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Beyond the GAAP

MAZARS' NEWSLETTER ON ACCOUNTING STANDARDS

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EDITORIAL

Now that the pace of accounting standardisation has slowed down a little, and pending the IASB's feedback (expected by the end of the year) on the 200-odd comment letters received in response to the exposure draft on the presentation of financial statements, this month's edition of Beyond the GAAP turns to news about the non-financial reporting in relation with environmental, social and governance indicators (ESG).

The underlying trend observed for several months (indeed, years) towards a growing overlap between financial and non-financial reporting seems even more pressing at a time when the European Union has shifted up a gear in its approach to the standardisation of non-financial reporting by involving EFRAG, the European Financial Reporting Advisory Group.

While it is too early to say, in light of all the current discussions elsewhere in different groups and bodies internationally, whether Europe's initiative will ultimately be enforced on European companies, at first sight this stage marks a major step forward that deserves a closer look in this edition.

Enjoy your reading!

Edouard Fossat Carole Masson

IFRS highlights

IASB work plan: few changes in September

As every month, the IASB has updated its work plan as a result of the September meeting of the Board.

The main change relates to the standard-setting project on rate-regulated activities, where the publication of the exposure draft has been pushed back from Q4 2020 to Q1 2021.

The other changes mainly consist of clarifications regarding the next steps in a number of ongoing projects:

Standard-setting projects:

- Management commentary: the exposure draft on revising the Practice Statement is now expected in Q1 2021 (previously announced for H1 2021).

Maintenance projects:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction: the IASB will take its decision on the direction of this draft amendment to IAS 12, published in July 2019, in October (previously announced for Q4 2020).

Research projects:

- Pension Benefits that Depend on Asset Returns: the review of the initial research is expected in November (previously announced for Q4 2020).

For more details, the IASB work plan can be accessed at: https://www.ifrs.org/projects/work-plan/

Tentative IFRS IC decision on a sale and leaseback transaction via the sale of equity interest in a subsidiary

The Committee received a request about the applicability of IFRS 16 requirements to a transaction in which an entity sells its equity interest in a subsidiary that holds a single asset and then leases that asset back.

The fact pattern described in the request is as follows:

- the wholly-owned subsidiary holds only one asset, a building, and has no liabilities;
- the building the subsidiary holds does not meet the definition of a business (as defined in IFRS 3);
- the sale of the subsidiary relates to all the equity interest and results in the loss of control;
- the lease is concluded at a market rate;
- the transfer of the building satisfies the requirements in IFRS 15 to be accounted for as a sale of the building;
- the sale price equals the fair value of the building at the transaction date.

At stake is whether the entity should apply the sale and leaseback requirements in IFRS 16.

During its September meeting, the IFRS IC examined this question and tentatively concluded:

- that the entity loses control of the subsidiary and therefore applies paragraphs 25 and B97-B99 of IFRS 10 to account for the loss of control of the subsidiary;
- that the transfer of the building to the third party (through the sale of its equity interest in the subsidiary) satisfies the requirements in IFRS 15 to be accounted for as a sale of the building. Therefore, the sale and leaseback requirements in IFRS 16 paragraph 100(a) apply. The entity therefore measures the right-of-use asset at the proportion of the previous carrying amount of the building in which it retains a right of use, and recognises only the amount of any gain that relates to the rights transferred to the third party.

Accordingly, the IFRS IC considers that the transfer of the building via the sale of the equity interest in the subsidiary is no obstacle to the application of the provisions of the sale and leaseback requirements of IFRS 16. The Committee tentatively decided not to add this matter to its work plan.

This tentative decision was published in the September IFRIC Update, which can be consulted at the following address: https://www.ifrs.org/news-and-events/updates/ifric-updates/september-2020/.

It is open to comments until 23 November.

Standard-setting for global sustainability and the role of the IFRS Foundation

On 30 September, aware of the heightened importance of sustainability reporting and the associated challenges, including comparability, the IFRS Foundation Trustees launched a public consultation on the need for global sustainability standards and the role that the Foundation might play in their development.

The Consultation Paper which has just been published sets out possible ways the Foundation might contribute to the development of global sustainability standards by broadening its current remit beyond the development of financial reporting standards and using its experience in international standard-setting.

This consultation can be accessed on the IASB site at: https://www.ifrs.org/news-and-events/2020/09/ifrs-foundation-trustees-consult-on-global-approach-to-sustainability-reporting/

Comments may be submitted no later than 31 December 2020.

The IASB publishes issue 21 of the Investor Update

On 23 September the IASB published the 21st issue of Investor Update. This publication aims to keep investors up to speed on actual or expected changes in IFRSs and how they will affect companies.

This issue focuses on:

- COVID-19-related rent concessions and the May 2020 amendment to IFRS 16;
- supply chain finance in conjunction with the IFRS IC discussions (see the study published in Beyond the GAAP no. 146 of July-August 2020).

This publication can be accessed on the IASB site at: https://www.ifrs.org/investor-centre/investor-update-hub/september-2020/

EUROPEAN highlights

EFRAG launches a consultation on the DP Business Combinations—Disclosures, Goodwill and Impairment

On 19 March, the IASB issued a Discussion Paper entitled Business Combinations—Disclosures, Goodwill and Impairment (see the study published in Beyond the GAAP no. 143 of April 2020). This discussion paper is published in advance of an exposure draft, so no changes to the standard should be expected in the near future.

One of the main discussion points relates to the absence of any questioning of the current model for the impairment of goodwill. The IASB is not currently proposing to review the amortisation of goodwill. Nonetheless, following a narrow majority on this key topic, the IASB has expressed an interest in hearing from the stakeholders.

