The IASB has put some last-minute finishing touches to IFRS 9, with an amendment on debt instruments with symmetric prepayment options and with the inclusion (in the Basis for Conclusions) of its analysis of the standard’s provisions on the modification of financial liabilities. All that remains is for the European Union to accelerate the endorsement of the amendment so that European entities do not have to switch accounting policies between 2018 and 2019!

In France and in Europe, the month of October has once again seen the regulators issue recommendations for the preparation of the 2017 accounts under IFRS. Their advice is the topic of one of this month’s two ‘A Closer Look’ studies. The other study concerns another aspect of the preparation of financial statements: guidance on making materiality judgments, the subject of an IASB Practice statement which was published last September.

Stop press: IFRS 16 on Leases, the clarifications to IFRS 15 on Revenue and the option for deferred application of IFRS 9 for insurers were endorsed by the EU on 9 November 2017.

Enjoy your reading!

Edouard Fossat Isabelle Grauer-Gaynor
The IASB publishes the final text of the IFRS 9 amendment on symmetric prepayment options

On 12 October, the IASB published an amendment to IFRS 9 on financial instruments.

Readers will recall that, under IFRS 9, financial assets must satisfy the SPPI test in order to be classified in accordance with the business model under which they are held. By default, “non-SPPI” assets are measured at fair value through profit or loss.

The Board’s main aim in enacting this amendment was to clarify the impact, on the SPPI test, of prepayment features with symmetric or negative compensation (compensation that may be received by the party activating the prepayment option and therefore potentially paid by the party on which prepayment is imposed).

Following discussions in the wake of the April 2017 exposure draft, it appeared that while symmetric prepayment options do produce more variable cash flows on the instrument, they can nevertheless satisfy the SPPI test under some circumstances. This is the case, inter alia, where the prepayment compensation reflects changes in the benchmark interest rate since the origination of the instrument. The Board has therefore clarified that the “symmetric” nature of the prepayment compensation would not in itself prevent the instrument from passing the SPPI test.

In the Basis for Conclusions to this amendment, the Board also added some other information, including:

- clarification that a prepayment option at fair value would not invariably prevent classification as SPPI;
- clarifications on prepayment compensation based on the fair value of the associated hedging instrument. In particular, the amendment states that compensation for changes in the benchmark interest rates do not prevent classification as SPPI;
- the fact that it is not possible to make assumptions as to whether or not an instrument including this type of prepayment option will satisfy the SPPI test, and that an analysis must be conducted case by case.

This amendment is of mandatory application on 1 January 2019, but early application is authorised. Rapid progress towards endorsement by the European Union will enable European entities affected to apply IFRS 9 in a uniform, long-term manner that avoids, if possible, any transitory arrangements during 2018, which would be a source of complexity for preparers and users of financial statements alike.

The IASB confirms its position on debt modifications under IFRS 9

In the July-August 2017 edition of Beyond the GAAP (no. 113) we identified the main issues at stake and reported that an amendment to the Basis for Conclusions of IFRS 9 was expected by the end of the year on this subject.

This month, the IASB has finalised and published its position by adding some paragraphs in the Basis for Conclusions to the IFRS 9 amendment on symmetric prepayment options, published on 12 October (see Highlights above).

In these two additional paragraphs, the Board simply stresses that under IFRS 9, the accounting treatment for liabilities that are renegotiated (“modified”) but not derecognised is the same for both financial assets and financial liabilities. The Board has also decided that no interpretation or amendment of the standard is necessary, given that the position in IFRS 9 is already clear, despite the criticisms expressed by many stakeholders.

The IASB publishes an amendment to IAS 28 on the measurement of long-term interests in associates and joint ventures

On 12 October 2017, the IASB published an amendment to IAS 28 on the “other interests” in an associate or joint venture to which the equity method is not applied: for example, long-term loans which, in substance, form part of the net investment in the associate or the joint venture.

This amendment clarifies that such a financial instrument must first be recognised under IFRS 9, including its provisions on the impairment of financial assets, before applying any reduction of its carrying value by allocating the accumulated losses of the equity-accounted entity, where the equity value has already been reduced to zero.

The amendment is accompanied by an illustrative example setting out the accounting consequences of a period of losses followed by a return to profitability of the equity-accounted entity.

This amendment is to be applied retrospectively for reporting periods from 1 January 2019. In the event of early application at the same time as IFRS 9, the IFRS 9 transitional arrangements must be applied.
The IASB publishes a case study report on improving disclosures

On 5 October 2017, the IASB issued a case study report entitled *Making disclosures more meaningful*, looking at how six companies have improved their disclosures in term of both the improvement process and its outcomes. In its analysis, the IASB did not address the compliance of the disclosures concerned with IFRS standards, but selected examples of the application of the seven principles of sound financial reporting set out in its recent practice statement (see the ‘A Closer Look’ study in this edition) and in its discussion document on the principles of financial disclosure (see Beyond the GAAP no. 110 of April 2017).

