

# Beyond the GAAP

Mazars' newsletter on accounting standards



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## EDITORIAL

The 2013 annual statements are drawing near! As every year, we present the list of IFRS standards and interpretations applicable to this reporting date. We also invite you to take a close look at the AMF's Recommendations and ESMA's *Enforcement priorities* for 2013.

During this period, the IASB and the FASB have been continuing their work plan.

The IFRS Interpretations Committee has completed its reflections on discount rates in IAS 19, and has begun to address the application difficulties of IFRS 11.

We may legitimately wonder about the timing of this work, given that the question of discount rates was particularly pressing at the end of 2012, and that European entities are preparing to apply IFRS 11 in 2014 while Canada, South Africa and other countries are already applying it.

Even if they come a little late, it is important to follow these debates and to comment where necessary on the directions they take.

Enjoy your reading!

Michel Barbet-Massin      Edouard Fossat

# IFRS Highlights

## Narrow-scope amendment to IAS 19 – Defined Benefit Plans: Employee Contributions

On 21 November 2013, the IASB published a narrow-scope amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment simplifies the accounting for contributions that are independent of the number of years of employee service; for example, employee contributions that are calculated according to a fixed percentage of salary. It indicates that these contributions are accounted for as a reduction in the service cost for the period in which they are paid.

Those amendments should be applied for annual period beginning on or after the 1 July 2014 retrospectively in accordance with IAS 8. Early application is permitted.

In Europe, the endorsement of this text is expected during Q3 2014, according to the last update of the Endorsement Status Report published on the EFRAG site of 12 December 2013.

## Narrow-scope amendment to IAS 27 - Equity method

On 2 December 2013, the IASB published a draft narrow-scope amendment to IAS 27 entitled *Equity Method in Separate Financial Statements*. The proposed changes to IAS 27 would allow entities to use the equity method to account for their investments in subsidiaries, joint ventures and associates in their separate financial statements. The IASB believes that this amendment will reduce the cost of preparing separate financial statements while providing the necessary information for measuring the assets and net result of the investor.

The IASB has set the comments period at 60 days, meaning that it will expire on 3 February 2014.

The exposure draft can be accessed on the IASB web site at: <http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-27-Separate-Financial-Statements/Exposure-Draft-December-2013/Pages/Exposure-Draft-and-Comment-letters.aspx>

## Discount rates in IAS 19: Interpretations Committee discussions end with a “wording for rejection”

In November 2012 the IFRS Interpretation Committee (IFRS IC) received a request for guidance on the determination of the rate used to discount post-employment benefit obligations, with reference to the concept of High Quality Corporate Bonds. At the end of its November 2013 meeting the Committee decided not to add this issue on its agenda and recommended that this issue should be addressed in the IASB's research project on discount rate.

In its decision, the committee noted that paragraphs 84 and 85 of IAS 19 state that the discount rate:

- must reflect the time value of money but not the actuarial or investment risk;
- must not reflect the entity-specific credit risk;
- must not reflect the risk that future experience may differ from actuarial assumptions; and
- must reflect the currency and the estimated timing of benefit payments.

In its final decision, the Committee also clarified that:

- the concept of HQCB is an absolute concept, since the term used is ‘high quality’ and not ‘the highest quality’;
- the notion of HQCB should not change over time, and the method of determining the rate should not be changed while the HQCB market remains deep;
- the discount rate is typically an actuarial assumption, and an entity must disclose its method of determination.

Readers will remember that an amendment to IAS 19 will be proposed in the Annual Improvements 2012-2014 cycle to address the other aspect of the determination of the discount rate discussed by the Committee, in order to clarify that discount rate should be denominated in the same currency as the benefits to be paid, thus that the depth of the market for HQCB should be assessed at currency level..

## IFRS 2 Measurement of cash-settled plans including a performance condition

The IFRS Interpretations Committee (IFRS IC) received a request to clarify the measurement of cash-settled share-based payment transactions under IFRS 2 that include a performance condition. The request asked if a performance condition in a cash-settled payment transaction should be measured consistently with the way in which it is taken into account in an equity-settled transaction that includes a performance condition.

During its September 2013, the Committee tentatively decided that:

- IFRS 2 does not address the impact of vesting conditions (including the effect of a performance condition) within the context of cash-settled share-based payment transactions; and
- the measurement of cash-settled share-based payment transactions that include a performance condition should be consistent with that of equity-settled awards that also include a performance condition.

During its November 2013 meeting, the Committee continued its discussions and finally recommended that the IASB should amend IFRS 2 to clarify that:

- the effect of a market condition or a non-vesting condition should be reflected in estimating the fair value of the cash-settled share-based payments both at the grant date and subsequently;

- vesting conditions (other than market conditions) should not be taken into account when estimating the fair value of cash-settled share-based payments, but should be taken into account in the measurement of the liability incurred by adjusting the number of awards expected to vest. This estimate should be revised when the liability is premeasured at each reporting date;
- on a cumulative basis, no amount is recognised for goods or services received if the awards granted do not vest because of failure to satisfy a vesting condition or a non-vesting condition.

The Committee ended its discussions by recommending the IASB to amend IFRS 2 as part of the improvements process.

