

Beyond the GAAP

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Mazars' newsletter on accounting standards



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Editorial

The end of the year is fast approaching!

This is an opportunity for us to provide an update on the new texts that are of mandatory application for the 2014 reporting period, or which may be applied early.

We also present the tentative decisions of the Interpretations Committee regarding the application of IFRS 11 to joint arrangements. In its 2014 common enforcement priorities, ESMA has highlighted the need to revise the analyses in the light of the IFRS IC's conclusions.

There may still be time to influence these positions: the tentative decisions published in the November IFRIC Update are open to comments until 20 January 2015.

We wish you a happy festive season and a prosperous New Year.

Enjoy your reading!

Michel Barbet-Massin Edouard Fossat

IFRS Highlights

The IASB proposes three amendments to IFRS 2

On 25 November, the IASB published the exposure draft ED/2014/5- *Classification and Measurement of Share-based Payment Transactions* putting forward three amendments to IFRS 2 - *Share-based payment*.

The three proposed amendments aim to clarify the accounting treatment of the following issues:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment: the IASB proposes to clarify that accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment should follow the same approach used for measuring equity-settled share-based payments in paragraphs 19–21A of IFRS 2.
- Classification of share-based payment transactions with a net settlement feature: the IASB proposes to specify that a transaction with an employee tax withholding obligation should be classified as equity-settled in its entirety (including the withheld amount), if the entire transaction would have otherwise been classified as equity-settled, had it not included the net settlement feature.
- Modification to the terms and conditions of a cash-settled transaction leading to reclassification as an equity-settled transaction: the IASB proposes to amend the standard to specify the accounting treatment of such modifications:
 - the fair value of the transaction is measured by reference to the fair value at the date of modification of the equity instruments granted as a result of the modification;
 - the liability recognised in respect of the original cash-settled share-based payment is derecognised, and the equity-settled share-based payment is recognised to the extent that the services have been rendered prior to modification; and
 - the difference between the carrying value of the derecognised liability and the amount recognised in equity is recognised in profit or loss.

The IASB proposes that these amendments should be applied prospectively, with the possibility of retrospective application where the entity has the necessary information.

Comments on this exposure draft may be submitted no later than 25 March 2015. The exposure draft can be consulted at: <http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-2-Clarifications-Classification-and-Measurement/ED-November-2014/Documents/ED-Proposed-Amendments-IFRS-2-November-2014.pdf>

IAS 12 – Uncertain tax positions: towards an interpretation

In January 2014, the IFRS IC considered a request for guidance on the recognition of a current tax asset (in the sense of IAS 12) when the tax position was uncertain.

In the situation described, an entity is legally required to pay the amounts demanded by the tax authorities immediately after an examination; however, the entity expects, but is not certain, to recover some or all of the amount paid on appeal.

In its final decision in July 2014, the IFRS IC noted that:

- it would address the issue of recognition of an asset separately from that of its measurement;
- in the particular case submitted to the Interpretations Committee, the guidance in paragraph 12 of IAS 12 was sufficient: an asset is recognised if the amount of cash paid (which is a certain amount) exceeds the amount of tax the entity expects to be due (which is an uncertain amount).

The IFRS IC subsequently discussed the measurement of uncertain tax positions with reference to current income tax (in accordance with IAS 12) on several occasions and decided to publish guidance in the form of a draft interpretation.

In the November 2014 IFRIC Update, the Committee presented its first thoughts on this future interpretation:

- Scope: all uncertain income tax positions should be included within the scope of the future guidance. The Committee thought that it was inappropriate to limit the scope to cases where an entity has unresolved disputes with a tax authority. Consequently, a current tax asset or liability should be recognised only if it is probable that the entity will pay the amount to, or recover the amount from, a tax authority. This confirms that the probability of the payment or recovery is the threshold that triggers recognition;
- Approach for measurement:
 - Applicable methods: drawing on the provisions of IFRS 15 for the measurement of variable consideration, the Interpretations Committee observed that an entity should use the most likely amount or the expected value, depending on which method the entity expects to better predict the amount that it will pay to (or recover from) the tax authorities.