IASB President Hans Hoogervorst notes that the case study proves that relatively small changes can significantly enhance the usefulness of financial statements for their users, not least because they make them easier to read: the information is prioritised appropriately and presented in a clearer and more straightforward manner. Some companies had removed immaterial information, while others had included additional details on certain topics.

The key factors for the success of such projects are the support of senior management, dialogue with users to identify and understand their information needs, the participation of departments concerned by disclosures and financial reporting right across the company, and finally the support of auditors, regulators and national standard-setters.

The projects carried out by the companies featured are more or less ambitious and more or less continuous in time. Some made dramatic changes during a single reporting period while others have been making improvements over several years. What is important is to get started on this process of improvement.

The IASB’s case study is available at: [http://www.ifrs.org/projects/work-plan/principles-of-disclosure/#educational-material](http://www.ifrs.org/projects/work-plan/principles-of-disclosure/#educational-material)

European highlights

ESMA publishes six new Q&A on its guidelines on Alternative Performance Measures

On 30 October ESMA published six new questions and answers on its guidelines on Alternative Performance Measures which came into effect in July 2016. The new Q&A cover the following points:

- Question 12: Qualification as APMs of indicators defined in the financial reporting framework and adjusted with the aim of isolating the effect of foreign currency;
- Question 13: Qualification as APMs of measures of profitability used in segment information when the segment accounting basis used is different from the basis defined in the applicable reporting framework. The application of the ESMA guidelines depends on where these measures are presented (e.g. inside or outside financial statements);
- Question 14: Confirmation of the fact that an entity is exempted from applying the ESMA guidelines on APMs when APMs are used to demonstrate the entity’s compliance with contractual clauses (covenants) or legislative requirements, to the exclusion of any other reason, such as describing its performance;
- Question 15: When an APM defines “Organic Growth”, the issuer shall present and define the other components of the change in revenue, such as currency and perimeter impacts;
- Question 16: Confirmation of the fact that the reconciliation of the APM with the closest measure presented in the financial statements must take the form of a numerical reconciliation identifying and explaining the material reconciling items, and not a merely qualitative explanation;
- Question 17: Depending on facts and circumstances, presenting biased APMs that are adjusted to exclude one-off losses but including, where applicable, one-off gains of the same nature and occurring during the same period may violate the principle stated in the Transparency Directive of providing a fair review of the performance and of the position of the issuer. In consequence, it may be contrary to the overall objective of ESMA’s APM guidelines. The unbiased and correct labelling of such an indicator is not in itself sufficient to support the conclusion that this principle is respected.

These Q&A, of which there are now seventeen, are intended to promote common supervisory approaches and practices in the application of the ESMA Guidelines on APMs.


ESMA: 21st extract from the database of enforcement

On 31 October 2017, the European Securities and Markets Authority, ESMA, published the 21st extract from its database of enforcement, containing 12 decisions taken by European regulators on the following topics:

1. Country risk premium in impairment test (IAS 36)
2. Assessment of joint control (IFRS 11 and IFRS 10)
3. Valuation and equity method for participation with restrictions (IFRS 13, and IAS 28)
4. Assessment of joint control (IFRS 11 and IFRS 10)
5. Restatement of comparative amounts (IAS 8 and IAS 34)
6. Disclosures on a reverse factoring transaction (IAS 1 and IAS 39)
7. Assessment of control over investment funds (IFRS 10)
8. Fair value measurement disclosures of unobservable inputs (IFRS 13)
9. Recognition and measurement of the proceeds from an arbitration agreement (IAS 39, IAS 37 and IAS 18)
10. Impairment test of trademarks (IAS 36)
11. Recognition of deferred tax assets for carry forward of unused tax losses (IAS 12)
12. Definition of ‘economic environment’ and separation of foreign-currency embedded derivatives in a power contract (IAS 39).

This 21st extract from the ESMA database of enforcement can be consulted at:

Crossword: last month’s solution

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Crossword: Do you grasp intangible assets?