## IAS 12: Recognition and measurement of deferred tax assets when an entity is loss making

The IFRS Interpretations Committee (IFRS IC) received a request for guidance on the recognition and measurement of deferred tax assets when an entity is loss-making, in particular when tax laws limit the extent to which losses can be recovered against future profits (e.g. when tax law restricts the recovery of tax losses to 60 per cent of taxable profit in each year).

The Committee had a preliminary discussion on the issue during its November meeting and directed the staff to do some further analysis, including presenting a recommendation at a future meeting.

No doubt these debates will be closely followed by preparers given the recent evolution of fiscal regulations in Europe towards more restrictive conditions for recovering tax losses.

## IFRS Interpretations Committee addresses the application difficulties of IFRS 11 - at last

After several months of dithering, IFRS 11 has finally been re-opened. In November, the IFRS Interpretations Committee staff raised the many questions that preparers and auditors have been asking for months about the new standard on joint arrangements. It will be remembered that while this standard is not mandatory in Europe until 1 January 2014, it has been applicable under IASB standards since 1 January this year. So resolving its practical problems is a matter of some urgency.

The staff has compiled a list of the areas of concern based firstly on spontaneous questions put to the Committee (for example, a question posed by the French federation of property developers on the classification of civil construction and sale companies (SCCV), a widespread type of joint arrangement in the property development sector), and secondly on the outreach request launched in July 2013 among targeted stakeholders. There were a host of questions, suggesting both a lack of clarity in the principles of the standard and inadequate guidance preventing a uniform application of these principles in practice. This particularly applies to the classification of a joint

arrangement as a joint operation or a joint venture. This has significant accounting impacts, since joint ventures must be accounted for by the equity method, whereas joint operations are subject to an accounting treatment close to proportional consolidation.

As a result of the staff's summary of these application difficulties, the Committee decided to tackle the following two issues as a matter of priority, starting at its January 2014 meeting:

- When defining a joint arrangement as a joint operation or a joint venture, should an assessment of 'other facts and circumstances' take into account elements that do not involve contractual and legally enforceable terms?
- When a joint arrangement structured through a separate vehicle meets the definition of a joint operation, how should the parties recognise their direct rights and obligations (i.e. how should the assets, liabilities, revenues and expenses of each party be accounted for in practice), especially if the parties' interests in the assets and liabilities differ from their ownership interest in the joint operation?

It is impossible to know at this stage whether the Committee will actually meet the expectations of stakeholders. The committee may decide to refer the matter back to the IASB if it appears that the principles of IFRS 11 need clarification, and that this cannot be achieved through simple agenda decisions or an interpretation. It is therefore possible that preparers will have to wait a while yet for the answers to their questions. However, as the AMF reminds us in its recommendations (see the special study in this edition) the annual statements at 31 December 2013 should reflect the exact impacts expected from the application of IFRS 11. This may be a complicated matter for some entities.

## The IASB decides to proceed with the revised amendments to IAS 16 and IAS 38 regarding acceptable depreciation methods

In December 2012, the IASB published for comment the Exposure Draft ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38). This Exposure Draft stated that a method that uses revenue generated from an activity that includes the use of an asset is not an appropriate depreciation / amortisation method.

One of the main subjects of debate following the publication of the Exposure Draft was to determine whether there could be limited circumstances in which revenue-based depreciation / amortization method would be appropriate (since revenue-based methods are commonly used in some industries – for instance, they are commonly used in the media industry to determine the amortization expense for film or TV program rights).

At the November 2013 meeting, the IASB decided to proceed with the proposed amendments subject to some wording changes. These proposed amendments to IAS 16

and IAS 38 would in particular add a rebuttable presumption to IAS 38 that revenue is presumed to be an inappropriate basis for measuring depreciation expense, unless either it can be demonstrated that there is a strong correlation between revenue and the consumption of the asset or there is an unusual circumstance in which the intangible right is expressed as a measure of revenue.

## IASB postpones the mandatory application of IFRS 9

The IASB has amended IFRS 9 to remove the mandatory effective date, 1 January 2015, without proposing a new date.

During the November 2013 meeting, the IASB:

- clarified that it will only be able to determine the mandatory effective date of IFRS 9 when phases 1 (classification and measurement) and 2 (impairment) have been completed; and
- tentatively decided that, to assist preparers with their planning, the mandatory effective date of IFRS 9 will be no earlier than 1 January 2017.

## Early application of IFRS 9

From the point of view of the IASB, early application of IFRS 9 is permitted:

- either by applying all the chapters of IFRS 9 which have been published so far (i.e. Phase 1 in its 2010 version and Phase 3);
- or all the requirements of IFRS 9 published at this stage with the exception of the chapter on hedge accounting (to which IAS 39 will continue to apply);
- or IFRS 9 in its version published in 2010;
- or IFRS 9 in its version published in 2009;
- or only the provisions on the presentation of the own credit risk component for financial liabilities optionally measured at fair value through profit or loss<sup>1</sup>.

However, it should be remembered that European entities must await the adoption of these texts by the European Union before applying them.

At present, the endorsement of IFRS 9 by Europe has been suspended. Consequently, the latest amendments to the standard will have no short-term impact European entities.

<sup>1</sup> As a reminder, this provision introduced in 2010 requires that the impact of changes of the own credit risk in the fair value of financial liabilities optionally measured at fair value through profit or loss be recognised as a non-recyclable component of other comprehensive income (OCI), and no longer in profit or loss. However, the IASB has not included these provisions in IAS 39. This option of early application enables an entity to remain under IAS 39 but to make immediate use of this method of accounting for the credit risk component.

