

# Beyond the GAAP

MAZARS' NEWSLETTER ON ACCOUNTING  
STANDARDS

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## EDITORIAL

September saw the publication of two long-awaited decisions by the IFRS Interpretations Committee (IFRS IC). One related to determination of the lessee's incremental borrowing rate when applying IFRS 16, and the other to the classification and presentation of liabilities or assets related to uncertain tax positions. This therefore seemed the ideal time to present our study of information on the impacts of initial application of IFRIC 23 presented by a sample of French and European issuers (CAC 40 and Euro Stoxx 50) in their IFRS interim financial statements to 30 June 2019.

Enjoy your reading!

Edouard Fossat





# IFRS highlights

## IFRS IC agenda decision on determining incremental borrowing rate under IFRS 16

Readers will remember that lessees shall use their incremental borrowing rate to measure a lease liability when the interest rate implicit in the lease cannot be readily determined (IFRS 16.26).

The incremental borrowing rate is defined (in Appendix A of IFRS 16) as “the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment”.

The IFRS Interpretations Committee received a request about the definition of a lessee’s incremental borrowing rate in IFRS 16. It was asked to clarify some details as to how the incremental borrowing rate should be determined: specifically, whether this rate is required to reflect the interest rate in a loan with both a similar maturity to the lease and a similar payment profile to the lease.

The Committee has just published its agenda decision on this request, in the September 2019 issue of IFRIC Update. The decision can be summarised as follows:

- the definition of a lessee’s incremental borrowing rate in IFRS 16 does not explicitly require the lessee to determine its incremental borrowing to reflect the interest rate in a loan with a similar payment profile to the lease payments;
- however, it would be consistent with the Board’s objective, as set out in the Basis for Conclusions (IFRS 16 BC162), to refer as a starting point to a readily observable rate for a loan with a similar payment profile to that of the lease;
- the principles and requirements of IFRS 16 provide an adequate basis for determining the incremental borrowing rate.

Although it is evident that the Committee favours the use of an interest rate for a loan with a similar maturity and payment profile to the lease, it has refrained from imposing this as a requirement. It is thus up to the lessee to decide whether or not it wishes to reflect the payment profile in its incremental borrowing rate.

## Progress report on Goodwill and Impairment project

At the start of September, the IASB published a progress report on its Goodwill and Impairment project on its website. This project was launched following the Post-implementation Review of IFRS 3 – Business Combinations. Readers will remember that the aim of the project is to investigate how companies could provide better information on business combinations, at a reasonable cost.

Specifically, the project aims to address the following criticisms that stakeholders have made of the current requirements:

- information on the subsequent performance of acquired businesses is inadequate;
- impairment losses of goodwill are often not recognised on a timely basis;
- impairment testing is expensive and complex to carry out;
- amortisation of goodwill should be reintroduced; and
- separate recognition of some intangible assets can be difficult, and the values assigned to these intangible assets are too subjective.

The recently-published article summarises the Board’s preliminary observations and recommendations, which are as follows:

- disclosure objectives need to be improved;
- it is not possible to develop a more effective impairment test;
- reintroducing amortisation of goodwill would not result in better information;
- the cost and complexity of impairment testing needs to be reduced, by providing relief from the annual impairment test and simplifying some of the requirements for estimating the value in use;
- companies should not be permitted to include more intangible assets in goodwill; and
- transparency should be improved by requiring companies to present total equity before goodwill.

The article is available here: <https://www.ifrs.org/-/media/project/goodwill-and-impairment/in-brief-goodwill-and-impairment-factsheet.pdf?la=en>.

## Presentation of assets or liabilities related to uncertain tax positions

The IFRS IC has published its definitive agenda decision on the classification and presentation of assets/liabilities arising from uncertain tax positions recognised by applying IFRIC 23, in the September issue of IFRIC Update.

