

Revenue from contracts with customers (IFRS 15)

IFRS 15 sets out the principles to account for revenue arising from contracts with customers.

Customer inability to make payments	An entity accounts for a contract with a customer as falling within the scope of IFRS 15 only when all of the specified criteria are met. The criteria include the requirement that it should be probable that the entity will collect the consideration to which it will be entitled when considering the customer's ability and intention to pay the consideration when it is due. In the current economic climate of rising inflation and rising interest rates, a potential customer's financial position could worsen during the contract negotiation process. Therefore, contracts might require reassessment against the criteria in IFRS 15 and if it is not probable that the entity will collect the consideration, revenue is not recognised until the contract falls within the scope of IFRS 15. For existing contracts, a significant change in facts and circumstances, such as a significant deterioration in a customer's ability to pay or request for extended payment terms, would be an indicator that an entity should reassess whether it is probable that it will collect the remaining consideration under the contract for future goods and services and therefore whether the contract remains within the scope of IFRS 15. Management might choose to continue to supply a customer even if they are aware that the customer might not be able to pay for some or all of the goods being supplied. Revenue is recognised in these circumstances only if it is probable that the customer will pay the transaction price when it is due, net of any price concession. This principle should be distinguished from the recoverability of receivables relating to recognised revenue for goods or services already delivered, which is covered by IFRS 9.
Significant financing components	In determining the transaction price, an entity should adjust the promised amount of consideration for the effects of the time value of money if the timing of payments provides the customer or the entity with a significant benefit of financing as described in IFRS 15. Rising inflation increases the financial impact of time value of money. This could result in a greater incidence of financing components meeting the definition of being significant. However, regardless of the significance of any financing between the entity and its customer, if the time period between satisfaction of the performance obligation and payment is less than one year, IFRS 15 does not require the entity to account for the financing. When the consideration in a contract with a customer has been adjusted for a significant financing component at inception, the discount rate used when measuring the significant financing component will not be adjusted for subsequent changes in interest rates, such as the increase in interest rates which often accompanies a rise in inflation, or other circumstances such as a change in the customer's credit risk.
Pricing changes	Rising inflation may result in pricing changes, either as the result of a contract modification to the existing contract or a change in the consideration to which an entity expects to be entitled to under the existing contract resulting from the resolution of uncertain events or other changes in

	circumstances (a 'change in the transaction price'). It is important to distinguish between a contract modification and a change in the transaction price, as the accounting consequences may differ. For example, if an existing contract with a customer incorporates an inflation indexation adjustment to the consideration on a contract. If this inflation adjustment has been assessed to meet the definition of variable consideration under the existing contract, it will be subject to the variable consideration constraint. Subsequent inflation adjustments will be accounted for as a change in transaction price, allocated to performance obligations on the same basis as at contract inception and recognised to the extent that it is highly probable a significant reversal will not occur. If a performance obligation has already been fully or partially delivered, a catch-up adjustment to revenue recognised will be necessary in the income statement.
Onerous contracts	If the unavoidable costs of delivering the performance obligations in a contract with a customer exceed the economic benefits expected to be received, the contract with the customer will be onerous. In the current economic environment of rising/high inflation, more contracts with customers may become onerous. For example, if an entity's cost base is subject to significant inflationary increases, a contract with a customer may become onerous if the consideration the entity expects to be entitled to does not allow for inflationary or related adjustments. Refer to Provisions and contingent assets and liabilities (IAS 37) for more guidance.
Disclosures	IFRS 15 requires an entity to disclose information that allows users to understand the nature, amount, timing and uncertainty of cash flows arising from revenue. This might require, for example, information about how an entity has applied its policies, taking into account the uncertainty that arises from the rising/high inflation if it affects the significant judgements applied (for example, whether a customer is able to pay) and the significant estimates made (for example, in connection with variable consideration).

