Beyond the GAAP
Mazars’ newsletter on accounting standards

NEWSLETTER / No. 114 – September 2017

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Editorial

After a quiet summer on the accounting front, September started brightly with two exposure drafts and a Practice Statement from the IASB.

With the imminent approach of the effective date of IFRS 15, our first special study updates our benchmark (see Beyond the GAAP no 109 of March 2017) on the disclosures published by leading European entities on their implementation of the standard at 30 June 2017.

Enjoy your reading!

Edouard Fossat Isabelle Grauer-Gaynor

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IFRS Highlights

IASB to clarify its definitions of accounting policies and estimates

On 12 September 2017, the IASB published an exposure draft offering clarifications of the concepts of accounting policy and accounting estimates defined in IAS 8.

The distinction between the two concepts is important, insofar as they do not have the same accounting consequences. A change in accounting policy does not generally have an impact on net income, unlike a change in accounting estimate.

These clarifications relate to the following aspects:

- Explanations of the link between the two concepts, with a succinct definition of an accounting policy, and clarifying that accounting estimates are used in applying an accounting policy;
- Clarifying that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and that
- Selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

Comments should be sent to the IASB before 15 January 2018. The exposure draft can be consulted at: http://www.ifrs.org/projects/work-plan/accounting-policies-and-accounting-estimates/#published-documents

Materiality: the IASB publishes two documents

As part of its Better Communication project, the IASB published two documents on materiality on 14 September 2017.

The first of these is the second in its series of Practice Statements, and aims to guide preparers in the application of judgment as to the materiality of the matters they report, rather than adhering to a checklist approach. To do so, it brings together the various references to materiality in IFRS standards, and illustrates them with guidance and examples.

We shall return to this subject in greater detail in our next edition of Beyond the GAAP.

The second document is an exposure draft putting forward minor amendments to the definition of materiality in IAS 1 and IAS 8.

These amendments aim to:

- align the definitions in IFRS standards and the definition in the Conceptual Framework by making minor improvements;
- incorporate some of the supporting requirements in IAS 1 into the definition to give them additional prominence; and
- improve the clarity of the explanations accompanying the definition of ‘material’.

Comments should be sent to the IASB before 15 January 2018. The exposure draft can be consulted at: http://www.ifrs.org/projects/work-plan/definition-of-material/#published-documents

A transition resource group for IFRS 17

On 21 September 2017, the IASB announced the composition of the transition resource group that will support the implementation of IFRS 17, Insurance contracts. Nine business representatives have been appointed alongside six representatives of audit firms and three observers from prudential and market institutions.

Like the groups set up to accompany the implementation of IFRS 15, Revenue from contracts with customers and IFRS 9, Financial instruments, the aim of this group is not to provide clarifications as to the application of the standard but rather to serve as a platform for the discussion of technical aspects and practices encountered by the companies concerned during the implementation phase, so that the IASB can determine if normative actions or support by way of explanations are necessary.


Crossword: last month’s solution

The solution to the crossword puzzle from last month is:

- OBS
- QT
- Reader
- Restructuring
- Sign
- Five
- EAR
- Inflation
- Tax
- CLE
- site
- AL
- Indicators
- NT
- DT
- All
- L

For a full solution, please visit the website provided in the document.
Crossword: Do you control IFRS 3?

**Across**

2. The recognition of these taxes, resulting from temporary taxable or deductible differences arising from a fair value exercise impacts the amount of goodwill accounted for

5. Combinations under this type of control are excluded from the scope of IFRS 3

7. This goodwill method consists of recognising no goodwill for minority interests

10. Where they relate to employees, they are recognised as liabilities and measured at the acquisition date under IAS 19, rather than at fair value

13. How any error in the initial recognition of the business combination must be adjusted when the measurement period is past

18. Duration in months of the period allowed from the acquisition date to identify the assets acquired and the liabilities assumed from the acquiree

19. Term used to mean that the initial accounting for a combination is incomplete

21. Adjective designating an asset that must be recognised separately

**Down**

1. An asset representing future economic benefits in a business combination, consisting of assets that cannot be individually identified or separately accounted for

3. Describes transactions which, though included in the acquisition contract, are not an integral part of the business combination

4. This goodwill method consists of recognising goodwill both for the entity’s share and the minority interest share

5. In a business combination, these liabilities are recognised in the statement of financial position, whereas they are not accounted for under IAS 37

6. Price adjustment clause

8. One must be identified among the parties to a business combination

9. Takeover where the acquirer is not the one you thought

11. When they are applied to inputs, they are capable of generating outputs

12. Acronym for the accounting method relating to a business combination under IFRS 3

14. For the purposes of impairment testing, goodwill acquired in a business combination should be allocated to one at the acquisition date (acronym)

15. In such an acquisition, the parent must remeasure the equity instruments previously

16. The profit resulting from an acquisition under advantageous conditions

17. An entity that is acquired must be this for the combination to be within the scope of IFRS 3

20. Even when they qualify as such, these acquisition costs are accounted for in expenses and not as a component of the price paid
A closer look

IFRS 15: how has financial reporting changed since 31 December 2016?