Across
3. Some intangible assets may be contained in or on such a substance, but this does not mean that they fall outside the scope of IAS 38
7. Necessary characteristic of an intangible element for it to be recognised as an intangible asset under IAS 38
9. One of two accounting models for intangible assets
10. Intangible asset acquired in a business combination that is excluded from the scope of IAS 38
11. They can be recognised under IAS 38, IFRS 15 or IFRS 16, depending on the context
14. Does not apply to intangible assets with an indefinite useful life
17. This value related to an intangible asset is often zero
18. Reduces the useful life of an intangible asset (e.g. rapid changes in technology in the case of technological products)

Down
1. Even regarded as a whole, these do not constitute a separately identifiable intangible asset
2. Factors inherent in an intangible asset that an entity may take as a starting point to determine its amortisation
4. Expenditure incurred in this phase is generally recognised in profit or loss
5. Method of amortising an intangible asset with a finite useful life to be used in the absence of a more reliable method
6. This term doesn’t mean the same as “indefinite” in IAS 38
8. Acronym for the tax-related balance sheet asset to which IAS 38 does not apply
12. Expenditure incurred in this phase of the creation of an internally generated intangible asset are recognised in profit or loss
13. Event generating the derecognition of an intangible asset
15. It is rare to find such a market for an intangible asset
16. The useful life of an intangible asset that results from contractual rights must not include such periods without justification
A Closer Look

The IASB’s guidance on making materiality judgments

In September 2017 the IASB published its second Practice Statement on Applying materiality judgments, principally intended for preparers of financial statements.

This Practice Statement fits into the major thrust of the IASB’s work over the coming five years, which focuses on the improvement of financial reporting through projects on disclosures and primary statements. As this guidance does not amend the texts of the IFRSs, it can be implemented straight away, but it is not mandatory. It does not, therefore, require endorsement by the European Union.

The Practice Statement firstly defines the general characteristics of materiality, before addressing its interaction with local laws and regulations and setting out a four-step process for making materiality judgements. It concludes with guidance on ‘specific topics’. A range of illustrative examples are provided.

1. A pervasive concept in IFRS

In this section, the IASB first recalls the texts in which the concept is addressed, in particular the Conceptual Framework which establishes the definition of materiality (highlighted in IAS 1 on the Presentation of financial statements and IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors):¹

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report. (Conceptual framework 2010, QC11)

The IASB goes on to observe that materiality applies to all financial statements at every stage of the accounting process, from initial recognition (for example, expensing the acquisition of tangible assets below a certain threshold), through measurement and presentation, to the disclosures to be provided in the notes, even if a standard contains a list of specific disclosure requirements or describes them as ‘minimum requirements’ (for example, information on off-balance sheet commitments in respect of tangible fixed assets may be omitted where this information is considered to be immaterial). Conversely, the IASB recalls that the concept also covers information not specified by IFRS Standards if that information is necessary for users to understand the impact of particular transactions and other events and conditions on the entity’s financial position, financial performance and cash flows (for example, taking account of probable new regulations on CO₂ quotas when conducting impairment testing of a plant producing coal). These aspects have already been set down in IAS 1 in the amendments that came into force in 2016.

To assess the materiality of information, an entity must take account of its specific circumstances and the way in which this information will meet users’ needs. As circumstances change over time, it follows that this assessment must be carried out at each reporting date.

The IASB notes that financial statements are addressed to the “many existing and potential investors, lenders and other creditors [who] cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need” (Conceptual framework 2010, OB5) These users are assumed to have a reasonable knowledge of business and economic activities and to review and analyse the information diligently (Conceptual framework 2010, QC32).

Since users must take decisions involve buying, selling or holding equity and debt instruments, as well as providing or settling loans and other forms of credit (Conceptual framework 2010, OB2), they need information about the amount, timing and uncertainty of future net cash inflows to the entity, and about the entity’s management.

In order to determine the information needs of users, an entity must first identify the common needs of users within each of the three user categories (investors, lenders and other creditors). The combination of these needs constitutes the set of common information needs the entity must meet. In other words, the IASB states that it is not enough to satisfy the information needs that are common to the three categories, as it might exclude information that meets the needs of only one user category. This is a matter of meeting common needs rather than specialised information requirements that are user-specific (for example, a shareholder with only 5% of the voting rights, who would be affected by the expenditure of an entity in particular in a country where it has its own operations).

The entity assesses whether information is material to the financial statements in themselves. This means that, even if information is publicly available, it must be included if it is material to an understanding of the financial statements (for example, information about a business combination that is significant at Group level, and which is reported in a press release, must be included in the financial statements in order to comply with IFRS 3 on business combinations).

¹A proposed amendment of this definition is subject to an ongoing public consultation process until 15 January 2018. See Beyond the GAAP no 114 of September 2017.
2. **IFRS information that takes precedence over local laws and regulations**

Materiality applies in the context of IFRS standards. This means that, to comply with these standards, an entity must ensure that it respects the disclosure principles they set out, as follows:

- If local laws or regulations allow an entity to present less information than is required by the IFRS standards, it must nevertheless present the information necessary under IFRS in order to meet its compliance obligations (for example, information on the disposal of tangible fixed assets that local regulations only demand above a certain threshold, in the case where the actual amount is lower but which, in terms of IFRS standards, the entity considers material because involving a related party – see step 2 of point 3 below);

- If local laws or regulations require additional disclosures in the financial statements, the entity must include them on condition that they do not obscure information that is material according to IFRS standards (for example, information on research and development costs required by local laws regardless of the amount, but which is immaterial in the context of the entity’s IFRS financial statements).

