

# Beyond the GAAP

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## Editorial

While many businesses will spend 2015 working on the practical impact of the introduction of IFRS 15 and IFRS 9, the IASB has announced that other important publications will appear this year: the new draft conceptual framework should be available during the course of the first quarter, while the new standard on leases is expected at the end of the year.

At the same time, "maintenance" work on IFRSs will continue. The Feedback Statement on the IFRS 3 Post Implementation Review should be published in the first half of the year; this will be an occasion to see how the IASB expects to address changes to a standard that is converged with US GAAP.

Finally the Disclosure Initiative project, which aroused much stakeholder interest when it was launched, has produced its first amendments and should see significant progress this year, with the publication of a Discussion Paper on the general objectives and principles of disclosure.

The editorial team at Beyond the GAAP wish you all the best for 2015.

Enjoy your reading!

Michel Barbet-Massin      Edouard Fossat

## IFRS Highlights

### Disclosure Initiative: IASB issues IAS 1 amendments and draft amendments to IAS 7

On 18 December 2014 the IASB issued two documents as part of its Disclosure Initiative: the final version of the first amendments to IAS 1, *Presentation of financial statements* and an Exposure Draft of proposed amendments to IAS 7, *Statement of Cash Flows*.

More detailed information on the contents of these documents and their place in the overall Disclosure Initiative can be found in the special study on page 5 of this edition.

The IASB publications can be consulted at: <http://www.ifrs.org/Alerts/Publication/Pages/IASB-makes-progress-on-improving-the-effectiveness-of-disclosure-in-financial-reporting-December-2014.aspx>

However, access to the IAS 1 amendments is restricted to subscribers to IASB publications.

## EUROPEAN highlights

### Endorsement of the 2011-2013 Annual improvements cycle

On 18 December 2014, the European Commission endorsed the 2011-2013 Annual Improvements cycle, published by the IASB on 12 December 2013.

Readers will recall that the IASB's amendments concerned IFRS 1, *First-time adoption of IFRSs*, IFRS 3, *Business Combinations*, IFRS 13, *Fair value measurement* and IAS 40, *Investment property* (for more details, see the special study published in the December 2013 edition).

Note that the amendments to IFRS 1 have not been endorsed, as they relate solely to the Basis of Conclusions. The Bases of Conclusions which accompany IFRSs are not part of IFRSs, so not part of the EU endorsement.

Commission Regulation (EU) no 1361/2014, published in the OJ of 19 December 2014, therefore only lists the amendments to IFRS 3, IFRS 13 and IAS 40.

These amendments will be of mandatory application to current reporting periods at 1 January 2015, with early application authorised.

The regulation is accessible at the following address: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:365:FULL&from=EN>

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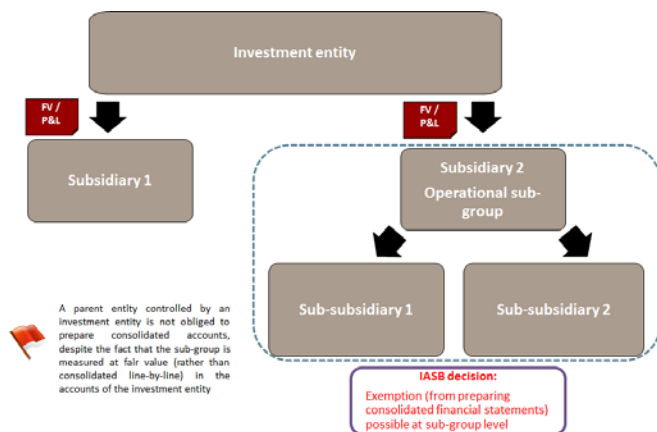
# A Closer Look

## IASB publishes clarifications on investment entities

On 18 December 2014 the IASB published an amendment to IFRS 10 and IAS 28 clarifying the following four points.

### 1. Exemption from preparing consolidated financial statements for sub-groups

The amendment clarifies that the fact that a sub-group is measured at fair value in the consolidated accounts prepared by an investment entity (rather than consolidated 'line-by-line') does not mean that the entity cannot make use of the exemption from establishing consolidated accounts granted to sub-groups (provided that they meet the remaining conditions).



This amendment settles the question of the exemption from preparing consolidated accounts in a purely IFRS context, without interaction with any local legislation or regulation.