Following up on the study we carried out at 31 December 2016 (see Beyond the GAAP no 109 – March 2017), we look at the information published on 30 June 2017 by a sample of European companies on progress towards transition and the anticipated impacts of the first application of IFRS 15 at 1 January 2018 (for the companies whose reporting date coincides with the end of the calendar year, and excluding cases of early application.)

The conclusions of this interim progress report will be worth reviewing at the end of the second half of 2017, given the fact that most issuers are still analysing the impacts.

1. The sample

The sample is the same as was used in the study at 31 December 2016, consisting of industrial and services companies from the Eurostoxx 50, CAC 40 and Next 20. Banks and insurance companies were therefore excluded from the sample.

The analysis covered IFRS financial statements published for the first half-year and available as of 20 September 2017, with a sample of 75 entities (49 French and 26 European outside France). This gave us:

- 71 interim reports at 30 June 2017;
- 2 interim reports at 28 February 2017;
- 1 interim report at 2 July 2017;
- 1 annual report at 31 March 2017.

All of the charts and tables in this study have been produced by Mazars, based on data gathered from the interim financial statements published by the companies in our sample for the period to 30 June 2017.

The examples which follow are provided as illustration only, and are not intended to represent the whole range of good practices identified in the research.

2. Augmented reporting...

Almost 50% of the companies in our sample have adopted the “progressive” approach encouraged by the regulators, with more disclosures published on the impact of IFRS 15 than at 31 December 2016.

This new information includes:

- A closer analysis of the principles of the standard, through applying it to the broad categories of contracts with customers and to operating segments and/or business lines;

Excerpt from BOUYGUES’ consolidated interim financial statements at 30 June 2017:

- IFRS 15: Revenue from Contracts with Customers

On 28 May 2014, the IASB issued a new standard on revenue recognition intended to replace most of the current IFRS pronouncements on this subject, in particular IAS 11 and IAS 18. The new standard was endorsed by the European Union on 29 October 2016 and is applicable from 1 January 2018. The Bouygues group has not early adopted IFRS 15, which it will apply retrospectively with effect from 1 January 2018; the 2017 figures presented in 2018 will also be restated to reflect the impacts of IFRS 15 (presentation of a comparative reporting period).

The process of implementing IFRS 15 within the Bouygues group is ongoing, as is the assessment of the impacts of the new standard. The key issues being assessed are:

- Construction: the method used to recognise revenue over time. Based on the principal contracts analysed to date, the method used to calculate the recognition of revenue over time is consistent with IFRS 15.
- Property: the principle of recognising revenue and margin over time, especially on off-plan sales under “VIEFA” (Ventes en État Futur d’Achévement) contracts in France, is not called into question by IFRS 15. However, the calculation of the percentage of completion on residential and business property development projects will now have to incorporate land-related costs. This means that more revenue and margin will be recognised at the start of the project as compared with current practice.
- Media: distribution contracts, and the date of recognition of revenue generated by rights sales (especially TV and S overd).
- Telecoms: identifying performance obligations, especially on contracts that combine a subscription with a subsidised handset; such contracts will have to be split into separate components. Under IFRS 15, both the revenue recognition pattern and the split between the sale of the handset and the supply of the service will change, and the accelerated revenue recognition will result in a contract asset being reported in the balance sheet. A further impact relates to some contract termination costs, which will be recognised as an asset in the balance sheet on signature of the contract and then amortised over the life of the contract.

BOUYGUES, Interim results 2017, Financial report, page 47
The choices made in light of the practical expedients offered;

Excerpt from TELEFONICA’S consolidated interim financial statements at 30 June 2017:

Quantitative disclosures (order of magnitude, estimations), but only for a small proportion of the sample (see below);

The choice made in terms of transitional arrangements (see below).

3. …but the analysis is still largely ongoing, limiting the quantitative disclosures made

Readers will recall that in their July 2016 recommendations, ESMA and the AMF had advised entities, in the run-up to the first application of IFRS 15, to provide quantified disclosures on the possible impacts of the standard during the first period of application. If the expected impact was material, these figures should in most cases be published in the interim financial statements for 2017.

Only 11 companies, representing 15% of our sample, made quantitative disclosures at 30 June 2017, compared with 3 at December 2016.

Most issuers will continue to quantify the impacts of transition in the second half of 2017. However, 3 companies have announced deadlines for the publication of quantified information:

- Engie: beginning of 2018;
- Orange: Q4 2017;
- Thalès: Q3 2017 (with the publication of restated financial statements on the first half of 2017).

Quantified disclosures at 30 June 2017 on the expected impacts of the application of IFRS 15

What type of quantitative disclosures did companies publish at 30 June 2017?

The quantitative disclosures provided by our sample are presented below.