For further information (for Viewpoint subscribers)

FAQs	EX 11.34.2 – Assessing collectability for a portfolio of contracts FAQ 11.34.4 – Where an entity provides payment terms that are extended beyond normal terms in a contract with a new customer, should management conclude that the amounts subject to the extended payment terms are not probable of collection? EX 11.300.1 – Summary of the annual disclosure requirements

Leases (IFRS 16)

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

This section covers:

- lessee accounting
- lessor accounting

Lessee accounting

Low-value assets exemption	An entity is not required to recognise a right-of-use asset and lease liability on the balance sheet for leases of low-value assets, and can instead recognise the lease expense directly in profit or loss over the lease period. Changes in rising inflation and interest rates can change the cost to purchase an asset. However, the assessment of ‘low-value’ is focused on the nature of the asset. Therefore, rising asset values due to rising inflation or changing exchange rates for example, will not necessarily by itself impact the low-value assessment.
Discount rate	If there is no readily determinable implicit rate in the lease, an entity uses the lessee’s incremental borrowing rate to measure the present value of a lease liability. Rising interest rates will likely result in higher incremental borrowing rates being determined for new leases. This will mean, absent an equivalent increase in lease payments, lower values for new lease liabilities and right-of-use assets and result in expenses shifting from depreciation to interest expense. In turn, this may impact income statement subtotals such as operating profit. The incremental borrowing rate is determined at the lease commencement date and is usually fixed for the lease term. However, the rate is revised in some circumstances, for example, upon a change in lease payments due to a change in floating interest rates, a change in the lease term, and some lease modifications. Other circumstances, such as changes in an economic climate that result in lease terms being more or less favourable compared to market terms, do not result in revisions to the discount rate.
Extension and termination options	Leases may include extension and termination options. At the lease commencement date, the lessee assesses whether it is reasonably certain to exercise an extension or a termination option. The lessee reassesses extension and termination options only when a significant event or change in circumstance occurs that is within the control of the lessee and affects whether it is reasonably certain to exercise an option. A lessee does not reassess options in response to purely market-based events, for example, lease payments becoming more or less favourable compared to market terms, because such events are not reasonably within the control of the lessee. However, such market-driven events may also lead to changes to the entity’s business plans and therefore it may be complex to determine whether a reassessment event has occurred in some instances.
Variable lease payments linked to an index or rate	In periods of rising inflation, lease payments linked to a consumer price index, benchmark interest rate, market rental value or other market variable may rise. This will typically result in higher lease liabilities and right-of-use assets with a corresponding increase in future depreciation and interest, as lease payments are remeasured when the change affects the cash flows of the lease. IFRS 16 requires disclosure of any future cash outflows to which it is potentially exposed that are not reflected in the measurement of lease liabilities, including variable lease payments linked to an index or rate for which the cash flows of the lease have not yet changed. Such adjustments may be more material in light of current circumstances.
Residual value guarantees	A lessee should remeasure the lease liability by discounting the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee. Rising inflation may change the amounts payable under a residual value guarantee, and this will need to be reflected in the measurement of the liability and the right-of-use asset. As an example, shortages in supply of new assets may increase the value of used assets making it less probable that the residual value will fall below the guaranteed amount. This would result in a decrease in lease liabilities and right-of-use assets, with a corresponding decrease in future depreciation and interest expense. A lessee is required to disclose information about a residual value guarantee regardless of whether it expects to make payments under the guarantee.
Foreign currency payments	The effect of changes in foreign currency exchange rates on a right-of-use asset and the lease liability is asymmetric. Applying IAS 21 for foreign currency exchange rates, a lease liability is a monetary item but a right-of-use asset is a non-monetary item. The impact of this asymmetric treatment will be more significant in an environment with volatile exchange rates, which may result from rising inflation.