3. **A four-step process for making materiality judgments**

The IASB presents a four-step process for making materiality judgments:

- **Step 1: Identify information that has the potential to be material.**
- **Step 2: Assess whether the information identified in Step 1 is material.**
- **Step 3: Organise the information within the draft financial statements in a way that communicates the information clearly and concisely.**
- **Step 4: Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.**

An entity may rely on materiality assessments from prior periods, provided that it reconsiders them in the light of any change in circumstances and of any new or updated information.

**Step 1: Identify information that has the potential to be material**

The starting point for this first step will be the information requirements set out in the IFRS standards, because, when developing a standard, the Board is keen to meet the information needs of users as defined above, while considering the cost-effectiveness of providing this information. However, the entity must also identify the needs of its users in order to determine whether they need information additional to that required by IFRS standards.

**Step 2: Assess whether the information identified in Step 1 is material**

Step 2 consists of assessing whether the information identified in the first step meets the definition of materiality. This assessment is conducted on the basis of both qualitative and quantitative considerations, since information could be material by its nature or size, or a combination of both. The text provides examples of factors to be taken into account for each of these considerations.

- In qualitative terms, an entity must consider entity-specific factors (for example, the involvement of a related party; uncommon, or non-standard, features of a transaction; or unexpected changes in trends) and external qualitative factors (for example, the entity’s geographical location, its industry sector, or the state of the economy or economies in which the entity operates). If an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its users’ decisions. The illustrative example implicitly refers to the Greek debt held by banking institutions at the time of the Greek crisis early in the decade.

- In quantitative terms, while the size of the impact must be taken into account, it is also necessary to determine if unrecognised items could affect users’ overall perception of the entity’s financial position. Identifying the measures against which an entity makes this quantitative assessment is a matter of judgement, and may be a matter of establishing the measures that are of greatest interest to users, such as the entity’s revenues, profitability, financial ratios and cash flow measures.

The IASB clarifies the interaction between the two types of consideration. If an entity identifies an item of information as material on a quantitative basis, it needs no further analysis. However, the reverse is not true: information that is not quantitatively material may still be considered from a qualitative point of view. This is because the presence of a qualitative factor lowers the threshold at which information is considered as material, even if the quantitative threshold is zero (see the example of Greek debt above).

**Step 3: Organise the information in draft financial statements**

In this third step, the IASB suggests the following principles for clear and concise communication, taking account of the role of the various primary statements and notes to decide where and how best to present the information:

- Emphasise material matters;
- Tailor information to the entity’s own circumstances;
- Describe the matters concerned as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;
- Highlight the relationships between information found in different places;
- Use a format that is appropriate for the type of information presented;
Provide information in a way that maximises comparability among entities and across reporting periods as much as possible;

- Avoid or minimise duplication of information in different parts of the financial statements; and

- Ensure material information is not obscured by immaterial information.

These principles reflect those developed by the IASB in its discussion paper on the principles of disclosure (see Beyond the GAAP no. 110 of April 2017).

Step 4: Review the draft financial statements

The output of step 3 is a set of draft financial statements which is then reviewed in step 4 in the context of the financial statements as a whole, that is on a collective basis. This step is intended to ensure that all the material information is properly presented with the appropriate level of prominence. An entity needs to ‘step back’ and draw on its knowledge and experience of its transactions and other events and conditions under which its operations are conducted. This also enables an entity to determine whether:

- all relevant relationships between different items of information have been identified;
- items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence users’ decisions;
- the information in the financial statements is communicated in an effective and understandable way, and organised to avoid obscuring material information;
- the financial statements provide a fair presentation of the entity’s financial position, financial performance and cash flows.

This review may lead to additional information being provided in the financial statements, to the withdrawal of certain information, to the greater disaggregation of information or to its reorganisation. But it may also lead an entity to question the assessment performed in step 2; it might conclude that information previously identified as material is, in fact, immaterial, and remove it from the financial statements.

The output of step 4 is the final set of financial statements.

4. Guidance on specific topics

In this final part, the IASB considers four special cases: information on prior-period information, errors, covenants, and finally interim reporting. Although these cases correspond to specific circumstances, assessing materiality in all these cases follows the four-step process described above.

Comparative periods

After summarising the provisions of IAS 1 on the presentation of comparative periods, the IASB clarifies that an entity must determine whether prior-period information is material to the current-period financial statements. If this is so, it may provide more prior-period information than was included previously. If not, it may reduce the prior-period information in the current period.