Assets or liabilities related to uncertain tax positions are:

- current or deferred income tax assets or liabilities as defined in IAS 12 – Income Taxes;
- to be presented as current or deferred income tax assets or liabilities in accordance with IAS 1 – Presentation of Financial Statements

## EFRAG seeks input from crypto-assets experts

EFRAG (the European Financial Reporting Advisory Group) is seeking input from crypto-assets experts for its research project seeking to identify solutions to the accounting challenges raised by this new type of assets.

Specifically, it is looking for experts on the following areas:

- issuance via initial coin offerings and similar offerings;
- holding/investing activities and payment services;
- custodial and storage services;
- mining services.

For more details on this call for input from experts, see EFRAG's website, via the following link:

<http://www.efrag.org/News/Project-382/Call-for-input-from-crypto-assets-experts?AspxAutoDetectCookieSupport=1>



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## Impacts of initial application of IFRIC 23 in IFRS interim financial statements to 30 June 2019

IFRIC 23 is mandatory for financial periods commencing on or after 1 January 2019. This interpretation of IAS 12 sets out the accounting for income taxes (current and deferred) where there is uncertainty over whether a tax treatment is acceptable under tax law (including in situations where there is no litigation).

Following a brief reminder of the key points of IFRIC 23, we present the results of our study, which:

- compares and contrasts information on the impacts of initial application of IFRIC 23 presented by French issuers on the CAC 40 and their European counterparts on the Euro Stoxx 50 in their IFRS interim financial statements to 30 June 2019;
- assesses the level of information provided on the classification of liabilities arising from uncertain tax positions in the statement of financial position, a topic that was the subject of a request for clarification to the IFRS Interpretations Committee from the French accounting standards authority (ANC).

### 1. Reminder of the key points of IFRIC 23

#### Recognition

IFRIC 23 stipulates that the effect of uncertainty must be reflected in the amount of income tax recognised if the entity concludes it is not probable that the taxation authority will accept the tax treatment in question. To do this, it shall assume a “detection risk” of 100% (i.e. the entity must assume that it will be examined by the taxation authority and that the said authority will have access to all relevant information when assessing whether or not the tax treatment is acceptable).

Therefore, the amount of (current) income tax recognised under IFRS is not necessarily identical to the amount declared in income tax filings!

#### Measurement

In situations where uncertainty must be taken into account when recognising income taxes, an entity shall make use of judgement to estimate the amount, using the method that it expects to better predict the resolution of the uncertainty (as for estimates of variable consideration under IFRS 15):

- either the most likely amount;
- or the expected value (the average of the probability-weighted amounts of a range of possible outcomes).

Estimates shall be revised if facts and circumstances change (changes in tax law, the expiry of a tax authority’s right to examine a tax treatment, etc.).

#### Disclosures in the notes

IFRIC 23 does not add any new requirements, but simply reiterates the requirements of existing standards:

- IAS 1 (paras. 122 and 125-129) on significant judgements and estimates;
- IAS 12 (para. 88, referring back to IAS 37) on contingent assets and liabilities

#### Ongoing discussions

The French accounting standards authority (ANC) submitted a request for clarification to the IFRS IC on the presentation of liabilities arising from uncertain tax positions applying IAS 12: must they always be presented as (current or deferred) income tax liabilities, or can they be presented within provisions?

In the June 2019 issue of IFRIC Update, the IFRS IC reported its tentative agenda decision: that these liabilities must be presented as (current or deferred) income tax liabilities, in accordance with IAS 1 – Presentation of Financial Statements.

This was confirmed by the IFRS IC at its September 2019 meeting, and the definitive agenda decision was published in the corresponding IFRIC Update.