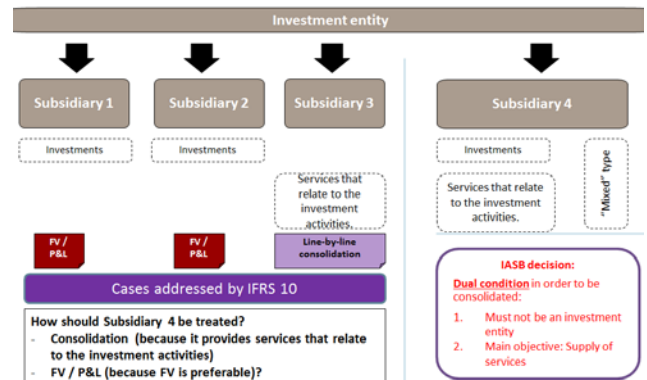
Therefore, in each jurisdiction that requires the preparation of consolidated accounts, entities must analyse whether the fact that an investment entity accounts for its investment in a parent entity that is a subsidiary measured at fair value in profit or loss is sufficient to exempt it from establishing consolidated accounts.

### 2. Subsidiaries providing services that relate to the investment activities.

In the case of investment entity subsidiaries providing services that relate to the investment activities, the amendment clarifies that the only entities that must be consolidated (by the investment entity) are those which:

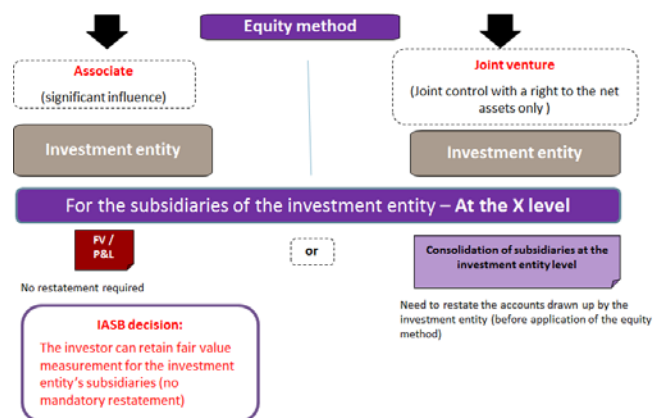
- are not themselves investment entities AND
- the main aim of which is the provision of services that relate to the investment activities.

IFRS 10 was not clear as to the treatment of subsidiaries with 'mixed' activities, including both investment entity components and components relating to service provision.



### 3. Investment through an investment entity that must be accounted for by the equity method

Where an investor must account for its interest in an investment entity by applying the equity method (whether because of significant influence, or because of an interest in a joint venture - i.e. joint control with rights to the net assets only), and where the investor in question is not itself an investment entity, the investor may retain the fair value measurement applied to the investment entity's subsidiaries.



### 4. Investment entities and the disclosures required by IFRS 12

The amendment clarifies that an investment entity measuring all of its subsidiaries at fair value in profit or loss must provide the disclosures relating to investment entities required by IFRS 12.

The IASB states that these amendments are effective for annual periods beginning on or after 1 January 2016 and must be applied retrospectively. Early application is permitted.

# A Closer Look

## The IASB's portfolio of projects on the presentation of financial statements and disclosures

Faced with the ever-increasing volume of financial statements and particularly of disclosures in the notes, a number of stakeholders (accounting standard setters, market authorities and accounting professionals) looked into this subject between 2007 and 2013. IASB stakeholders also expressed their concerns in their responses to the 2011 consultation on the IASB's work plan, and during a public forum held in January 2013.

All the stakeholders agree to shoulder their share of the responsibility for the growing volume of notes.

The IASB therefore launched a vast project aimed at improving the relevance and quality of financial statements presented in IFRS, including the notes, in order to resolve those issues which lie within its remit.

*The notes to the financial statements are considered as an integral part of the financial statements under IAS 1 (§10). This explains why, in this initiative, the IASB addresses aspects of disclosure both in the notes and in terms of presentation in the summary statements.*

The initiative falls into two major phases:

- A first, short-term phase:
  - Amendments to IAS 1 - *Presentation of financial statements* (see point 1);
  - Proposed amendments to IAS 7 - *Statement of cash flows* (see point 2);
  - Research project on materiality (see point 3).
- A second, medium-term phase:
  - Principles of disclosure (see point 4);
  - Standards-level review of disclosure (see point 5).

December 2014 thus saw the publication of amendments to IAS 1 (short-term), draft amendments to IAS 7 (short-term) and the launch of questionnaires on the principles of disclosure (medium-term).