- Unit of account: the Committee observed that an entity should make a judgement about the unit of account that provides relevant information for measuring uncertain tax positions. For example, if a decision on a specific uncertain tax position is expected to affect, or be affected by, other tax positions, all of these positions should be accounted for as a single uncertain tax position.
- Detection risk: the Interpretations Committee reminded it had tentatively concluded in September 2014 that an entity should assume that the tax authorities will examine the amounts reported to them and have full knowledge of all relevant information. Consequently, when evaluating the probability of payment, entities should assume that an examination is 100% probable, and it should also assume a 100% probability of detection.

Rate-regulated Activities — is there anything missing from the balance sheet? Outreach event jointly organised by EFRAG and the IASB on 18 December 2014

On 18 December, EFRAG and the IASB, in association with the European Federation of Financial Analysts Societies (EFFAS) and the Association Belge des Analystes Financiers (ABAF) are organising a joint outreach event on the IASB's Rate-regulated Activities project in Brussels.

The purpose of the event is to discuss the information that stakeholders, particularly investors and analysts, would like to see in the financial statements of companies that are involved in rate-regulated activities. Discussions will address aspects including:

- Is there a need for a specific accounting standard?
- Should balances arising out of rate-regulated activities be included in the balance sheet or is note disclosure better?
- How is the performance of rate-regulated activities best reflected?
- What corrections or adjustments are analysts making to the financial statements of companies with rate-regulated activities?

The IASB has initiated a review of the main regulatory aspects of these activities, and published in September a Discussion Paper on the subject.

Attendees can register for this event until 12 December by sending an email to event@efrag.org

EUROPEAN highlights

ESMA: 16th extract from the database of enforcement decisions

On 18 November, ESMA (European Securities and Markets Authority) published the 16th extract from its database of enforcement decisions, containing 11 decisions taken by European regulators on the following topics:

- Disclosures by a bank on loans which have been subject to amendments or moratoria due to the economic environment of the borrower (forborne loans) (IAS 1, IAS 39, IFRS 7)
- Basis for determining the fair value of equity instruments issued as consideration in a business combination (IFRS 3, IFRS 13)
- Recognition of a liability payable to equity holders due to a put option by the entity on allocation rights to newly issued shares (IAS 32)
- Classification in the cash flow statement of cash flows from purchases, leases and sales in a vehicle rental business (IAS 7, IAS 16, IAS 18)
- Presentation in the income statement of the impact of a contingent payment clause on disposal of subsidiaries qualifying as discontinued operations (IFRS 5)
- Criteria for the presentation of non-current assets held for sale under IFRS 5 when uncertainties exist about divestment at the reporting date (IFRS 5)
- Recognition of deferred tax assets resulting from a tax loss expected upon disposal of a subsidiary (IAS 12, IFRS 5)
- Accounting for the effects of specific tax regime on newly acquired assets (IAS 12, IAS 16, IAS 40)
- Key assumptions used in the goodwill impairment test (IAS 36)
- Aggregation of disclosures related to capitalised costs (IAS 38, IFRS 6)
- Disclosure of major customers (IFRS 8)

This 16th extract from the ESMA database of enforcement decisions can be consulted at:

<http://www.esma.europa.eu/news/ESMA-publishes-16th-extract-EECS-enforcement-decisions>

Publication of the European Directive 2014/95/EU on the disclosure of non-financial and diversity information

The Directive on the publication of non-financial and diversity information by some undertakings and groups relating to environmental, social and governance issues was published in the Official Journal of the European Union (OJEU) on 15 November 2014.

This Directive states that public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year shall include relevant environmental and social information in the management report, or in a separate report.

This Directive must be transposed into national law by 6 December 2016, and will take effect in the reporting period starting on 1 January 2017 or during the year 2017.

The European Directive can be consulted on the EU platform at the following address:

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.330.01.0001.01.EN
[G](#)

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A closer look

IFRS 11: IFRS IC finally publishes its reasons for rejecting some issues

In the November 2014 IFRIC Update, the IFRS IC published several tentative decisions not to add a number of issues to its agenda.