## Publication of amendment to IFRS 9 incorporating the final provisions of the new general model for hedge accounting

On 19 November 2013, the IASB published an amendment to IFRS 9 with the primary aim of incorporating the now-finalised section of the general hedge accounting model.

The IASB has also introduced other changes to IFRS 9 via this amendment which we present in the Highlights below.

## Impairment of financial assets (Phase II of IFRS 9/ Impairment) –the future impairment model based on expected losses is being finalized

During its November plenary session, the IASB confirmed several of the provisions contained in the IFRS 9 Phase 2 exposure draft published last March, including the provisions regarding (a) the recognition of interest income from impaired instruments, (b) the impairment of receivables measured at fair value through other comprehensive income (c) purchased or originated credit-impaired financial assets and (d) trade receivables and lease receivables. The IASB might reconsider the accounting treatment of lease receivables when the Leases project is finalised.

The IASB also discussed the impairment model applicable to revolving credit facilities. The board decided that expected credit losses, including expected credit losses on the undrawn portion of such facilities, should be estimated for the period over which an entity is exposed to credit risk and over which future drawdowns cannot be avoided.

## Classification of financial assets (IFRS 9 Phase 1) – IASB confirms the new asset categories and clarifies the business models criterions

During its deliberations on the forthcoming amendment to the Phase 1 of IFRS 9 on the classification and measurement of financial assets, the IASB continued to address the three classification categories for financial assets:

- fair value through profit or loss (FV-P&L), which should remain the residual measurement category;
- fair value through other comprehensive income (FV-OCI); and
- amortised cost.

Asset allocation within these categories continues to be based on a business model criterion so that every asset is assigned to the category which provides users of financial statements with the most relevant information for understanding how activities and risks are managed.

The business model must be assessed at a level that reflects (groups of) financial assets managed together to achieve a particular objective. The IASB will also clarify that every 'what if' or worse-case scenarios should not influence the

initial assessment of the business model if the entity does not reasonably expect those scenarios to occur.

The board also discussed the 'hold to collect' business model' associated with the amortised cost category, and clarified that:

- insignificant and/or infrequent sales may not be inconsistent with the hold to collect business model;
- credit risk management activities aimed at minimising potential credit losses due to credit deterioration are integral to the hold to collect objective.

The FV-OCI category should continue to be associated with a business model that consists of managing financial assets both to collect contractual cash flows and for sale with a view of achieving a particular objective (liquidity management, duration, interest rates risk managements etc.).

Assets managed on a fair value basis, or held for trading purposes, must be measured at FV-P&L.

Assuming that the initial assessment was correct and included all the relevant and objective information available at the date of initial assessment, the initial classification would not be changed if cash flows are realised in a way that is different from the entity's expectations at the initial assessment date. In this context, the board indicated that the actual level of subsequent sales alone should not result in a change in the original classification.

A change in the business model will occur only when an entity has either stopped or started doing something on, a level that is significant to its operations (e.g. has acquired or disposed of a business line). In the light of these provisions, the IASB expects that reclassification of financial assets after their initial recognition will be very infrequent.

## Accounting for financial instruments – IFRS IC clarifies the application of paragraph IG B.6 of IAS 39

During its November meeting, the IFRS Interpretations Committee clarified its reading of paragraph B.6 of the Implementation Guide to IAS 39, which aims to determine when an entity should analyse the substance of transactions, aggregating them rather than treating them separately.

Paragraph B.6 considers the case of lending and borrowing transactions perfectly matched in terms of maturity and nominal amounts and concluded with the same counterparty. One carries a fixed interest rate, and the other a variable rate such as Euribor + margin. Paragraph B.6 concludes that these two instruments must be aggregated and accounted for, as a single instrument (in this instance, a derivative / interest rate swap), because:

- they are entered into at the same time and in contemplation of one another;

- they have the same counterparty;
- they relate to the same risk, and;
- there is no apparent economic need or substantive business purpose for structuring the transactions separately rather than as a single transaction.

The IFRS IC requires entities to exercise judgment in analysing such situations. It considers that the presence, or the absence, of just one of these indicators is not conclusive.

## ANC updates its recommendations on the presentation of the IFRS consolidated financial statements

The French accounting standards setter, ANC (Autorité des Normes Comptables), has just published the updated versions of its three recommendations on the presentation of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (Recommendations n°2013-03, n°2013-04 and n°2013-05).

These recommendations can be consulted at: [http://www.anc.gouv.fr/sections/textes\\_et\\_reponses\\_2/textes\\_adoptes\\_en\\_20/recommandations/recommandations\\_2013/view](http://www.anc.gouv.fr/sections/textes_et_reponses_2/textes_adoptes_en_20/recommandations/recommandations_2013/view)

## Improvements to IFRSs: the IASB issued two cycles

On 12 December 2012, the IASB issued 'Annual Improvements to IFRSs 2010–2012 Cycle' and 'Annual improvements to IFRSs 2011–2013 Cycle', a collection of 11 minors amendments, on 9 standards.

In Europe, the endorsement of these two texts is expected in Q3 2014.

Beyond the GAAP will present the contents of these texts in an upcoming issue.

