Beyond the GAAP

Mazars' newsletter on accounting standards

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Editorial

While 2020 has required a lot of work on the accounting impacts of the public health crisis, it should also be noted that most companies are now done with the upheaval resulting from the implementation of new standards (although IFRS 16 remains an enforcement priority at 31 December).

With an eye to the year-end closing of accounts, this issue of Beyond the GAAP presents an overview of applicable IFRSs. We also look at two draft documents published very recently by the IASB: the exposure draft on accounting for a lease liability following a sale and leaseback transaction with variable payments, and the discussion paper on business combinations under common control.

Finally, July 2021 will see the end of an era and the start of a new one, as Andreas Barckow replaces Hans Hoogervorst as Chair of the IASB. With several new appointments to the Board also taking place, will these changes signal a shift in strategic direction for some projects?

IFRS highlights

Lease liability in a sale and leaseback: IASB publishes Exposure Draft

On 27 November, the International Accounting Standards Board (IASB) published Exposure Draft ED/2020/4, entitled “Lease Liability in a Sale and Leaseback”, which aims to clarify how a seller-lessee should apply the requirements of IFRS 16 for subsequent measurement of leases arising from sale and leaseback transactions.

This Exposure Draft follows an agenda decision from the IFRS Interpretations Committee (IFRS IC) on the accounting treatment of sale and leaseback transactions with variable payments, which was published in the June 2020 IFRIC Update (cf. Beyond the GAAP no. 145, June 2020). The IASB announced in May 2020 that it would publish an Exposure Draft on the topic.

The Board’s proposed amendments to IFRS 16 primarily focus on clarifying how paragraphs 36 to 38 of the standard should be applied to subsequent measurement of lease liabilities resulting from sale and leaseback transactions with variable payments.

More specifically, the Exposure Draft proposes that, in a sale and leaseback transaction, the seller-lessee should:

- determine the proportion of the transferred asset that relates to the retained right-of-use asset (i.e. the right of use that the seller-lessee retains through the lease) by comparing (a) the present value of expected payments for the lease (including those that are variable), and (b) the fair value of the transferred asset at the date of the transaction;
- recognise a lease liability at an amount corresponding to the present value of the expected lease payments (including any expected variable lease payments);
- subsequently measure the lease liability by reducing its carrying amount to reflect the expected lease payments – but without re-measuring it to reflect any change in future variable lease payments – and recognise any (positive

or negative) difference between actual and expected lease payments in profit or loss.

As regards the transition requirements, the IASB proposes that the requirements should be applied retrospectively in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, unless this is not possible without the use of hindsight. If retrospective application is only possible with the use of hindsight, the seller-lessee shall determine the lease payments at the beginning of the period in which it first applies the amendment.

The IASB is also planning to add two new illustrative examples to IFRS 16.

The Exposure Draft is available here, and the comment period is open until 29 March 2021.

Discussion Paper on business combinations under common control

On 30 November, the IASB published a Discussion Paper on Business Combinations under Common Control (BCUCC), focusing on mergers and acquisitions involving entities within the same group.

Readers will remember that IFRS 3 – *Business Combinations* excludes these transactions from its scope, despite the fact that they are common in practice.

Aiming to reduce diversity in practice

In the absence of IFRS requirements on this topic, companies end up presenting similar transactions in various ways: some use an approach based on the fair value of the acquired business (the acquisition method), while others use an approach based on its book value. Through this Discussion Paper, the Board is aiming to reduce this diversity in practice and thus to improve the transparency and comparability of financial reporting on these transactions.

What the IASB is proposing

Rather than imposing a single method (acquisition method or book-value method) for all such transactions, the IASB is proposing that the chosen approach should depend on the characteristics of the transaction. If the transaction does not affect the non-controlling shareholders of the receiving company, the book-value method should be used.

If the non-controlling shareholders are affected, particularly in cases where the shares of the receiving company are traded in a public market, then unless an exemption or exception applies, the acquisition method should be used (as for business combinations between unrelated companies falling within the scope of IFRS 3).

A decision tree is used to illustrate the various questions that should be considered in order to determine whether the book-value method or acquisition method should be used.

What the IASB is expecting from the consultation

In the Discussion Paper, the Board is seeking for feedback on when each measurement method should be applied, how these methods should be applied, and the disclosure requirements.