## 2. Information presented by issuers in their interim financial statements to 30 June 2019

### Study sample and objectives

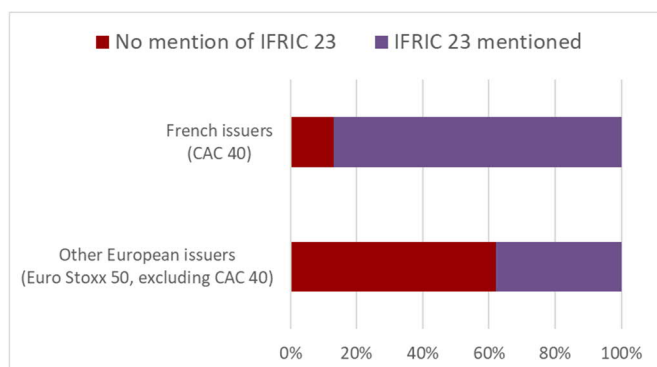
We analysed the consolidated interim IFRS financial statements for 2019 (together with the annual IFRS financial statements for 2018 where IFRIC 23 had been applied early) published by issuers from the CAC 40 and Euro Stoxx 50 indices whose reporting period is the same as the calendar year. This gave us a sample of 67 issuers in total.

The objectives of the study were as follows:

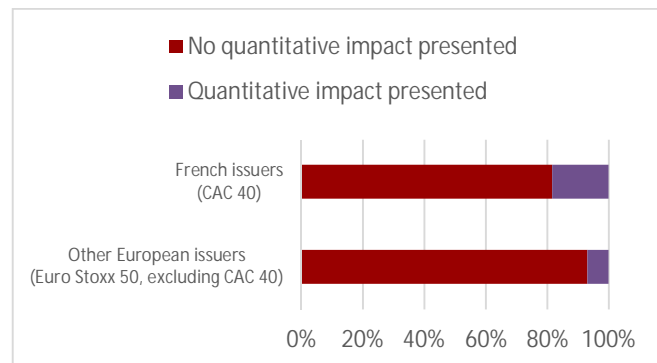
- to analyse the impacts of initial application of IFRIC 23;
- to assess the extent to which the IFRS IC's tentative agenda decision on the presentation of liabilities arising from uncertain tax positions had affected the issuers' financial statements.

N.B. the scope of the study did not include an analysis of any potential changes in disclosures on tax risks not covered by provisions, following first-time application of IFRIC 23.

### What proportion of issuers mentioned IFRIC 23?



### What proportion of issuers presented the quantitative impact of IFRIC 23 on the measurement of IAS 12 tax assets and liabilities?



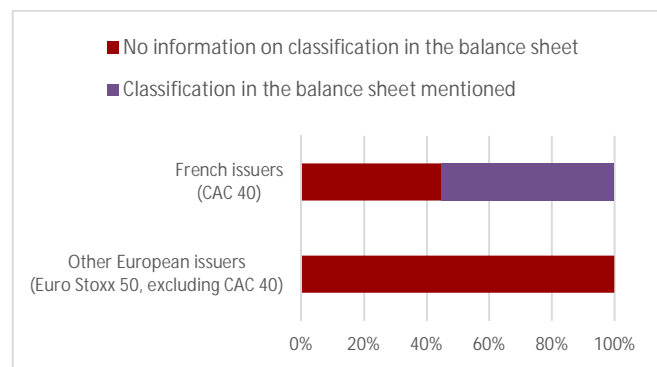
For French issuers, the impacts on the financial statements were limited, ranging between:

- -€10m and -€69m in terms of value;
- 0.1% and 1.6% of consolidated opening equity.

For European issuers outside France, the impacts on the financial statements were even less significant, ranging between:

- -€14m and -€38m in terms of value;
- 0.1% and 0.3% of consolidated opening equity.