In practice, these decisions will not be definitive until March 2015. Any comments on these tentative decisions should be submitted to the Committee by 20 January 2015

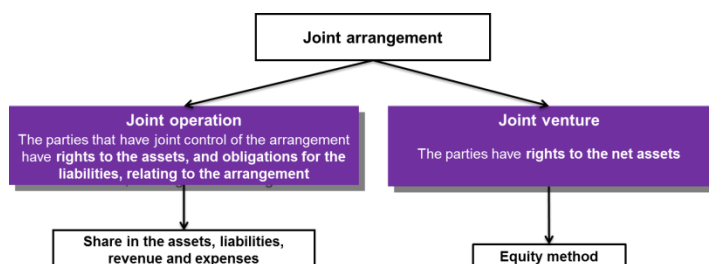
The Committee had begun work on these issues in November 2013, initially considering a series of fact patterns, before subsequently turning to the question of how to formulate these reflections (see Beyond the GAAP of September 2014).

In the light of ESMA, in its 2014 common enforcement priorities (see Beyond the GAAP of October 2014), urging issuers to consider the conclusion of IFRS IC's discussions for the preparation of their 2014 financial statements and given the interest many preparers have in the subject, we decided that it would be helpful to review some of the Committee's conclusions.

1. Classification of joint arrangements: clarifications of the "other facts and circumstances"

Let us start by recalling that IFRS 11 classifies joint arrangements (i.e. agreements where the venturers exercise joint control) into:

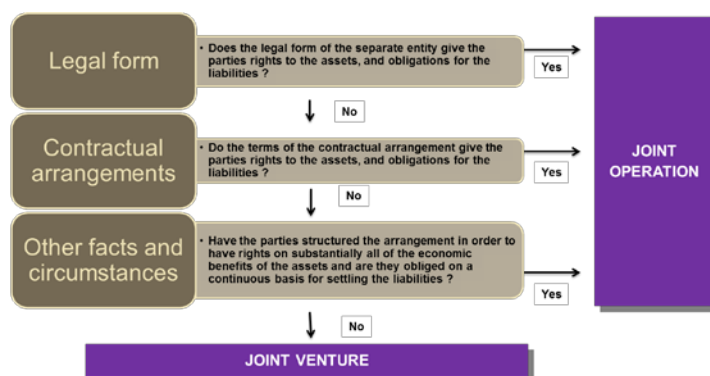
- joint operations, where the partners have direct rights to the assets and obligations for the liabilities of the entity (with an accounting treatment similar to proportionate consolidation), and
- joint ventures, where the partners only have rights to the net assets of entity (where the participating interests are accounted for by the equity method).



Classification as a joint operation or joint venture depends on an analysis of the partners' rights and obligations. In practice, where the joint arrangement takes

the form of a separate legal vehicle, classification as a joint operation assumes:

- either that the legal form or the contractual agreements confer upon the parties rights to the assets and obligations for the liabilities of the arrangement,
- or that the "other facts and circumstances" confer in substance on the parties both (direct) rights to the assets and (direct) obligations for the liabilities relating to the arrangement.



How to assess the "other facts and circumstances"

The committee clarified/confirmed that the classification of the joint arrangement is based on the combination of rights to the assets **and** obligations for the liabilities of the entity, and that the rights and obligations, by nature, are enforceable.

In the case of the **rights to assets**, it must be demonstrated that the parties have both:

- the **right** to "substantially all" the economic benefits of the assets ("outputs"), and
- the **obligation** to acquire those economic benefits (thus, the parties assume the risks relating to those economic benefits, such as the risks relating to the output).

In the case of the **obligations for the liabilities**, it must be shown that:

- as a consequence of their rights to, and obligations for, the assets, the parties provide cash flows that are used to settle liabilities of the joint arrangement;
- settlement of the liabilities of the joint arrangement occurs in this manner on a continuous basis.

The committee also clarified that the assessment of the economic substance of the joint arrangement, to determine whether the “other facts and circumstances” confer direct rights and obligations for the assets and liabilities relating to the arrangement, is not a test of how closely involved the parties are in the operations of the venture, but merely a test of the enforceable rights and obligations arising from the various agreements.

In other words, classification depends on an analysis of the legal and contractual nature of the arrangement, including when assessing the “other facts and circumstances”. This is an analysis of the substance based on the legal and regulatory environment in which the arrangement operates and on the contractual agreements concluded for the arrangement (including the commercial contracts concluded between the parties and the joint arrangement). The intentions of partners are not taken into account in the analysis if they are not established on a contractual basis vis-à-vis the arrangement.