The comment period closes on 1 September 2021.

The press release and all the documents published by the IASB are available here.

Taking climate-related matters into account in IFRS financial statements

In an environment of increasingly rapid development of standards for non-financial reporting, the IFRS Foundation published an educational document in November. It reminds issuers that although IFRS standards do not explicitly refer to climate-related matters, they nonetheless require such matters to be taken into account if their impact on the financial statements as a whole is material. For this, the Foundation draws on the concept of materiality as recently redefined in IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors.* IFRS Practice Statement 2: *Making Materiality Judgements* provides useful practical guidance on the topic. The Foundation also notes that companies frequently have to make use of judgement to assess whether information is material, when preparing their IFRS financial statements.

In the educational material published in November, the Foundation provides a non-exhaustive list of provisions in IFRSs that may require entities to reflect the impact of climate-related matters (and of other emerging risks) in their financial statements, if this impact is material for the entity in question. These provisions are likely to apply if significant use of judgement is made in determining carrying amounts, estimates and/or disclosures required in the notes.

The IFRS Foundation also emphasises that IAS 1 requires issuers to consider whether they need to provide additional information, beyond what is specified in the standards, if investors would need this information in order to understand the impacts of climate-related matters on a company's financial position and performance.

The November 2020 publication is available here.

IASB adds Post-implementation Review of part of IFRS 9 to its work plan

At its 18 November meeting, the IASB reached a number of decisions on the Post-implementation Reviews (PIRs) of IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers.*

PIRs of IFRS 9

Readers will remember that the IASB validated three PIRs, one for each phase of IFRS 9, at its October meeting.

The PIR on the classification and measurement phase was added to the IASB's work plan in November. Work will begin as soon as possible.

The Board will consider the start dates for the PIRs of the impairment and hedge accounting phases in the second half of 2021.

PIR of IFRS 15

The start date of the IFRS 15 PIR will also be discussed in the second half of 2021.

Andreas Barckow appointed as IASB Chairman

On 12 November, the IFRS Foundation announced the appointment of Andreas Barckow, who is currently the President of the Accounting Standards Committee of Germany (Deutsches Rechnungslegungs Standards Committee or DRSC), as Chair of the IASB. His term will commence in July 2021.

He succeeds Hans Hoogervorst, who has led the IASB for 10 years.

The IASB's press release is available here.

Appointments to IFRS Advisory Council

On 17 November, the Trustees of the IFRS Foundation announced the appointments and re-appointments of several members of the IFRS Advisory Council, which provides strategic support and advice to the Trustees and Board members.

The new individual appointments and newly appointed representatives for organisations already on the Advisory Council are:

- Thorsten Sellhorn – European Accounting Association (EAA) President; Professor of Accounting and Director of the Institute for Accounting, Auditing and Analysis at Ludwig-Maximilian University Munich's School of Management;
- Saskia Slomp – European Financial Reporting Advisory Group (EFRAG) CEO;
- Antonio Quesada – Member of the International Organization of Securities Commissions (IOSCO) Board; Chair of the IOSCO Inter-American Regional Committee; Vice President of Regulatory Policy at the Mexican National Banking and Securities Commission (CNBV);
- Marie Seiller – Member of IOSCO Committee on Issuer Accounting, Audit and Disclosures; Chief Accountant at the French Autorité des Marchés Financiers (AMF);
- Alan Trotter – Chief Financial Officer: Europe, Middle East & Africa chez Invesco at the Investment Company Institute
- Barbara McGowan – Lead Policy Officer at the World Bank;
- Eduardo Flores – Assistant Professor at University of São Paulo - School of Accounting and Actuarial Science;
- Tania Wimberley – Head Financial Reporting Issuer Regulation Division at the Johannesburg Stock Exchange.

All appointments take effect 1 January 2021 and are for a three-year period.

The full press release is available here.

European highlights

EFRAG launches outreach on financial information on rate-regulated activities

Readers will remember that the IASB is currently carrying out a standard-setting project on rate-regulated activities, with an Exposure Draft scheduled for the first quarter of 2021. The objective is to improve the information provided to users of financial statements, particularly regarding the incremental rights and obligations arising from these rate-regulated activities.