## Improvements to IFRSs – 2012-2014 Cycle

On 11 December 2013, the IASB published its draft Improvements to IFRSs – 2012-2014 Cycle. Comments can be submitted on the five amendments proposed (affecting four standards: IFRS 5, IFRS 7, IAS 19 and IAS 34) until 13 March 2014.

The exposure draft can be accessed on the IASB web site at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Exposure-Draft-December-2013/Pages/Exposure-Draft-and-Comment-letters.aspx>

# EUROPEAN Highlights

## Adoption of amendments to IFRS 10, IFRS 12, IFRS 27, IAS 27 and IAS 28 for investment entities

On 20 October 2013, the European Commission endorsed the amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 27 - Separate Financial Statements on investment entities.

Readers will remember that the amendments require that investment entities measure their subsidiaries at fair value through profit or loss account rather than consolidate them..

Note that the mandatory application date of these amendments has not been postponed, in comparison to that set by the IASB. In Europe, these amendments are therefore mandatory for financial years which are current at 1 January 2014. Early application is permitted.

The Regulation (EU) 1174/2013, published in the Official Journal on 21 November 2013, can be consulted at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:312:0001:0017:EN:PDF>

## ESMA publishes report on the accounting practices of European financial institutions

On 18 November 2013, ESMA published a report on the accounting practices of European institutions entitled '*Review of Accounting Practices: Comparability of IFRS Financial Statements of Financial Institutions in Europe*'.

In its report, ESMA evaluates the quality and transparency of the financial disclosures provided by 39 large European financial institutions and makes a number of recommendations, particularly in the following areas:

- structure and content of the income statement;
- liquidity and funding;
- hedging and the use of derivatives;
- credit risk;
- impairment of equity securities classified as available-for-sale.

The ESMA report can be consulted at:

[http://www.esma.europa.eu/system/files/2013-1664\\_report\\_on\\_comparability\\_of\\_ifrs\\_financial\\_statements\\_of\\_financial\\_institutions\\_in\\_europe.pdf](http://www.esma.europa.eu/system/files/2013-1664_report_on_comparability_of_ifrs_financial_statements_of_financial_institutions_in_europe.pdf)

## Reinforcing the European Union's contribution to International Financial Reporting Standards

In March 2013, the EU Commissioner for Internal Market and Services, Michel Barnier, appointed Philippe Maystadt to examine ways of reinforcing the EU's contribution to International Financial Reporting Standards (IFRS), and improving the governance of the European institutions developing these standards.

On 12 November Mr Maystadt presented his conclusions for strengthening the European Union's leading role in International Financial Reporting Standards. To achieve this objective, Mr Maystadt suggested action in three areas:

- **Process of adopting IFRSs in Europe:**  
Mr Maystadt suggests maintaining a "standard-by-standard" adoption procedure, including the possibility of accepting or rejecting a standard issued by the IASB, with the addition of adoption criteria not endangering financial stability and not hindering the economic development of the region. He suggested that the Commission could clarify the interpretation of the criterion specifying that a standard should contribute to the public interest.
- **Strengthening the European Union's influence:**  
For strengthening the European Union's influence in international accounting standard-setting, Mr Maystadt identified the following three options:
  - (a) reorganising EFRAG to increase its legitimacy and representativeness;
  - (b) transferring the tasks handled by EFRAG to ESMA;
  - (c) replacing EFRAG with a European Union agency.
- **Role of the Accounting Regulatory Committee (ARC).**  
Finally, Mr Maystadt's report suggests that the Accounting Regulatory Committee, ARC, should develop its dialogue with EFRAG at an earlier stage in the process, in order to be more effective in bringing influence to bear on the activities of EFRAG and the IASB.

The whole report can be accessed on the European Union web site at:

[http://ec.europa.eu/internal\\_market/accounting/docs/governance/reform/131112\\_report\\_fr.pdf](http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_fr.pdf)

On 5 December 2013, the IFRS Foundation published its comments on the main proposals in the Maystadt report. These comments can be consulted at:

<http://www.ifrs.org/Alerts/PressRelease/Pages/IFRS-Foundation-issues-comments-on-the-Maystadt-Report-December-2013.aspx>

# A Closer Look

## Standards and interpretations applicable at 31 December 2013

Now that accounts are being finalised for 31 December 2013, 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 12 December 2013).:

[http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFrag\\_Endorsement\\_Status\\_Report\\_12\\_December\\_2013.pdf](http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFrag_Endorsement_Status_Report_12_December_2013.pdf)

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

- IASB's draft standards cannot be applied as they do not form part of the published standards.
- 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.
- Standards published by the IASB but not yet adopted by the European Union 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).
- Interpretations published by the IASB but not yet adopted by the European Union at the end of the reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that the financial statement disclosures 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.