Clarifications by the Committee on specific fact patterns

The Committee also addressed the following points:

- Market prices - The fact that the output is sold to the parties of the joint arrangement at a market price (that is, a price not based on production costs) is not in itself sufficient to conclude on the classification of the joint arrangement (i.e. this aspect does not invariably prevent the joint arrangement from being classified as a joint operation).
- Financing from a third party - External financing does not affect the classification of the joint arrangement if the cash flows from the sale of output to the parties fund the repayment of the liabilities of the arrangement (including the external financing).
- Nature of output (fungible vs bespoke output) - This factor does not play a role in the analysis.
- Determining “substantially all of the output” - This concept must be assessed in terms of monetary value, not physical quantities.

Comparison between two similar joint arrangements that are classified differently

The committee considered the case of two similar joint arrangements, only one of which was structured through a separate vehicle (conferring a distinction between the parties and the separate vehicle).

The Committee considered that the different classification under IFRS 11 of two joint arrangements with similar characteristics (excluding their legal form) did not conflict with the concept of economic substance.

The structure of the joint arrangement, and the use of a separate vehicle, are likely to have an impact on the rights and obligations of the parties (except where contractual rights, or the other facts and circumstances, override the separation of the assets and liabilities resulting from the use of the separate vehicle).

In other words, the accounting classification is based solely on an analysis of the essential elements, the rights and obligations of the parties; and the structure of the joint arrangement can affect the nature of those rights and obligations. Apparently similar joint arrangements may consequently be classified differently for the purposes of IFRS 11.

The “other facts and circumstances” in practice

Consequently the “other facts and circumstances” referred to by IFRS 11 leading to classification as a joint operation will in practice only concern upstream production entities (structured via a separate legal vehicle) providing output to the parties, in which the parties have an obligation (and not merely the intention) to purchase the outputs produced by these upstream entities.

In this instance, through the acquisition of the outputs, the parties have rights over the underlying assets used in the production of the outputs and obligations for the liabilities of the arrangement (the cash flows from the parties being used to settle the liabilities of the arrangement on a continuing basis over the lifetime of the arrangement).

However, it is necessary to ensure that the method of determining the selling price of outputs to the partners provides to the joint arrangement, on a continuing basis, the cash flows necessary to settle its liabilities.

2. Further clarifications on the accounting for a joint operation

Recognition by a joint operator of output purchased from the joint arrangement

In the accounts of the joint operator, the purchase from the joint arrangement of its (due) share of the output does not constitute a sale. This is effectively a sale of output to itself.

Only sales to third parties (i.e. entities other than the parties to the joint arrangement) give rise to the recognition of revenue to the extent of the joint operator’s share.

In other words, setting aside any sales of the joint arrangement to third parties (assumed to be limited, since the partners must acquire “substantially all of the output”), revenue is recognised only when the parties to the joint arrangement sell on the output to third parties.

Accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation

The Interpretations Committee discussed a variation on Example 5 in IFRS 11, the situation of a joint operation (structured through a separate vehicle) where the parties are committed to purchasing substantially all of the output at cost (i.e. the example of the “upstream joint operation”).

The variation consists in the fact that the parties' percentage ownership interest differs from the percentage share of the output that each party is obliged to purchase.

This can happen, for example, when the share of output purchased by each party varies over time.

Further, if the parties have made a substantial initial investment in the joint arrangement that differs from their ownership interest, other elements might explain this situation.

The Interpretations Committee noted that it is important to understand why the share of the output purchased differs from the ownership interests.

According to the Committee, identifying the elements explaining the difference between the share of output purchased by a party and its ownership interest may be the key to determining the appropriate accounting treatment.

The IFRIC Update also addressed the question of how to account for the joint operation in the separate IFRS accounts of the joint operator and of the joint arrangement (when the joint arrangement is structured through a separate vehicle).

Finally, the Committee looked at the subject of project entities, but at this stage it has published no tentative decisions. We shall be sure to return to this subject if the Committee decides to publish any clarifications.

3. To sum up

What are the key points of the November 2014 IFRIC Update?