<table>
<thead>
<tr>
<th>Company</th>
<th>Consolidated measures</th>
<th>Level of accuracy</th>
<th>Unit</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASML</td>
<td>Net income / turnover</td>
<td>Range</td>
<td>%</td>
<td>↗</td>
</tr>
<tr>
<td>Capgemini</td>
<td>Revenue</td>
<td>Estimate</td>
<td>%</td>
<td>↘</td>
</tr>
<tr>
<td>Daimler</td>
<td>Equity</td>
<td>Estimate</td>
<td>€</td>
<td>↗</td>
</tr>
<tr>
<td>Deutsche Telekom</td>
<td>Reserves, proportion of turnover from services/sale of goods and merchandise</td>
<td>Range</td>
<td>€, %</td>
<td>-</td>
</tr>
<tr>
<td>Eiffage</td>
<td>Order book</td>
<td>Estimate</td>
<td>€</td>
<td>↗</td>
</tr>
<tr>
<td>Fresenius</td>
<td>Revenue</td>
<td>Range</td>
<td>%</td>
<td>↘</td>
</tr>
<tr>
<td>Nokia</td>
<td>Reserves</td>
<td>Estimate</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Philips</td>
<td>Reserves</td>
<td>Estimate</td>
<td>€</td>
<td>↘</td>
</tr>
<tr>
<td>PSA</td>
<td>Revenue</td>
<td>Estimate</td>
<td>€</td>
<td>↘</td>
</tr>
<tr>
<td>Safran</td>
<td>Equity</td>
<td>Estimate</td>
<td>€</td>
<td>↘</td>
</tr>
<tr>
<td>Siemens</td>
<td>Reserves</td>
<td>Estimate</td>
<td>%</td>
<td>↗</td>
</tr>
</tbody>
</table>
4. Companies continue to be cautious when reporting the expected level of impact.

What impacts do companies expect transition to IFRS 15 to have?

There has been little change in the first half of 2017 as to the anticipated level of the impact. Almost 46% of issuers in our sample (compared with 52% at the 2016 year-end) are either still assessing these impacts or reported no precise information about the level of impact they expect. The second half of the year should enable them to finalise their analyses and the amount of the impacts.

The very considerable caution of the majority of companies just a few months ahead of the transition to IFRS 15 confirms, if need there be, that this is a far from trivial subject and that continued vigilance is required while diagnosis and roll-out are still ongoing.

AIRBUS and E.ON have joined DEUTSCHE TELEKOM and TELEFONICA in predicting a material impact from the new standard.
Excerpt from AIRBUS’s consolidated interim financial statements at 30 June 2017:

AIRBUS, First-half 2017 financial report, page 13

5. Transitional arrangements

The advantages and disadvantages of the two approaches to transition offered by the standard were discussed in the March 2017 edition of Beyond the Gaap (no 109).

What proportion of issuers provide disclosures on the transition method chosen for the first application of IRFS 15, and which approach have they chosen?

61% of issuers in our sample had not so far reported their transition method at 30 June 2017.

If we analyse these data more closely, we obtain the following results for the countries and sectors most represented in the sample:

By country of registration

<table>
<thead>
<tr>
<th>Country</th>
<th>Full retrospective</th>
<th>Modified retrospective</th>
<th>NC</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>10</td>
<td>3</td>
<td>36</td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

Airbus, Alstom, Bouygues, Capgemini, Eiffage, Ingenico, Safran, Sanofi, Thales, Valeo

Dassault Systemes, Kering, Michelin

Top-three industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>Full retrospective</th>
<th>Modified retrospective</th>
<th>NC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil, gas and electricity</td>
<td>1</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

E.ON is the only energy supplier to choose the modified retrospective approach. In the telecoms sector, most companies have opted for the modified retrospective method.

Finally, these two methods were almost equally represented in the automotive sector.
Key points

- The first application of IFRS 15 is imminent. The financial disclosures published at 30 June 2017 give us a better idea of the work issuers are conducting and the subjects they have identified, but the great majority of these companies will continue their analysis over the second half of 2017.

- Though quantitative disclosures have mostly been augmented since the previous publications, issuers remain generally cautious:
  - 46% of companies in our sample still give no precise information on the expected level of impact, and
  - only 15% provided quantified disclosures, despite the regulators' recommendations.

- 61% of issuers in our sample have still not reported their choice of transition method. The two approaches have so far been chosen by equal numbers of companies in the sample, although there are significant differences by country.
Events and FAQ

Frequently asked questions

IFRS

- Recognition of an IFRS 2 “equity settled” plan with gradual acquisition of rights
- Modification of performance conditions of an IFRS 2 plan.
- Level of control of an entity and impact on the recognition of options granted in a shareholders’ agreement.
- Consolidation of a subsidiary that was not previously significant.
- Long-term investment abroad.
- Deconsolidation effect of a programme to assign receivables.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

<table>
<thead>
<tr>
<th>IASB</th>
<th>IFRS Committee</th>
<th>EFRAG</th>
</tr>
</thead>
<tbody>
<tr>
<td>23-25 October</td>
<td>20-21 November</td>
<td>9 November</td>
</tr>
<tr>
<td>13-15 November</td>
<td>16 January</td>
<td>14 December</td>
</tr>
<tr>
<td>11-15 December</td>
<td>13-14 March</td>
<td>6 February</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25-26 October</td>
</tr>
<tr>
<td></td>
<td></td>
<td>22-24 November</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18-19 December</td>
</tr>
</tbody>
</table>