Therefore, and taking advantage of the extension of the comments period until 31 December 2020, EFRAG has organised a consultation of preparers, via either a fairly short questionnaire (30 min) or a brief interview.

This consultation is intended more particularly for preparers with an acquisition operation in progress or presenting material goodwill amounts in their financial statements. One of the objectives is to obtain the opinion of preparers on the usefulness and feasibility of presenting the financial information required in the IASB discussion paper, for example on the "success" of an operation. Another objective is to identify ways of improving goodwill impairment testing.

EFRAG expects preparers' responses before 26 October and emphasizes that this consultation stage is key to influencing the standard-setting process.

For more details of the consultation, visit the EFRAG site at: http://www.efrag.org/News/Project-436/Your-opinion-matters--Questionnaire-for-preparers--How-could-accounting-for-goodwill-be-improved

A CLOSER LOOK

The European Union enters the race to standardise non-financial reporting

In early 2020, the European Commission announced its intention of presenting a renewed sustainable finance strategy, aimed at strengthening the means employed to meet Europe's climate commitments that are intended to make Europe the first carbon-neutral continent by 2050.

The revision of the Non-Financial Reporting Directive (NFRD) takes pride of place in this Sustainable Finance 2.0 strategy. Adopted in 2014, the NFRD amended the 2013 accounting Directive (on annual financial statements and consolidated financial statements). Since 2018[†] it has required certain large undertakings and groups to publish an annual report on the environmental and social impact of their business.

1. Increased awareness of the importance of non-financial reporting, but a practice that still needs improvement

The importance of non-financial information that is comparable in quality to financial information, making it possible both to direct financial flows towards projects that contribute to European and international environmental and social objectives and to measure the real impact of these projects, is now widely accepted by all economic and financial players, by public authorities and within civil society.

However, there are still many areas for improvement in current non-financial reporting practice, as highlighted in the introduction to the consultation document published earlier this year by the European Commission to gather the opinions of stakeholders ahead of the revision of the NFRD.

In particular, the non-financial information presented is not sufficiently reliable or comparable, and not all the relevant information is always disclosed.

Further, the cost of producing this non-financial information is too high for entities.

2. The European Union goes to work...

On this basis, the Commission has also announced its intention to consider the creation of a European standard-setter for non-financial information.

To this end, in July 2020 it asked the Europe Financial Reporting Advisory Group (EFRAG) to undertake preparatory work for the adoption of European standards in order to provide the Commission with technical advice on the introduction of a robust standard-setting process.

A Task Force has been set up to carry out this work. Its composition was announced in early September. It is chaired by Patrick de Cambourg[‡], the current President of the French accounting standard-setter (the ANC).

3. ...but other initiatives have been launched too!

The European Union's initiative seems to have kicked off a race for the standard-setting of non-financial reporting, among international players. Since the creation of the European Task Force, many similar initiatives, taken in more or less scattered order, have been announced:

- on 11 September, the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) – five international organisations whose conceptual frameworks, standards and platforms currently guide a very high proportion of non-financial and integrated reporting – announced a shared vision of what is needed for progress towards comprehensive corporate reporting (integrating financial and non-financial reporting) – and the intent to work together to achieve it;
- on 23 September, the World Economic Forum, along with a number of major accounting firms, published a set of non-financial indicators (ESG metrics). 140 businesses comprising the International Business Council, which was behind this initiative, immediately undertook to apply them. International companies as a whole were urged to follow suit to facilitate the comparability of non-financial statements;
- finally, a week later, the IFRS Foundation announced the launch of a consultation to assess the scale of the need and demand for international standards in non-financial reporting and the extent to which the IFRS Foundation could contribute to the development of such standards (see our report under 'IFRS Highlights' in this issue).

While we can only welcome the growing awareness of the urgent need to provide all stakeholders concerned by non-financial information with the tools for effective and

† First application to reporting periods current at 1st January 2017, with the first reports having been published in 2018.

‡ Readers will recall that in May 2019 Patrick de Cambourg presented a report to the French Minister of Economy and Finance on "Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe".

transparent management of sustainable policies (whether at entity or sectoral level, within countries or even across a continent), we cannot help but be struck by the irony of this situation. A large part of the current difficulties encountered by issuers and users of non-financial information stems precisely from the proliferation and fragmentation of diverse initiatives, with multiple and potentially competing objectives, which are sources of confusion for many people. So it seems difficult at this stage to identify the path towards the rapid, yet robust and independent "rationalisation" that the world seems to need.

Against this background, it is reasonable to assume that while the formal decision to create a European standard-setter has yet to be taken by the Commission, this is now purely a matter of form. The real question now seems to be how to make quick and effective progress, integrating the worthy aspects of these international initiatives, without being held back by political games.

A response is expected in early 2021. The EFRAG Task Force, which began its work on 11 September 2020, will deliver its conclusions to the European Commission on 31 January.

Events and FAQ

Frequently asked questions

IFRSs

- Analysis of a reverse factoring programme
- Accounting treatment of insurance claims for operating losses
- Recognition of debt waiver with return-to-profit clause
- Recognition of buy-back of convertible bonds
- Impact of a restructuring plan on asset values
- Analysis of the deconsolidation effect of a programme to assign receivables
- Presentation of financial statements: classification as "non-recurring" during the health crisis
- Deferred taxes: initial recognition exception

UPCOMING MEETINGS OF THE IASB, IFRS INTERPRETATIONS COMMITTEE AND EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
26-30 October	1-2 December	8 October	21-22 October
16-20 November	2 February	30 October	3 December
14-18 December	16-17 March	17 November	19-20 January