It may also be that prior-period information was previously considered as immaterial, but that it has become material due to changing circumstances in the current period. Consequently, this prior-period information will need to be included in the current period for comparison (for example, an analysis of financial debt maturity may have been assessed as immaterial in the previous period, whereas the entity has issued a significant amount of financial debt in the current period).

Where circumstances have changed, an entity may also reduce or summarise information that was given in detail in the prior period (for example, uncertainties regarding the amount of provision for disputes that have been resolved during the current period with the delivery of the verdict on which the provisioned amount is ultimately based).

Errors

Errors are defined by IAS 8. An entity must correct all material errors, as well as any immaterial errors made intentionally to achieve a particular presentation of its financial statements. The IASB recommends that other immaterial errors should be corrected to prevent an accumulation of these errors over reporting periods which then requires correction because it becomes material either in amount, or due to the fact that a change of the entity’s circumstances leads to a different assessment of their materiality in the current period.

The IASB also notes that if an error is judged as individually material, the existence of other errors in the opposite direction does not make the error immaterial, nor does it eliminate the need to correct the error. Entities cannot therefore decline to correct an error by arguing that the overall impact is immaterial.

Covenants

The existence of covenants must lead an entity to consider both:

- whether a covenant breach would have an impact on the entity’s financial position, financial performance and cash flows in a way that could reasonably be expected to influence users’ decisions. If this is the case, the existence of these covenants should be disclosed. However, if not, this may not be necessary;

- the likelihood of a covenant breach occurring. The more likely it is that a covenant breach could occur, the more likely it is that information about the existence and terms of the covenant would be material.

Interim reporting

The IASB notes that, while an entity takes the same factors into account in its materiality judgements in preparing both annual financial statements and interim financial reports, it must also take into consideration the fact that the time period and the purpose of an interim financial report differ from those of the annual financial statements.
Materiality is therefore assessed in relation to the interim period financial data rather than annual data, but also, where there is more than one interim period (e.g. in the case of quarterly reporting), the financial data for the current financial year to date (since the start of the annual period). An entity may also provide information in the interim financial statements that is expected to be material to the annual financial statements. However, if it is not material to the interim financial report, the entity is not obliged to include it (for example, the disaggregation of revenue where 98% was generated by sales of historic product, even if the 2% generated by sales of a new product will provide approximately 20% of the entity’s revenue for the full annual period). However, information that is material to the interim financial report but not to the annual period need not be presented or disclosed subsequently in the annual financial statements (for example, disclosing the costs of investment in a new manufacturing process incurred in the first half year, which are material to the interim financial report but not to the annual period when assessed against annual profitability and cash flow measures).

Since an interim financial report is intended to provide an update on the latest complete set of annual financial statements, information that is material to the interim period, but was already provided in the latest annual financial statements, does not need to be reproduced in the interim financial report unless something new occurs or an update is needed.

The IASB also notes that interim financial reports often rely more on estimates than annual financial statements, and therefore information about uncertainties may (but will not invariably) be more material than for annual periods, and should therefore be presented.

**Conclusion**

As a document that does not amend the existing IFRS standards, the Practice Statement may be referred to straight away by entities for guidance as to whether information is material to their financial statements. The IASB’s aim is to help entities to improve their financial reporting through their financial statements, encouraging them to move away from a check-list approach, in particular for disclosures in the notes. Naturally, other players responsible for financial reporting, such as auditors and market regulators, are also targeted by the Practice Statement.

**Key points**

- The IASB’s Practice Statement is a non-mandatory document that entities can apply straight away, since it neither amends nor interprets the existing IFRS standards;
- Materiality is a pervasive concept in IFRS intended to meet the needs of users of financial statements prepared under IFRS standards: it applies to every stage in the process of accounting for an item;
- Some information, even if required by IFRS standards, may be omitted due to its immaterial nature. However, information in addition to that required by the standards may be necessary to meet the objectives of the financial statements;
- Making materiality judgments is a four-step process: identifying, assessing, organising and reviewing;
- Clear and concise communication depends on prominence, specificity, simple and direct description, relationships, the avoidance of duplication, format and comparability;
- Special attention is required for the presentation of information in four cases corresponding to specific circumstances: information on prior-period information, errors, covenants, and finally interim reporting.
A Closer Look

What are ESMA’s and the AMF’s recommendations for the 2017 year-end?

On 27 October, ESMA and the AMF published their recommendations for the 2017 annual statements. As in previous years, these coincide at many points, in particular with respect to the standards coming into effect on 1 January 2018 (IFRS 15 – Revenue from contracts with customers, and IFRS 9 – Financial instruments) and on 1 January 2019 (IFRS 16 – Leases).