### 1. Amendments to IAS 1: burying some misconceptions

To improve the relevance of financial statements, the amendments to IAS 1 published in December by the IASB are clarifications which aim to confirm the following aspects:

- Materiality applies to the financial statements as well as to the notes;
- It is not compulsory to present all the disclosures listed in different standards if they are not significant or relevant. However, it may be necessary to supply information that is not specifically listed in the IFRSs;

- Items on the statement of financial position and the statement of comprehensive income required by the standard can be disaggregated if this is relevant, subject to complying with certain principles;
- There is no required order for presentation in the notes, although preparers are advised to adopt a relevant, logical order that is comparable from one year to the next.

*According to the Conceptual Framework adopted in 2010, the two "fundamental" characteristics of financial information are relevance and faithful representation. Materiality is an aspect of relevance while comparability and understandability are simply characteristics that enhance the financial information.*

The IASB also clarifies that the breakdown of other comprehensive income into income which will be recycled in profit or loss and income which will not should also apply to the shares of other comprehensive income of entities accounted for on an equity basis.

The IASB regards these amendments as clarifications of existing texts. They may therefore be applied immediately, without waiting for the effective date which is set at 1 January 2016. Nor do entities need to mention that they are applying them.

*In our view, this confirms that the texts could already have been interpreted in this way. Some French (Orange, Valeo) and foreign (Volvo) entities were doing so in 2014 or even 2013.*

*In the European context, since these amendments do not conflict with the existing texts, they can be applied even if they have not yet been endorsed in Europe.*

### Materiality and aggregation

In terms of materiality, the IASB clarified that:

- Information that is not material should not be included in the notes, even if it is specifically listed in the IFRSs. Such information can in effect obscure the disclosures which are actually relevant to readers of financial statements;
- On the other hand, if information is material to the understanding of financial statements but is not specifically listed in the IFRSs, it must be included.

This last point is illustrated by the option to disaggregate specified items with sub-totals for presentation in the statement of financial position and the statement of comprehensive income, provided that the following principles are complied with:

- The sub-classifications of line items are items accounted for and measured in accordance with IFRSs ;

- The disaggregated line items are presented and labelled in a way that makes the content of the sub-total clear and understandable;
- The sub-totals are presented in a manner which is consistent from one period to the next; and
- They are not presented with greater prominence than the sub-totals and totals required in the statement of financial position and statement of comprehensive income by IFRSs.

### Order of presentation in the notes

The IASB has clarified that IAS 1 does not impose any particular order of presentation in the notes to the financial statements. Thus the most common order of presentation (statement of compliance with IFRS, accounting policies, supporting information for items presented in the statements, off-balance sheet and non-financial information), which was the only one suggested by IAS 1 and which the standard described as “normal”, becomes the third example of presentation behind the two examples below which:

- Give prominence to the activities of the group that the entity views as more relevant to an understanding of its financial position and financial performance, for example by grouping disclosures about certain operating activities;
- Group the information regarding items measured in a similar way, for example items measured at fair value.

### Presentation in the statement of comprehensive income of the group's share in the other comprehensive income of associates and joint ventures

The IASB has also clarified that, like other comprehensive income items, these shares must be broken down into those which will be subsequently reclassified to profit or loss and those which will not.

The Basis for Conclusions clarifies that these shares are net of tax by nature, and that if the group were liable for taxes on these shares, these amounts should be presented in accordance with the general provisions for presentation in other comprehensive income (presentation of amounts net of taxes or of gross amounts, accompanied by disclosures on the tax amounts relative to each item, thus distinguishing between those which are recycled in profit or loss and those which are not).

## 2. Draft amendments to IAS 7: improving disclosures on the cash flow statement

In December 2014 the IASB published an exposure draft with a view to requiring the following disclosures:

- A reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as

financing activities in the statement of cash flows, excluding equity items. The reconciliation would include changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries and other businesses, and other non-cash changes (for example, the effect of changes in foreign exchange rates, and changes in fair values).

- Disclosures regarding restrictions that affect cash and cash equivalent balances, when this information is relevant to understanding the entity's liquidity. These restrictions include the tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances.

The IASB believes that these amendments should meet the needs of investors for information without going so far as to require a reconciliation of the net debt, feeling that the concept of net debt would take too long to define.