### 1. Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status on 31 December 2013
<b>Amendments to IAS 1</b>	Presentation of Items of Other Comprehensive Income	<b>1/07/2012</b> Early application permitted	<b>6 June 2012</b>	<b>Mandatory</b>
<b>Amendments to IAS 19</b>	Employee Benefits	<b>1/01/2013</b> Early application permitted		<b>Mandatory</b>
<b>Amendments to IFRS 7</b>	Disclosures – Offsetting Financial Assets and Financial Liabilities	<b>1/01/2013</b> Early application permitted	<b>29 December 2012</b>	<b>Mandatory</b>
<b>Amendments to IAS 32</b>	Presentation – Offsetting Financial Assets and Financial Liabilities	<b>1/01/2014</b> Early application permitted		<b>Permitted</b>
<b>IFRS 13</b>	Fair Value Measurement	<b>1/01/2013</b> Early application permitted	<b>29 December 2012</b>	<b>Mandatory</b>
<b>Amendments to IAS 12</b>	Recovery of Underlying Assets	<b>1/01/2012</b> Early application permitted		<b>Mandatory</b>
<b>Amendments to IFRS 1</b>	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	<b>1/07/2011</b> Early application permitted		<b>Mandatory</b>

## 1. Situation of European Union adoption process for standards and amendments published by the IASB (continued)

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status on 31 December 2013
<b>IFRS 10</b>	Consolidated Financial Statements	<b>1/01/2013</b> Early application permitted if all these Standards are applied at the same time	<b>29 December 2012</b> Mandatory to financial year starting on 01/01/2014	<b>Permitted</b> Early application permitted if all these standards are applied at the same time
<b>IFRS 11</b>	Joint Arrangements			
<b>IFRS 12</b>	Disclosures of interests in Other Entities			
<b>IAS 27R</b>	Separate Financial Statements			
<b>IAS 28R</b>	Investments in Associates and Joint Ventures			
<b>Amendments to IFRS 10, IFRS 11 and IFRS 12</b>	Transition Guidance	<b>1/01/2013</b> Early application permitted	<b>5 April 2013</b> Mandatory to financial year starting on 01/01/2014	<b>Permitted</b>
<b>Amendments to IFRS 1</b>	Government Loans	<b>1/01/2013</b> Early application permitted	<b>5 March 2013</b>	<b>Mandatory</b>
<b>Annual improvements to IFRSs 2009-2011</b>	Annual improvements to various standards (issued on 17 May 2012).	<b>01/01/2013</b> Early application permitted	<b>28 March 2013</b>	<b>Mandatory</b>
<b>IFRS 9</b>	Financial Instruments (standard intended to gradually replace the provisions of IAS 39)	<b>1/01/2015</b> Early application permitted	Endorsement postponed	<b>Not permitted</b>
<b>Amendments IFRS 10, IFRS 12 et IAS 27</b>	Investment Entities	<b>1/01/2014</b> Early application permitted	<b>21 November 2013</b>	<b>Permitted</b>
<b>Amendments to IAS 36</b>	Recoverable Amount for Non-Financial Assets (issued on 29 May 2013)	<b>1/01/2014</b> Early application permitted	Awaiting endorsement by the EU (expected in Q4 2013)	<b>Permitted</b>
<b>Amendments to IAS 39</b>	Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013)	<b>1/01/2014</b> Early application permitted	Awaiting endorsement by the EU (expected in Q4 2013)	<b>Permitted<sup>1</sup></b>
<b>Amendments to IAS 19</b>	Employee Contributions (issued on 21 November 2013)	<b>1/07/2014</b> Early application permitted	Awaiting endorsement by the EU (expected in Q3 2014)	<b>Not Permitted</b>
<b>Annual improvements to IFRSs 2010-2012</b>	Annual improvements to various standards (issued on 17 December 2013).	<b>1/07/2014</b> Early application permitted	Awaiting endorsement by the EU (expected in Q3 2014)	<b>Permitted<sup>2</sup></b>
<b>Annual improvements to IFRSs 2011-2013</b>	Annual improvements to various standards (issued on 17 December 2013).	<b>1/07/2014</b> Early application permitted	Awaiting endorsement by the EU (expected in Q3 2014)	<b>Permitted<sup>2</sup></b>

<sup>1</sup> If the European adoption process is completed before the date when the financial statements are authorised for issue

<sup>2</sup> If the amendment is a clarification of an existing standard and is not in contradiction with current standards

## 2. Situation of European Union adoption process for interpretations published by the IASB IFRS IC

Interpretation	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status on 31 December 2013
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine	<b>1/01/2013</b> Early application permitted	<b>29 December 2012</b>	<b>Mandatory</b>
<b>IFRIC 21</b>	Levies (issued on 20 May 2013)	<b>1/01/2014</b> Early application permitted	Awaiting endorsement by the EU (expected in Q2 2014))	<b>Permitted</b>



# A Closer Look

## What are the ESMA and AMF recommendations for the 2013 annual statements?

On 11 and 12 November 2013, ESMA and the AMF published their recommendations for the 2013 annual statements.

This year the AMF put the emphasis on the following issues:

- disclosures in the notes;
- fair value measurement (IFRS 13);
- employee benefits (IAS 19R);
- taxes and duties;
- consolidation standards (IFRS 10, 11 and 12).

As well as the first three aspects listed above, ESMA also mentioned:

- the impairment of non-financial assets; and
- issues associated with financial instruments.

Beyond the GAAP presents the main recommendations to be taken into account at the 2013 year-end.

### 1. Disclosures

The two regulators emphasise the importance of producing quality notes to the financial statements. They call for entities to prioritise material disclosures that are specific to the group, and not to hesitate to remove insignificant information.