The AMF does not address all the subjects covered by the ESMA recommendations, in particular regarding business combinations, which it rightly considers to have been covered in its 2011 recommendation and in respect of which it refers entities to the ESMA document. Instead it puts more emphasis on certain areas to adapt the French context. The AMF focuses in particular on a topic close to its heart: the importance of relevant, coherent and readable information.

Finally, as usual, the AMF publishes quantitative information on its review of company accounts conducted between October 2016 and September 2017. This publication shines an interesting light on the main difficulties encountered when applying the accounting standards. In its conclusions, the AMF urges some entities to amend their presentation of financial statements by reclassifying in recurring operating income some items presented as non-current; for example, the share of amortisation of tangible assets resulting from revaluations at fair value following acquisitions.

Below, Beyond the GAAP sets out the main thrust of the ESMA’s and the AMF’s recommendations, which can be consulted at the following addresses:

http://www.amf-france.org/Reglementation/Doctrine/Doctrine-list/Doctrine?docId=workspace%3A%2F%2FSpacesStore%2Fe3fafe240-bd56-441d-9d3b-648629b43e3&category=1+-+Emetteurs+et+information+financ%0C%ABre.

1. The importance of relevant, coherent and readable information.

The AMF recalls the several initiatives launched by both standard-setters and regulators in order to improve the readability and relevance of the disclosures in the notes. The regulators welcome the efforts made by a growing number of French entities, and encourage them to continue down this path.

As a reminder, ESMA issued a Public Statement on 27 October 2015 (see Beyond The GAAP no. 93 – October 2015), which remains applicable, encouraging issuers to improve their disclosures by stressing the importance of relevant, coherent and readable information.

1.1 Materiality principle

IAS 1 stipulates that specific information required does not have to be provided if it is immaterial, but that additional information not specifically required can be supplied to explain a transaction or significant event.

Entities are encouraged to continue to work on the concept of the materiality of the information they provide, questioning what should be presented, eliminating immaterial information and developing material information qualitatively and quantitatively.

Still on this topic, issuers are urged to study the IASB’s Practice Statement published in September 2017, since this document may help them to apply the materiality principle and includes a proposed approach and illustrative examples (see the ‘A Closer Look’ study above).

Entities are encouraged not to report:
- principles that are not applicable, given the nature of their operations,
- practical or operational expedients the impacts of which are immaterial for groups, because such disclosures can obscure material information.

1.2 IAS 7 amendment – Statement of Cash Flows

The regulators emphasise that the information required by the IAS 7 amendment on the statement of cash flows (applicable from 1 January 2017, and due to be adopted by the EU by the end of the year) is eagerly anticipated by users of the financial statements of industrial and commercial entities, since it will make it easier to understand the changes and to reconcile them with other components of the financial statements.

Industrial and commercial entities are encouraged to present the changes in liabilities due to financing operations using a tabular format, where this is considered an appropriate way to present clear, concise information and to meet the objectives of the amendment; to comment on the changes to the cash flow statement; and to show the relationships with other components of the financial statements.
2. IFRS 15

By way of introduction, the regulators note that IFRS 15 introduces new accounting principles and sets new requirements for disclosures in the notes.

When implementing IFRS 15, it is important to carry out in-depth analyses, meticulously following the five steps established by the standard, before concluding that there is no impact.

2.1 Agent vs principal

This analysis is now based on the transfer of control, and no longer on the transfer of risks and rewards.

When significant contracts involve the intervention of a third party for the supply of goods and services, a detailed analysis of the contracts must be carried out before deciding whether or not to continue the accounting treatment established under IAS 18.

2.2 Financing component

IFRS 15 requires entities to adjust the revenue where a significant financing component is identified (advance or deferred payment), and to recognise this financing component in interest income or expense.

It is important to conduct the IFRS 15 analyses, even in a low-interest rate environment. In the event that the financing component is not recognised because it is deemed to be immaterial, it is recommended that entities keep a record of the analyses conducted, if they might be relevant in future to similar contracts with a significant financing component.

2.3 Costs incurred over the lifetime of a contract

IFRS 15 identifies, by nature, the costs that must be capitalised, when certain conditions are satisfied, bearing in mind that some costs to fulfil the contract are covered by other standards (IAS 2, IAS 16, IAS 38), and clarifies that if another standard prohibits the capitalisation of certain costs, they may not be capitalised under IFRS 15.

Issuers are reminded that it is important to ensure that costs incurred in fulfilling a contract with a customer are not within the scope of another standard before analysing the capitalisation criteria of IFRS 15.95.

2.4 Measuring progress

When a performance obligation is satisfied over time, the revenue too is recognised over time, using a method that best represents the transfer of control of goods or services to the customer over time.

Issuers are reminded that the chosen method of measuring progress must not exclude goods or services of which the customer has obtained control.