To sum up:

- The “other facts and circumstances” assume the existence of **rights and obligations**;
- These rights and obligations are **enforceable**;
- The rights must relate to **substantially all** the economic benefits of the output of the arrangement;
- The obligations resulting from the rights must give rise to **payments on a continuous basis**;
- The “economic **substance**” of the joint arrangement **depends on the rights and obligations** of the parties;
- Purchasing from the joint arrangement by the joint operator does not generate revenue in the latter's accounts.

EUROPEAN highlights

Standards and interpretations applicable at 31 December 2014

Now that accounts are being finalised for 31 December 2014, 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 24 October 2014):

http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFRAG_Endorsement_Status_Report_24_October_2014.pdf

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

- The IASB's draft standards cannot be applied as they do not form part of the published standards.
- 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.
- 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 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.

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 at 31 December 2014
IFRS 10	Consolidated Financial Statements	1/01/2013 Early application permitted if all these Standards are applied at the same time	29 December 2012 Mandatory as of financial year starting on 01/01/2014	Mandatory
IFRS 11	Joint Arrangements			
IFRS 12	Disclosures of interests in Other Entities			
IAS 27R	Separate Financial Statements			
IAS 28R	Investments in Associates and Joint Ventures			
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance	1/01/2013 Early application Permitted	5 April 2013 Mandatory as of financial year starting on 01/01/2014	Mandatory
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities	1/01/2014 Early application permitted	21 November 2013	Mandatory
Amendments to IAS 32	Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1/01/2014 Early application Permitted	29 December 2012	Mandatory
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	1/01/2014 Early application permitted	20 December 2013	Mandatory
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1/01/2014 Early application Permitted	20 December 2013	Mandatory

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 at 31 December 2014
Annual improvements to IFRSs 2010-2012 Cycle	Annual improvements to various Standards (issued on 12 December 2013)	1/07/2014 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2014)	Permitted ¹⁻²
Annual improvements to IFRSs 2011-2013 Cycle	Annual improvements to various Standards (issued on 12 December 2013)	1/07/2014 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2014)	Permitted ¹⁻²
Annual improvements to IFRSs 2012-2014 Cycle	Annual improvements to various Standards (issued on 25 September 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2015)	Permitted ¹
Amendments to IAS 19	Employee Contributions (issued on 21 November 2013)	1/07/2014 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2014)	Permitted ¹⁻²
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014)	1/01/2016 Early application permitted (prospectively)	Awaiting endorsement by the EU (expected in Q1 2015)	Permitted ¹⁻²
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)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2015)	Permitted ³
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q1 2015)	Not permitted
Amendments to IAS 16 and IAS 41	Bearer Plants (issued on 30 June 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q1 2015)	Not permitted
Amendments to IAS 27	Equity Method in Separate Financial Statements (issued on 12 August 2014)	1/01/2016 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2015)	Not permitted
IFRS 9	Financial Instruments (standard intended to gradually replace the provisions of IAS 39)	1/01/2018 Early application permitted	To be determined	Not permitted
IFRS 15	Revenue from contracts with Customers (issued on 28 May 2014)	1/01/2017 Early application permitted	Awaiting endorsement by the EU (expected in Q2 2015)	Not permitted

¹ If the amendment is a clarification of an existing standard and is not in contradiction with current standards

² If the amendment is endorsed before the date when the financial statements are authorised for issue

³ if the entity had not developed an accounting policy

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

Interpretation	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 31 December 2014
IFRIC 21	Levies (issued on 20 May 2013)	1/01/2014 Early application permitted	14 June 2014 Effective for annual periods beginning on or after 17 June 2014	Permitted

Events and FAQ

Frequently asked questions

IFRSs

- Recognition date and measurement of a restructuring provision following the announcement of a job-saving plan and impact on the valuation of the assets.
- Treatment of contract amendments within the scope of IAS 18 that include multiple elements
- Change in the useful life of brands
- Classification of a joint arrangement (joint venture or joint operation)

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB
14 – 18 December 2014
19 - 23 January 2015
16 - 20 February 2015

Committee
27 - 28 January 2015
24 - 25 March 2015
12 - 13 May 2015

EFRAG TEG
28 - 30 January 2015
25 - 27 February 2015
31 March - 2 April 2015

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