Modifications	Rising inflation may lead an entity to renegotiate its leases. The treatment of a renegotiation will depend on whether it is a modification as defined in IFRS 16. A lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. Any change that is triggered by a clause that is already part of the original lease contract, is a re-assessment and not a modification.
Right-of-use asset	If a lessee measures a right-of-use asset using the cost model, the lessee applies the requirements in IAS 36 to the right-of-use asset. If a lessee expects that it will cease using a leased space either immediately or at some point in the future, the lessee re-estimates the right-of-use asset's useful life, which will result in a change in depreciation expense. A lessee that measures investment property at fair value applying IAS 40 is required to also measure any right-of-use assets that are investment properties at fair value. The fair value may be impacted by increased market volatility during periods of rising inflation and interest rates.

Lessor accounting

Finance leases: unguaranteed residual value	The measurement of a lessor's net investment in a lease includes the unguaranteed residual value, which represents the unguaranteed amount that the lessor expects to recover from the value of the underlying asset at the end of the lease term. Rising inflation may result in the unguaranteed residual value being more volatile than values historically observed. IFRS 16 requires that unguaranteed residual amounts are reviewed regularly, and the income allocation is revised if there has been a subsequent reduction in the estimated unguaranteed residual value.
Expected credit losses	Lessors will also need to consider the impact of rising inflation and interest rates on the measurement of expected credit losses for lease receivables. See the section 'expected credit losses' in the IFRS 9 section of this document for more details.
Modifications	As noted in the lessee section, rising inflation and interest rates may result in entities renegotiating their leases. The modification requirements differ for finance leases and operating leases. For modifications to a finance lease, the lessor should consider if the modification must be accounted for as a new lease or not. The lessor accounts for a modification of an operating lease as a new lease.
Disclosure	A lessor is required to disclose: • qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases; and • how it manages risks associated with any rights it retains in underlying assets, including its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk.

For further information (for Viewpoint subscribers)

FAQs	FAQ 15.50.1 – How does IFRS 16 define the term 'low value'? FAQ 15.60.1 – What factors should a lessee consider when determining an incremental borrowing rate? EX 15.43.1 – What are significant events or changes in circumstances within the control of the lessee that could result in a reassessment of the lease term? EX 15.65.1 – How are variable lease payments that depend on an index or a rate initially measured? FAQ 15.77.2 – How are variable lease payments that depend on an index or a rate subsequently measured? FAQ 15.88.1 – What are examples of lease modifications?

Disclosures outside the financial statements

Management commentary	An entity's stakeholders will be interested in the impact of rising inflation and interest rates, and any remediating measures taken. Some of these stakeholders' needs might be better met by disclosure outside the financial statements, for example trend analysis, sales and margin comparisons, and forecasting future sales and/or margins. An entity might consider updating its analysis of the principal risks and uncertainties of the entity.
Regulatory requirements and alternative performance measures	Management should consider any specific local disclosure requirements, such as those issued by a local securities regulator. For example, the use of alternative performance measures (APMs) has been of concern to regulators. In some cases, additional APMs might be helpful to assist users of financial statements to understand the impacts of rising inflation. However, entities should exercise care if they consider that additional APMs are needed and ensure that they comply with any principles or rules that have been imposed by their respective regulators. In some cases, isolating the impact(s) of rising inflation from business as usual might be too challenging to reflect reliability. When presenting any APMs in their published documents, entities should also ensure that they are distinguished from the measures that are defined or specified in IFRS. An entity should also evaluate any additional line items or subtotals to determine if they are alternative performance measures and whether its regulators impose any restrictions or additional requirements on reporting such items. Refer to Presentation of financial statements (IAS 1) for further, related discussion.
Consistency	Regardless of the reason for providing additional information outside of the financial statements, entities should ensure that information provided within and outside of the financial statements is consistent and complementary. For example, management should ensure the consistency of assumptions throughout the financial statements, such as assumptions used in application of IAS 36, IAS 19 and IFRS 13, as well as the commentary in the remainder of the financial or other public reports.