Methods based on external milestones are not acceptable in so far as they lead to the recognition of significant works in progress of which the customer has control when the financial statements are prepared.

2.5 Information on transition

The AMF has conducted a study of 2017 half-yearly reports to see how far issuers have complied with its July 2016 recommendations on providing information incrementally between now and the effective date of IFRS 15.

The AMF invites entities to refer to its recommendations on IFRS 15 issued in 2016 for the preparation of the 2017 financial statements and highlights the importance of providing more extensive and specific qualitative information than previously. The market is still awaiting quantified information on the estimated impact of IFRS 15.

If the impacts of first application are not significant, while other players in a sector have already announced the material effects they expect, the AMF encourages entities in this sector to explain the reasons for the absence of impact in the notes, where appropriate.

In terms of financial communication, the AMF encourages entities that are significantly concerned to present the main impacts of the standard ahead of its application to the various players in the financial markets in an informative fashion (in the figures reported for the third quarter).

2.6 First interim financial statements published under IFRS 15

IFRS 15 will be applied for the first time in the quarterly or half-yearly 2018 financial statements.

The AMF notes that the interim financial statements will include detailed and specific information on IFRS 15 in order to enable readers to understand the main analyses and accounting conclusions. Entities should highlight the aspects of the standard which have most impact.

Whatever the level of impact, disclosures will have to be made in application of IAS 34 and IFRS 15 (see disclosure requirements during the first year of application of the standard).

3. IFRS 9

By way of introduction, the regulators note that this standard introduces new accounting principles and sets new requirements for disclosures in the notes. As they are aware that the impacts will be more or less marked depending on the sector, the regulators have taken care to adapt their recommendations, distinguishing between industrial and commercial entities, credit institutions and insurance undertakings.
3.1 Specific considerations for corporates

Although IFRS 9 is expected to have a more moderate impact (in particular in terms of the classification and measurement of credit risk), it will nevertheless bring its share of changes, in particular due to the impairment model based on expected losses for all financial assets, including trade receivables.

Issuers are reminded of the importance of:
- conducting the analysis necessary when switching from an impairment model based on incurred losses to one based on expected losses for trade receivables,
- indicating the approach taken to modelling expected losses, for entities significantly affected, and
- providing proportionate information about the expected impacts.

In terms of the new approach to hedge accounting, issuers are reminded of the importance of:
- analysing the impact of the changes and assessing the advisability of applying them,
- explaining the analysis and the choices made,
- providing further disclosures on hedging strategies and their impact in order to comply with IFRS 7 as amended by IFRS 9.

Finally, the regulators call on preparers to note the changes in the treatment of debt modifications not leading to derecognition (see Highlights above).

Where the impact is significant, preparers are encouraged to explain the changes in accounting treatment and to present the impact separately.

3.2 Specific considerations for banking institutions

Amendment to IFRS 9

The IASB has published an amendment on symmetric prepayment options, which will be applicable from 1 January 2019 (see Highlights above).

The regulators encourage early application of this amendment (subject to successful endorsement by the European Union) in order to ensure the continuity of IFRS 9 accounting principles after 1 January 2018. Entities that are significantly affected are also encouraged to explain the impacts of the amendment in the notes.

Classification of financial assets

The regulators note that the classification of assets depends on the characteristics of the instruments and the business model that the entity applies to each portfolio. They also note that a distinction must be made between an “intention”, which may be no more than an assertion, and a business model, which must be substantiated by objective facts and quantitative and qualitative indicators.

Issuers are reminded of the importance of defining quantitative and qualitative operational indicators internally in order to characterise the sale of financial assets held in order to collect their contractual cash flows, and of establishing supporting documentation for completed sales.

Impairment model

The new impairment model, which involves methodological choices and structuring scenarios (in particular as regards the model used when assessing whether a significant increase in credit risk has occurred), constitutes the most complex aspect of IFRS 9.

The regulators highlight the following three points:
- The importance of a methodology that incorporates forward-looking information. Such an approach must be accompanied by governance and a robust internal control system, in particular for managing the reliability and consistency of the data.
- The fact that using a combination of absolute and relative triggers when assessing whether a significant increase in credit risk has occurred must not lead to the predominance of absolute over relative criteria.
- The importance of getting ready to provide the disclosures in the notes that will be required by IFRS 7 as amended by IFRS 9.

Information on transition

As in the case of IFRS 15, the AMF has reviewed the information provided about the transition to IFRS 9 in the 2016 annual financial statements and the 2017 half-yearly statements of a sample of 12 French and European banking institutions.

The regulators stress that during the transition entities should provide:
- more extensive and specific qualitative information than previously,
- quantified information on the expected impacts of IFRS 9 (the market is expecting this information in the 2017 annual financial statements), perhaps in terms of the order of magnitude (if this information is incomplete, the aspects still under analysis should be indicated).