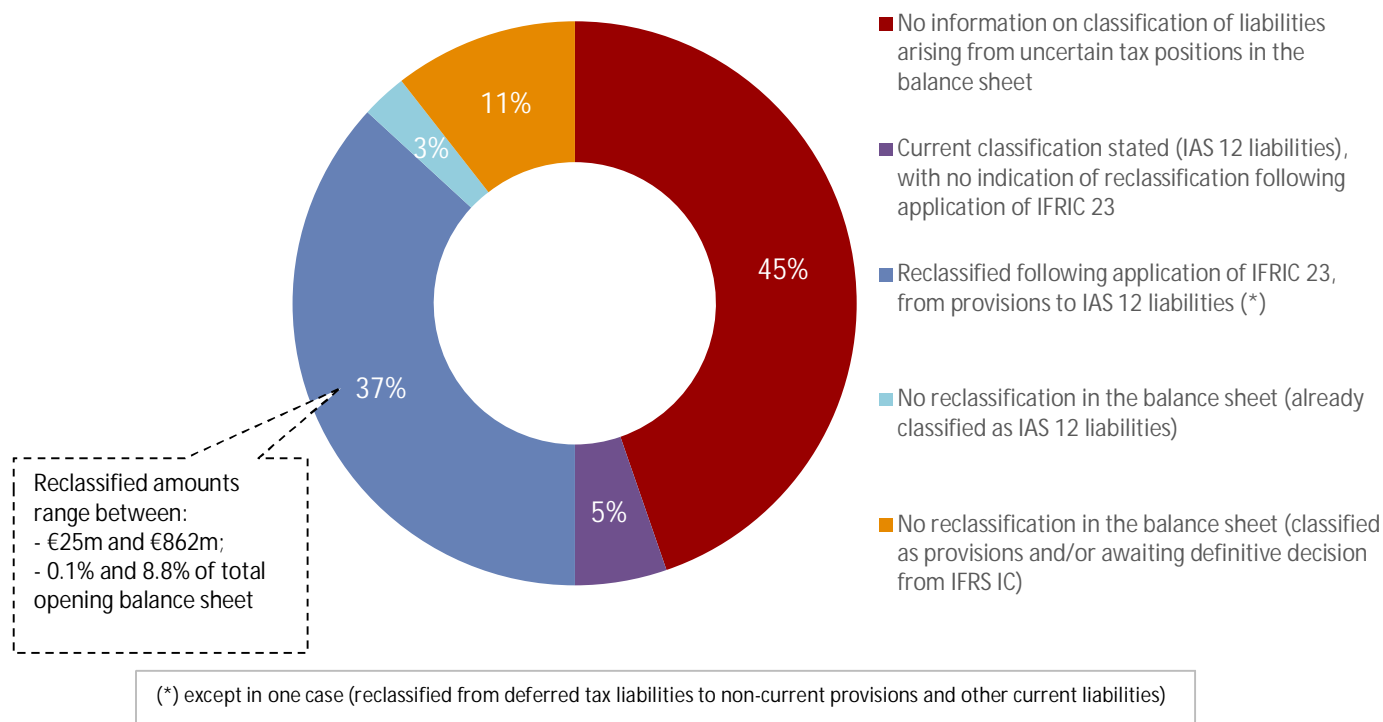
### What proportion of issuers mentioned the topic of classification of liabilities arising from uncertain tax positions applying IAS 12?





What information was provided by French issuers (the only ones to mention the topic) on classification of liabilities arising from uncertain tax positions?

### French issuers (CAC 40)



### Key points to remember

- On average, French issuers presented more information on initial application of IFRIC 23 than their European counterparts
- French issuers were the only ones to mention the topic of classification of liabilities arising from uncertain tax positions!
- Impacts were:
  - relatively limited as regards the measurement of income tax assets and liabilities;
  - somewhat larger (in value terms) as regards the classification of liabilities arising from uncertain tax positions (but data is only available for France).

## Frequently asked questions

### IFRSs

- Reverse factoring
- Deferred tax assets and liabilities related to the application of IFRS 16
- Favourable or unfavourable lease terms for leases acquired as part of an IFRS 3 business combination
- How should initial direct costs incurred by the lessee to obtain a lease be presented in the statement of cash flows?

## UPCOMING MEETINGS OF THE IASB, IFRS INTERPRETATIONS COMMITTEE AND EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
21-25 October	25-26 November	13 November	5-6 November
18-22 November	21 January	18 December	5 December
9-12 December	3-4 March	14 January	29-30 January

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