EFRAG has prepared a presentation introducing the IASB's proposed model and is inviting preparers of financial statements of rate-regulated entities to participate in an outreach as part of an early-stage analysis of the potential impacts of the new model. The consultation will take the form of a short survey questionnaire (30-45 minutes), with follow-up interviews where needed.

The presentation on the IASB's proposed model, and details of the consultation process, are available here until 17 December 2020.

Standards and interpretations applicable at 31 December 2020

Now that accounts are being finalised for 31 December 2020, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (position as at 6 November 2020, available on EFRAG's website here).

As a reminder, the following principles govern the first application of the IASB's standards and interpretations:

1. The IASB's draft standards cannot be applied as they do not form part of the published standards.
2. The IFRS IC's draft interpretations may be applied if the two following conditions are met:
    - the draft does not conflict with currently applicable IFRSs;
    - the draft does not modify an existing interpretation which is currently mandatory.
3. Standards published by the IASB but not yet adopted by the European Union at 31 December may be applied if the European adoption process is completed before the date when the financial statements are authorised for issue by the relevant authority (i.e. usually the board of directors).
4. Interpretations published by the IASB but not yet adopted by the European Union at the date when the financial statements are authorised for issue may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that the notes of an entity applying IFRSs must include the list of standards and interpretations published by the IASB but not yet effective that have not been early applied by the entity. In addition to this list, the entity must provide an estimate of the impact of the application of those standards and interpretations.

As relates to minor amendments and interpretations, it seems relevant to limit such list to only those amendments and/or interpretations which are likely to apply to the entity's activities.

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2020
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1/01/2016 Early application permitted	No endorsement The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard	Not permitted
IFRS 17	IFRS 17 Insurance Contracts(issued on 18 May 2017); including Amendments (issued on 25 June 2020)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2020
Amendments to IFRS 4	Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020)	1/01/2021 (the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 has been deferred to 1 January 2023)	Awaiting endorsement by the EU (date not yet announced)	-
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	Postponed Early application permitted	Deferred	Permitted (1)
Amendments to the Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1/01/2020	6 December 2019 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IAS 1 and IAS 8	Definition of Material (issued on 31 October 2018)	1/01/2020 Early application permitted	10 December 2019 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform (issued on 26 September 2019)	1/01/2020 Early application permitted	16 January 2020 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IFRS 3	Definition of a business (issued on 22 October 2018)	1/01/2020 Early application permitted	22 April 2020 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IAS 1	Classification of Liabilities as Current or Non-current (Issued on 23 January 2020) - Deferral of Effective Date (Issued on 15 July 2020)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use (issued on 14 May 2020)	1/01/2022 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted

(1) If the entity had not developed an accounting policy

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2020
Amendments to IFRS 3	Reference to the Conceptual Framework (issued on 14 May 2020)	1/01/2022 Early application permitted (if the entity applies at the same all others updates to the Conceptual Framework of March 2018)	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract (issued on 14 May 2020)	1/01/2022 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted (2)
Annual Improvements to IFRSs 2018–2020 Cycle	Annual improvements to various Standards (issued on 14 May 2020)	1/01/2022 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 16	Covid-19-Related Rent Concessions (issued on 28 May 2020)	1/01/2020 Early application permitted	12 October 2020 Optional application for annual reporting periods beginning on or after 1 June 2020.	Permitted
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	1/01/2021 Early application permitted	Awaiting endorsement by the EU (date not yet announced	Not permitted

(2) If the amendment is endorsed before the date when the financial statements are authorised for issue or if the amendment is a clarification of an existing standard and is not in contradiction with current standards

Events

Publications

Financial information of European entities in the context of the Covid-19 Outbreak: Key findings based on interim financial statements as of 30 June 2020

Mazars issues a European benchmark on Eurostoxx50 companies (complemented by five UK groups listed on the LSE350 particularly affected by the crisis).

Despite sectoral and geographical disparities, this study shows that as of June 30, 2020, continental European groups have communicated in an innovative way, striking a subtle balance between the disproportionate pervasiveness of the crisis and the need for accurate accounting to reflect financial performance.

This study provides an overview of the qualitative and quantitative disclosures as well as of the accounting methods used. It also highlights financial reporting practices that could be useful in preparing the annual closing, which (unfortunately) risks being as complicated as the interim one.

This study is available here

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[1] Where permitted under applicable country laws

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