Comments on this exposure draft may be submitted no later than 17 April 2015. The document can be consulted at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Debt-disclosures/Exposure-Draft-December-2014/Pages/Exposure-Draft-and-comment-letters.aspx>

## 3. Materiality research project: defining the principles for applying the materiality concept

In the course of its work on the Conceptual Framework, the IASB came to the conclusion that the way it addresses materiality is appropriate. However, given the implementation difficulties, work has been undertaken with the stakeholders to identify the problems and to determine to what extent more guidance could be provided.

The questions around materiality include:

- How does the concept of materiality apply to the notes to the financial statements, when assessing the level of significance of qualitative or quantitative disclosures?
- How does the application of materiality differ in making the decision to correct an error or to omit a disclosure, to make a new disclosure or presentation as compared with the presentation in the summary statements, or to remove a disclosure or presentation that was present in the summary statements?
- How does the concept of materiality apply to comparative information?
- Should the concept of materiality incorporate the notion of a collective assessment, that is to say across the notes as a whole or even in the context of the financial statements as a whole?

The IASB expects to publish a draft Practice Statement on materiality during the second quarter of 2015.

#### 4. Defining the principles of disclosure

The objective of this research project is to identify and develop a set of principles for disclosure in IFRS that could form the basis of a Standards-level project.

The IASB proposes to review the general requirements in IAS 1 - *Presentation of Financial Statements*, IAS 7 - *Statement of Cash Flows* and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

This review should lead to the publication of a Discussion Paper in the second quarter of 2015.

The research will focus on the following aspects:

- The principles of disclosure for the notes including the objectives and boundaries with other documents (for example, the management commentary), and principles regarding the organisation, placement (within or out of the financial statements), format and linkage of information;
- The information in a complete set of IFRS financial statements, including the presentation and disclosure of non-IFRS financial information (for example, non-IFRS performance measures) and comparative information;
- Differential disclosures and proportionality, for example reflecting the type of entity or the size of the group;
- Cash flow reporting; and
- The disclosure of interim financial information.

The IASB is relying on a number of accounting standard setters to undertake this work. In particular, the Italian standard setter OIC (Organismo Italiano di Contabilità) has launched two questionnaires on IAS 8, one for investors and one for entities preparing financial statements under IFRS. These questionnaires are to be completed by mid-February 2015 and are available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Principles-of-Disclosure/Project-news/Pages/Project-update-December-2014.aspx>

Meanwhile the English FRC (Financial Reporting Council) is at work on the review of cash flow reporting.

#### 5. Standards-level review of disclosure: rationalising scattered provisions

This project will be informed by the principles being developed in the Principles of Disclosure project and will review disclosures in all IFRSs to identify and assess conflicts, duplication and overlaps.

Apart from a discussion to launch the project, no calendar for publication of IASB due process documents has yet been established.

#### Conclusion

The IASB has launched a vast project. Breaking this down into short and medium-term phases should make it possible to achieve tangible results relatively quickly, provided that all the stakeholders play along.

We will no doubt have occasion to return to this project in order to report both the practical impact of the short-term work and developments in the medium-term phases.

# Events and FAQ

## Events / publications

### IFRS 15: an overview of the new principles of revenue recognition

In May 2014, the IASB published IFRS 15 *Revenue Recognition*.

This standard introduces a significant number of new features and clarifications on accounting for revenue.

In December 2015 Mazars published a guide entitled "IFRS 15: an overview of the new principles of revenue recognition". This summary will help you to assess the impacts of the standard both to prepare the transition and to anticipate the accounting consequences on future contracts or contracts currently under negotiation.

Download the guide, which is available in English, from the Mazars site at:

<https://www.mazars.fr/Accueil/News/Publications/Cahiers-techniques/Reconnaissance-du-revenu-les-5-etapes-cles>

## Frequently asked questions

### IFRS

- Application of IFRS 5 where competition authorities are likely to force the entity to discontinue its activity;
- Accounting treatment of expected tax refunds;
- Date of recognition and consideration for works to restore premises;
- Reverse factoring: analysis of the deconsolidating impact on the vendor-side.
- Nature of a joint arrangement ("analysis of the other facts and circumstances").

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

### IASB

du 17 au 25 juillet 2014  
18 to 25 September 2014  
16 to 24 October 2014

### Committee

les 15 et 16 juillet 2014  
16 and 17 September 2014  
11 and 12 November 2014

### EFRAG

du 14 au 16 juillet 2014  
2 to 5 September 2014  
8 to 10 October 2014

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