Beyond the GAAP

Mazars' newsletter on accounting standards

Contents

Editorial

As 2021 approaches its close, we present our traditional year-end overview of the new standards and amendments applicable at 31 December. Once again, no major new standards have been published this year, but insurers should take note: the European Union has finally adopted IFRS 17 (with some tweaks) and it will come into effect from 1 January 2023. Early application is permitted.

Sustainability reporting takes centre stage once again this month in the wake of the COP26 climate change summit in Glasgow, which concluded on 13 November. While some may have felt that the COP did not live up to expectations in terms of commitments made and targets set in order to tackle the climate crisis, it did at least provide a forum for the IFRS Foundation to officially announce the creation of the International Sustainability Standards Board (ISSB). Both the EU (via EFRAG) and the Foundation are now on track to develop sustainability reporting standards, with a shared goal of standardising non-financial reporting, but different road maps. Although the European standards are expected to be broader and more detailed than the ISSB's standards, the two should still be compatible, so European companies will not have the inconvenience of trying to reconcile different reporting frameworks.

IFRS Highlights

Redeliberations continue on Primary Financial Statements project

Following on from its previous discussions on management performance measures (MPMs) (cf. Beyond the GAAP nos. 153, 156 and 158, from March, June and September 2021), the International Accounting Standards Board (IASB) continued its redeliberations at its November meeting on the Primary Financial Statements project, which will replace IAS 1. The IASB tentatively decided:

- to confirm the proposed objective for MPMs, namely to provide management's view of an aspect of an entity's financial performance;
- to confirm that a key element of the definition of MPMs is that they communicate to users management's view on an aspect of the entity's financial performance;
- to establish a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance (and is therefore an MPM). This presumption may only be rebutted if the entity has reasonable and supportable information demonstrating that the subtotal does not represent management's view of an aspect of performance. High-level application guidance will be developed to help entities to assess whether they have information that would permit them to rebut this presumption;
- to limit the scope of "public communications outside financial statements", which is used to determine what is or is not an MPM, to exclude oral communications, transcripts and social media posts;

- to add application guidance on how an entity could apply the requirement to describe an MPM in a clear and understandable manner that would not mislead users. This guidance would address the need for an entity to be transparent about the meaning of the terms used and the methods applied, in particular when they differ from those used when applying IFRSs.

The IASB's work plan does not give any end date for this project. Redeliberations are thus expected to continue in 2022.

IASB publishes Exposure Draft of amendments to disclosures on supplier finance arrangements

On 26 November, the IASB published an Exposure Draft (ED), available here, which aims to address investors' information needs regarding supplier finance arrangements, such as reverse factoring and similar arrangements.

The proposed amendments to IAS 7 – *Statement of Cash Flows* and IFRS 7 – *Financial Instruments: Disclosures* would require entities to provide additional disclosures on such arrangements in the financial statements.

The objective is to enable users of financial statements to assess the impact of such arrangements on an entity's liabilities, cash flows, liquidity risk profile and risk management policy.

The mandatory effective date has not yet been set, but early application is likely to be permitted.

The comment period for the ED is open until 28 March 2022.

Classification of liabilities with covenants: proposed narrow-scope amendment to IAS 1

On 19 November, the IASB published an ED, available here, of amendments to IAS 1 on the classification of liabilities with specified conditions (covenants) as current or non-current (cf. Beyond the GAAP no. 156, June 2021).

The proposed amendments state that, if the right to defer settlement of a liability for at least 12 months is subject to compliance with specified conditions after the reporting period, this does not affect the liability's classification as current or non-current. However, the entity would have to provide additional disclosures that would permit investors to assess whether the liability could become repayable within the 12 months.

The effective date of the amendments would be no earlier than 1 January 2024, although early application would be permitted under certain conditions.

The comment period for the ED is open until 21 March 2022.

IFRS Foundation appoints two new Trustees

On 29 November, the IFRS Foundation announced the appointment of two new Trustees: Jorge Familiar and Keiko Tashiro. It also announced the re-appointment for a second term of Erkki Liikanen, Chair of the Trustees, as well as Trustees Sarah J Al Suhaimi and Dr Suresh P Kana.

Jorge Familiar is originally from Mexico. He is currently Vice-President for Finance and Group Controller at the World Bank. He has recently been appointed Vice-President and Treasurer from 1 January 2022.

Keiko Tashiro is from Japan and is Deputy President at Daiwa Securities, a post she has held since 2019.

Jorge and Keiko will replace Guillermo Babatz and Kazuyuki Masu respectively, when their terms come to an end at the close of 2021.

These appointments and re-appointments are for a term of three years, beginning on 1 January 2022, and have been approved by the IFRS Monitoring Board, a group of capital market authorities to whom the Trustees are accountable.

Readers will remember that the IFRS Foundation Trustees are responsible for the strategy, governance and oversight of the Foundation, as well as of the IASB and the newly-created ISSB.