#### *ESMA expects issuers:*

- *to focus on the completeness and quality of the relevant disclosures in the notes;*
- *to draw up high-quality disclosures with entity-specific information and not to 'paste' standard text.*

#### *For its part, the AMF encourages entities:*

- *to increase senior management involvement in preparing the notes to financial statements;*
- *to present the draft notes relating to the key events and main topics of the period both to senior management and to the audit committee.*

ESMA also lists a number of disclosures required by IAS 1 and IAS 8 where quality could be improved:

- summary of significant accounting policies;
- main significant judgments made by the management;
- uncertainties regarding assumptions for significant evaluations;
- uncertainties related to events that might cast doubt upon the entity's ability to continue as a going concern;

- sensitivity of carrying amounts to the assumptions applied;
- etc.

The AMF reminds entities that IAS 1 requires a description of the significant accounting principles and the major judgments management has made in applying them, along with a presentation of the assumptions made and the extent to which carrying amounts are sensitive to these assumptions.

The AMF observes that the information on the accounting treatment of revenue and financial instruments is often uninformative.

### 2. Fair value measurement

#### Taking account of the non-performance risk

IFRS 13 explicitly states that the determination of the fair value of financial instruments must account for the risk of counterparty default (CVA) and, for liabilities, the entity's own credit risk (DVA) (IFRS 13.42).

The two regulators emphasise the importance of these provisions for derivatives (including those derivative entered as liabilities), including for business combinations.

The two regulators also note that the evaluation of the non-performance risk must be based on observable and relevant market inputs which other market participants would take into account.

*The AMF and ESMA urge companies to provide disclosures in the notes regarding the methods used to calculate adjustments for non-performance risks (CVA/DVA) and to indicate the accounting impacts when these are significant.*

#### Blockage factor and unit of account

IFRS 13.69 states that the characteristics of the assets and liabilities taken into account by market participants may include discounts or control premiums.

The same paragraph states that a fair value measurement must not incorporate a premium or discount that is inconsistent with the unit of account defined in the IFRS that requires or allows fair value measurement.

This inconsistency has been reported to the IASB, which is currently discussing this matter.

For example, in the case of a subsidiary, a joint venture or a listed associate, what unit of account should be applied to calculate fair value?

- Should each share be taken individually, or the holding as a whole?
- Is fair value determined by multiplying the number of shares by the listed price, or can account be taken of control premiums and discounts?

*Pending the clarification of the standard, the AMF and ESMA:*

- *urge entities to indicate and explain the unit of account in the notes*
- *the AMF also stresses the importance of using consistent methods.*

### Disclosures

The regulators remind entities that they must ensure that the information presented in the notes meets the objectives of IFRS 13, namely:

- understanding the valuation techniques and inputs used
- understanding the impact of these measurements on profit or loss or other comprehensive income for the period, particularly for level 3 valuations.

The more unobservable data are included in the measurement of fair, the more information is necessary.

*The AMF reminds companies that they must specify the type of analysis they perform for significant and sensitive items to determine the level of fair value.*

For example, for an investment property valuation performed by an expert using market data, the entity should consider the extent of the expert's restatements to determine whether the fair value level is Level 2 or Level 3.

For assets and liabilities recognised at fair value and categorised in level 3, the standard requires quantitative and qualitative information on:

- the main unobservable inputs used;
- sensitivity of the fair value to changes in these inputs.

*The AMF and ESMA remind entities of the importance of specific information on level 3 measurements insofar as they enable readers to understand the effects of the valuation techniques used.*

*The AMF recommends adapting the degree of granularity to the nature, characteristics and associated risks.*

## 3. Employee benefits

### Presentation of net interest in profit or loss

A majority of companies use the operating result to present their performance. It constitutes a key aggregate.

*The AMF recommends that entities:*

- *clearly define the operating result by indicating its component parts;*
- *the definition used must be consistent over time;*
- *all changes must be justified (with quantified data to show the impact on performance during the relevant annual period).*

This applies whenever the standards offer options, or in the absence of any regulations guiding an entity's choice of presentation.

For example, the AMF cites the case of the net interest on the liability/asset for defined benefits (in application of IAS 19R) that can be presented either in operating result or in financial result.

### Disclosures

The disclosures required under IAS 19R must help readers to understand:

- the characteristics of defined benefit plans and the risks associated with them;
- the amounts recognised and the potential impact of defined benefit plans on these amounts;
- the timing and the degree of uncertainty surrounding future cash flows.

*The AMF recommends that companies be particularly informative in presenting these significant plans and their impacts on the financial statements. Some defined benefit plans are complex and their characteristics may vary significantly from country to country.*

*The AMF observes that the objectives listed above may not necessarily be best reflected in tabular format.*

The AMF also calls for companies to consider the need to disaggregate some information to distinguish plans with significantly different levels of risk.

Where applicable, entities should:

- consider the most relevant way to reflect these different risks (e.g. by geographic region);
- disclose the sensitivity to key assumptions;
- disaggregate the fair value of plan assets into classes that distinguish the nature and risks of those assets;
- present the impact of the plan on future cash flows; and
- disclose the duration of the obligation and the timing of benefit payments.

*The AMF calls on companies to determine the most relevant method and the level of granularity required to present the levels of risk associated with the different plans and the related assets.*

*It notes that the discount rate will be one of the key assumptions. Entities should also consider the key nature of other assumptions (e.g. staff turnover, and so on), for which a sensitivity analysis should also be presented.*

#### Discount rate for post-employment benefits obligations

IAS 19.83 requires the use of a discount rate for post-employment benefits obligations determined by reference to market yields based on high quality corporate bonds (HQCB).