Other information on the transition which issuers are encouraged to provide includes:
- the impact of the implementation of IFRS 9 in terms of governance and on the aggregates used in financial reporting (APMs, forecasts, etc.). The reliability of this information must be ensured before publication, with the involvement of the entity’s governing bodies and auditors.
- the impact of IFRS 9 on prudential ratios and the transitional methods used (publishing the entity’s capital ratios before and after the application of these measures).
First interim financial statements published under IFRS 9

Issuers are urged to ensure that the presentation and the granularity of the information in the interim financial statements enable readers to understand the methodological changes and the new accounting principles introduced by the standard in comparison with IAS 39, particularly for credit risk.

3.3 Application for insurance undertakings

The amendment to IFRS 4 – Insurance contracts published by the IASB in September 2016 allows entities to defer application of IFRS 9 until 1 January 2021. The European Commission has extended the use of the deferral option to legal entities in the insurance sector of a financial conglomerate.

The regulators recommend issuers:
- to disclose in their financial reporting and the 2017 financial statements whether or not they have chosen to defer application of IFRS 9,
- for those opting for deferral, to explain how they have determined that their insurance activity is predominant for the purposes of IFRS 4 as amended,
- for financial conglomerates, to indicate the measures taken to meet the European Commission’s criteria (in particular the prohibition on transferring financial instruments between sectors),
- for all the entities deferring application of IFRS 9, to provide increased disclosures in the notes.

Finally, entities applying the overlay approach are expected to disclose the fact in their financial statements and their financial reporting and to explain the expected impact.

4. IFRS 16

The AMF has analysed the disclosures provided in the 2017 half-yearly financial statements (CAC 40 and Next 20). Around a third of these entities report that they have not opted for early application of IFRS 16.

Early application

The regulators encourage entities planning to apply IFRS 16 early to:
- indicate this choice explicitly,
- present the expected impacts, distinguishing them from the impacts of other new standards and explaining the main points of analysis and expected changes with an appropriate degree of granularity (by asset type, for example).

Expanded disclosures on leases under IAS 17

The AMF recalls its 2016 recommendations and encourages entities to further expand the information provided on leases (since it was expected that the market would make use of these disclosures to improve its understanding of the contracts in place and estimate the order of magnitude of the impacts).

Disclosures on the introduction of IFRS 16

The regulators urge entities to take an incremental approach to expanding their disclosures, including:
- the progress of the implementation of the standard,
- the significant accounting policy choices (e.g. transition method),
- the specific aspects of the standard with a potential impact, explaining any ongoing analyses,
- a qualitative indication of the extent of the expected impact, and a quantitative indication as soon as it is available or can be reasonably estimated.

They also recommend entities to present, in the other components of financial reporting, the expected impacts on the aggregates used in financial reporting (e.g. alternative performance measures, forecasts or outlooks).

Transitional arrangements

IFRS 16 offers two transitional approaches, the full retrospective method and the modified retrospective method. The modified retrospective method enables entities to calculate some of the impacts of first application in a simplified way, but it does not allow them to restate comparative financial information.

An entity using the modified retrospective method may present restated prior-period information outside the financial statements. This information would be considered as alternative performance measures (APM) and fall under the scope of the related ESMA Guidelines.
5. Additional topics

5.1 Disclosures on business combinations

As explained in our introduction, the AMF does not give any details of ESMA’s recommendations on business combinations, and refers entities to the European regulator’s document.

In its recommendations, ESMA highlights:

- the importance of the analysis and disclosures on the fair values of the assets and liabilities thus acquired, and how this fair value was determined,
- the disclosures and additional analyses required in the event of bargain purchases,
- the standard’s specific requirements and the analyses to be carried out on the recognition of agreements for contingent payments to employees or selling shareholders,
- the lack of clarity in IFRS standards as to whether to recognise a liability in the case of a mandatory tender offer, and the accounting treatment of combinations under common control.

5.2 Brexit

In their recommendations, the regulators urge issuers potentially affected by the United Kingdom’s decision to leave the European Union to:

- continue to monitor the leaving process;
- assess and disclose the associated risks and expected impacts on their business strategy and activities, in the IFRS financial statements or in the management report as appropriate.

The two regulators note that Brexit may have long-term effects on the recognition and measurement of deferred taxes.
Events and FAQ

Frequently asked questions

IFRSs

- Accounting for provisions for major repairs.
- Disposal of a tax credit receivable (CICE).
- Impact of a capital increase on a plan for the allocation of free shares (dilution effect).
- Recognition of an IFRS 2 graded vesting plan.
- Modification of an IFRS 2 plan increasing the fair value of the equity instruments granted.
- Debt renegotiation.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

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