European Highlights

IFRS 17 adopted in the EU

On 23 November 2021, the European Union published Commission Regulation (EU) 2021/2036, adopting IFRS 17 – *Insurance Contracts.* The regulation is available here. As we explained in a previous issue of Beyond the GAAP (no. 157, July-August 2021, see European Highlights section), the standard is the result of many years of discussions, at both the development and adoption stages. It will replace the “interim” standard IFRS 4, which was largely limited to permitting entities to apply local standards in their IFRS financial statements.

It is important to note that the European regulation adopting IFRS 17 permits an optional exemption from the rules set out in the standard by the IASB. Under Article 2 of the regulation, an insurer may elect not to apply the requirement to group insurance contracts by annual cohort (IFRS 17.22) in two specific cases:

- the first case relates to “intergenerationally-mutualised” contracts, a term which applies to most life insurance contracts in Europe, particularly in France, Italy and Germany;
- the second case primarily affects insurance contracts sold in Spain.

The standard has been adopted in time to permit first-time application for financial periods commencing on or after 1 January 2023. Early application is permitted, but it is unlikely that many entities will make use of it, as the 2022 financial period will not be too long to complete the significant operational changes required for transition to the new standard.

Lastly, the IASB is still working on a final amendment that will align the transition arrangements for IFRS 9 and IFRS 17 at first-time application, thanks to an optional “classification overlay”. The IASB approved the amendment in October and it should be published very soon. The European Financial Reporting Advisory Group (EFRAG), which advises the European Commission on the adoption of IFRSs, has been strongly in favour of the proposed amendment. It is therefore expected to issue positive endorsement advice as soon as the amendment is published.

The EU is expected to adopt the amendment in early 2022, which will still permit first-time application from 1 January 2023.

European Banking Authority publishes report on implementation of IFRS 9 by banks

On 24 November, the European Banking Authority (EBA) published a report, on its own initiative, summarising its findings on the implementation of IFRS 9 – *Financial Instruments.*

The aim of this report, available here, is to assist regulators with their evaluation of the quality and adequacy of the expected credit loss (ECL) frameworks used by banks when applying IFRS 9.

In the report, the EBA emphasises the significant efforts made by European banks, but also notes its reservations about certain accounting practices, particularly in the context of COVID-19. The EBA highlights three key findings:

- accounting practices differ due to the inherent flexibility of IFRS 9, and limited experience to date;
- the COVID-19 crisis has required banks to apply IFRS 9 ECL models outside the boundaries for which they were designed, necessitating greater use of manual adjustments (overlays) and resulting in more divergence in terms of the impact on ECL amounts;
- some of the practices observed in the context of the COVID-19 crisis will require closer attention from regulators, particularly as regards the timely identification of a significant increase in credit risk.

The EBA states that the findings of its report will feed into its discussions with the IASB in the context of the ongoing Post-implementation Review (PiR) of IFRS 9. The findings will also be taken forward at a European level.

Furthermore, the EBA will continue to monitor the issues, with a view to promoting consistent application of IFRS 9 and working on the interaction between accounting and prudential requirements.

PTF-ESRS publishes status report on future European sustainability reporting standards

On 16 November, the EFRAG (European Financial Reporting Advisory Group) Project Task Force on European sustainability reporting standards (PTF-ESRS) published a detailed status report on the progress made over the first five months of the project (available here).

Readers will remember that EFRAG was appointed as technical advisor to the European Commission in the preparation of draft European sustainability reporting standards, as part of broader work on the future European Corporate Sustainability Reporting Directive (CSRD).

Thanks to significant efforts by numerous stakeholders at all levels, and the active contributions of international initiatives such as the GRI (Global Reporting Initiative), substantial progress has been made towards developing the standards within the project's very tight timescale.

In practice, the first draft standards are expected to be put out for comment in early 2022. Currently, EFRAG is scheduled to deliver the first set of standards to the European Commission by mid-2022. These standards are to be adopted via Delegated Act by the end of the year. Companies should be required to use them for their sustainability reporting in 2024, for the 2023 financial period.

Standards and interpretations applicable at 31 December 2021

Now that accounts are being finalised for 31 December 2021, 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 1 December 2021, available on EFRAG's website here).

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

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

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

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

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2021
IFRS 14	**Regulatory Deferral Accounts** (issued on 30 January 2014)	1/01/2016 Early application permitted	No endorsement (The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard)	Not permitted
IFRS 17 and amendments	**IFRS 17 Insurance Contracts** (issued on 18 May 2017); including **Amendments** (issued on 25 June 2020)	1/01/2023 Early application permitted	23 November 2021 (UE introduces an option to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement)	Permitted

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2021
Amendments to IFRS 10 and IAS 28	**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (issued on 11 September 2014)	Postponed Early application permitted	Deferred	Permitted (1)
Amendments to IFRS 4	**Insurance Contracts –deferral of IFRS 9** (issued on 25 June 2020)	1/01/2021 (the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 has been deferred to 1 January 2023)	16 December 2020	Mandatory
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	**Interest Rate Benchmark Reform –Phase 2** (issued on 27 August 2020)	1/01/2021 Early application permitted	14 January 2021 Effective for annual periods beginning on or after 1 January 2021	Mandatory
Amendments to IAS 1	**Classification of Liabilities as Current or Non-current** (Issued on 23 January 2020) - **Deferral of Effective Date** (Issued on 15 July 2020)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 1	**Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies** (issued on 12 February 2021)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted (2)
Amendments to IAS 16	**Property, Plant and Equipment: Proceeds before Intended Use** (issued on 14 May 2020)	1/01/2022 Early application permitted	2 July 2021	Permitted

(1) If the entity had not developed an accounting policy.
(2) The amendment is a clarification of an existing standard and is not in contradiction with current standards.