In practice companies have generally used rates based on the rates of entities with AA and AAA credit ratings. Due to the economic circumstances which resulted in a significant decrease in the number of HQCB, can this practice be modified?

The subject has been discussed by the IFRS IC, which concluded that:

- the concept of a top-quality bond is absolute as the term used is 'high-quality' and not 'the highest-quality';
- the method should not be amended as long as the market remains deep;
- the depth of the market must be assessed at the currency level and not at the country level;
- the notes must include information on the determination of the rate (method and sensitivity), where material.

*The AMF and ESMA do not expect changes in current practice, since there is a deep market within the Eurozone.*

## 4. Taxes and levies

### Reconciliation between tax and accounting profit

#### Presentation

The reconciliation between the amount of tax and the accounting profit can be disclosed as an amount or as a rate (IAS 12.81c).

*When the reconciliation is based on tax rates, the AMF encourages companies to disclose the amount of accounting profit in the same place to make it easier for readers to identify the amounts in question.*

#### Tax rate presented

Most companies use the domestic tax rate in the country in which the entity is domiciled for the reconciliation between the amount of tax and accounting profit.

Since 2011, French entities with revenues exceeding €250 million have been subject to an additional tax. Some companies present this additional tax in the tax rate (a rate of 36.1%), while others present a tax rate that excludes the additional contribution (i.e. 34.43%), and the impact of this additional contribution is not directly visible in the reconciliation items.

*The AMF recommends providing all the information necessary for readers to understand the items included in the rate used to prepare the proof of tax.*

#### Explanation of main impacts

IAS 12.85 suggests using either the tax rate in the country in which the entity is domiciled or the rate resulting from application of the tax rates for each country.

When the first method is used, one of the major reconciliation items is the effect of the differences between the tax rate in the country where the parent group is domiciled and the rates in other countries where the group has operations.

Generally, this amount is presented separately in the proof of tax, but without justification or explanation.

*The AMF encourages companies to provide details for the line showing the impact of rate differentials when these amounts are significant.*

The AMF also notes that the headings for the items presented in the proof of tax are sometimes uninformative. For example, it is not always easy to understand the effect of tax loss carry-forwards that were not previously recognised.

*The AMF therefore calls on companies to use clear headings and to explain in summary terms the meaning of the various significant reconciliation items.*

#### The 3% tax on dividends

The August 2012 Finance Act established an additional contribution when cash dividends are distributed (in France).

The accounting treatment for the tax on dividends was clarified by the IASB: entities should apply IAS 12 (§ 52A and 52B) which states that these taxes are recognised in profit or loss for the period during which the distribution decision was made, when the payout concerns past earnings.

The AMF confirms that the additional contribution must be recognised in profit or loss.

## Tax credit for competitiveness and employment (CICE)

The CICE was introduced in France on 1 January 2013. Under IFRS, this tax credit can be presented under other income or as a deduction from the payroll expenses to which it relates, depending on which accounting presentation options were previously used under IAS 20.

The AMF urges entities to specify the amount of the CICE and in which account it is recognised, where it is significant.

## 5. Standards on consolidation

### IFRS 10

IFRS 10 gives a definition of control and introduces changes and clarification by comparison with the current standard (IAS 27).

While the principles are set out succinctly in the standard, they are followed by detailed application guidance comprising numerous examples and indicators.

*The AMF recommends that entities carry out an overall analysis. Even when the situation bears some resemblance to certain examples and indicators in the application guidance, it is essential to ensure that the chain of reasoning has been respected and that all the relevant facts have been considered.*

*The AMF also notes that power arises from rights. Therefore, it can be straightforward to determine who holds power when power results from voting rights.*

*Where significant changes result from the first-time adoption of IFRS 10, the AMF asks companies to explain clearly in the notes the specific relevant factors that led them to reconsider their relationships with these entities (whether significant singly or together).*

The AMF also notes that it is important to disclose in the 2013 financial statements the quantitative and qualitative information about the expected impacts required under IAS 8. This also applies to IFRS 11.

Investors will have to compare these financial statements with those published by companies that applied these new consolidation principles early.

### IFRS 11

IFRS 10 gives a definition of control and introduces changes and clarifications by comparison with the current standard (IAS 27).

In its recommendations for the 2011 financial statements, the AMF indicated that the presentation of the result of equity-accounted entities in an aggregate representing

operating activities could only occur under particular circumstances on the basis of a long-term analysis.

In April 2013 the ANC (French national standard setter) published its recommendation nr. 2013-01 on the presentation of the portion in the consolidated net profit of entities accounted for on an equity basis.

According to this recommendation, the net result of equity-accounted entities with “an operational nature consistent with the group’s activity” could be presented after an “Operating result” sub-total and before a sub-total headed “Operating result after share in net profit of equity-consolidated entities”.

*For the 2013 financial statements, the AMF has updated its recommendations.*

- *For equity-accounted entities with an operational nature consistent with the group’s activity, the chosen presentation must not alter the ratios calculated by users on the basis of the aggregate profit and loss account presenting the group’s operating activities.*
- *The headings used must clearly mention that equity-accounted entities are taken into account.*

### IFRS 12

IAS 34 states that the information included in the interim financial report must provide an understanding of the changes in the financial position and performance since the end of the annual reporting period. Similarly, the nature and effect of changes in accounting policies must be set out.

*When the information is material, the AMF urges entities to consider the relevance of presenting some of the information required under IFRS 12 starting with the condensed interim financial statements.*

IFRS 12 requires a significant amount of information on a group’s different interests.

*Therefore, the AMF:*

- *stresses the importance of preparing in advance in order to provide quality information that can be used by readers;*
- *encourages issuers to begin their data collection and analysis work as soon as possible.*

The difficulty of applying IFRS 12 lies in the volume of disclosures to be provided while communicating in a relevant and readable fashion. This is particularly true for the information required on subsidiaries in which the non-controlling interests are significant.

*The AMF recommends that entities:*

- *evaluate the relevance and the granularity of the information to be presented; and*
- *assess the materiality of the non-controlling interests, taking into account aspects such as the existence of significant cash balances, weight of the interests in the aggregates used by the group (profit or loss, cash flows, assets/liabilities), existence of sub-groups, etc.*

## 6. Impairment of non-financial assets

The background of crisis has once again led ESMA to put the emphasis on the impairment of non-financial assets, and in particular on:

### Cash-flow projections

Value in use is determined by assessing cash-flow projections. ESMA reminds entities of the following principles of IAS 36:

- cash flow projections must be based on reasonable and supportable assumptions;
- greater weight should be given to external evidence;
- the reasonableness of the assumptions must be assessed by examining the causes of differences between past projections and actual cash flows.

### Key assumptions

Most issuers provide a description of the key assumptions used to determine value in use.

However, ESMA observes that often these disclosures are only provided at an aggregate level and are not useful to readers. IAS 36 requires this information to be given by CGU or group of CGUs.

ESMA is of the view that it is particularly important to provide entity-specific disclosures. It urges issuers to consider whether they can improve the quality of their disclosure in this area.

ESMA also notes that the key assumptions should go further than the long-term growth rates and discount rates applied.

### Sensitivity analysis.

ESMA is of the view that issuers accounting for goodwill or other intangible assets with indefinite useful life could improve the disclosures related to the sensitivity analysis.

For instance when the safety margin between the recoverable amount and the carrying value of these assets is not large, the disclosures generally do not enable users to understand the sensitivity of these assets to changes in the key assumptions.

In these cases, ESMA believes that the assertion that “no reasonable possible change in a key assumption would result in an impairment loss” might not be sufficient.

More generally, ESMA reminds issuers that disclosures by significant CGU or group of CGUs should be provided in the financial statements in relation to the long-term growth rate, the discount rate and the key operational assumptions applied (e.g. revenue growth).

## 7. Financial instruments

### Disclosures on the risks of financial instruments

ESMA emphasises the importance of providing quantitative and qualitative information in the notes on the type and extent of the risks associated with financial instruments.

ESMA expects these risks will be reflected in the valuation of financial instruments.

### Impairment of financial assets

Where entities conduct impairment tests on financial assets, they should take account of all the information available at the reporting date.

ESMA encourages preparers to disclose the judgments relating to impairment testing clearly and explicitly, as well as the accounting principles applied to the collective provisions.

ESMA stresses the importance of providing the information required by IFRS 7 (§ 36 and 37) on the credit quality of financial assets, clearly distinguishing between those which are:

- neither past due nor impaired,
- past due but not impaired, and
- past due and impaired.

### Financial assets: renegotiated loans

In its recommendations, ESMA refers readers to its *Public Statement on Forbearance Practices* published in December 2012.

Although ESMA acknowledges improvements in the level of disclosure of forbearance, it considers that the information published is not always entirely adequate.

Inter alia, ESMA expects more quantitative information on renegotiations, which would enable investors to form an opinion on:

- the adequacy of the provisioning rate, and
- the impact on the financial position and performance of the lender.

ESMA emphasises that impairment calculations must be based on the estimated future cash flows and not on the new contractual cash flows (IAS 39.63).

## Liquidity risk

In light of the current economic situation, ESMA notes that investors look closely at the management of liquidity risk and sustainability of sources of funding. This is particularly true for financial institutions.

ESMA expects issuers to provide liquidity risk disclosures as required by paragraph IFRS 7.39. The level of granularity should correspond to the entity's liquidity risk profile.

ESMA considers that disclosures on the liquidity risk should include:

- an analysis of remaining contractual maturities;
- qualitative and quantitative information related to restrictions/availability on assets that could be used for supporting liquidity needs; and
- a description of the relationship between the liquidity risk and sources of financing.

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# Events year FAQ

## Frequently asked questions

### IFRSs

- Accounting treatment of the disposal of a CICE receivable;
- Accounting for deferred tax assets when an entity has a background of recent tax losses;
- Payment of dividends with option to settle in cash or shares;
- Treatment of an ORA from the issuer's perspective;
- Hedging a capped loan.

## Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

### IASB

20 - 24 January 2014

17 - 21 February 2014

17 - 21 March 2014

### Committee

29 and 30 January 2014

25 and 26 March 2014

13 and 14 May 2014

### EFRAG

17 - 18 December 2013

27 - 29 January 2014

26 - 28 February 2014

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