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2021
Amendments to IFRS 3	**Reference to the Conceptual Framework** (issued on 14 May 2020)	1/01/2022 Early application permitted (if the entity applies at the same time all other updates to the Conceptual Framework of March 2018)	2 July 2021	Permitted
Amendments to IAS 37	**Onerous Contracts - Cost of Fulfilling a Contract** (issued on 14 May 2020)	1/01/2022 Early application permitted	2 July 2021	Permitted
Annual Improvements to IFRSs 2018–2020 Cycle	**Annual improvements to various Standards** (issued on 14 May 2020)	1/01/2022 Early application permitted	2 July 2021	Permitted
Amendments to IAS 8	**Definition of Accounting Estimates** (issued on 12 February 2021)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted [2]
Amendments to IFRS 16	**Covid-19-Related Rent Concessions beyond 30 June 2021** (issued on 31 March 2021)	1/04/2021 Early application permitted	31 August 2021	Mandatory if the amendments to IFRS 16 published in May 2020 have been applied (i.e. the exemption for lessees has been retained)
Amendments to IAS 12	**Deferred Tax related to Assets and Liabilities arising from a Single Transaction** (issued on 7 May 2021)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted [3] (except transitional provisions)

[2] The amendment is a clarification of an existing standard and is not in contradiction with current standards.
[3] A voluntary change in accounting policy is authorised provided such change is applied retrospectively in accordance with IAS 8 (i.e. the transitional provisions under IAS 12 amendments cannot be applied).

IFRS Foundation launches ISSB

On 3 November, Erkki Liikanen, the Chair of the IFRS Foundation Trustees, announced the creation of the International Sustainability Standards Board (ISSB) in his speech at the COP26 climate change summit in Glasgow.

The announcement came as no surprise and was accompanied by the publication of a revised version of the Foundation's Constitution, following a consultation launched last spring (cf. Beyond the GAAP no. 154, April 2021).

The role of the ISSB will be to develop IFRS Sustainability Disclosure Standards, with the same level of quality and rigour as the IASB has done for International Financial Reporting Standards, in order to meet the needs of investors and other stakeholders.

These standards will be developed in such a way as to facilitate compatibility with jurisdiction-specific requirements (alongside projects such as the EU's Corporate Sustainability Reporting Directive or CSRD; see 'European Highlights', above, for the progress made in the development of European sustainability reporting standards).

The ISSB will follow a similar due process to that used by the IASB. Specifically, the ISSB is expected to launch public consultations in the near future, drawing on the work already carried out by the Technical Readiness Working Group (TRWG). The TRWG was formed in early March 2021 and comprises representatives from the IASB, the CDSB (Climate Disclosure Standards Board), the TCFD (Task Force on Climate-Related Financial Disclosures), the VRF (Value Reporting Foundation), and the World Economic Forum.

The TRWG has published a number of documents, also on 3 November, arising from its work so far:

- a summary of the TRWG's programme of work (available here), which serves as recommendations for the ISSB;
- a prototype standard on climate-related disclosures (available here) and a supplement on technical protocols for disclosure requirements for different sectors (available here);
- a prototype standard on general requirements for disclosure of sustainability-related financial information (available here).

In addition to the creation of the ISSB, Mr Liikanen made the following announcements:

- two existing initiatives that are already well-established in the non-financial reporting sector will be consolidated with the ISSB: namely, the CDSB and the VRF (which was itself recently formed from the consolidation of the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC));
- the work of the TCFD and the Forum Stakeholder Capitalism Metrics (an initiative of the World Economic Forum) will also be taken into account in the ISSB's "building blocks" approach;
- a new Sustainability Consultative Committee has also been created, comprising representatives from the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations and the World Bank. This committee will provide

technical advice to the ISSB. The remit and expertise of the IFRS Advisory Council will also be expanded to include sustainability-related issues;

- a working group has been formed to create a mechanism for formal engagement on standard-setting between the ISSB and representatives of individual jurisdictions, similar to the Accounting Standards Advisory Forum, which fulfils this role for the IASB.

The ISSB will be based in a number of different locations, giving it a global presence with a foothold in all major regions of the world. Its main offices will be in Frankfurt and Montreal.

The ISSB is expected to start work officially in early 2022, once the Trustees of the IFRS Foundation have appointed the 14 Board members (including the Chair and Vice-Chair).

Key points to remember

- The creation of the International Sustainability Standards Board (ISSB) was announced at the COP26 climate change summit in Glasgow.
- The role of the ISSB will be to develop IFRS Sustainability Disclosure Standards, with the same level of quality and rigour as the IASB has done for International Financial Reporting Standards.
    - These standards will be developed in such a way as to facilitate compatibility with jurisdiction-specific requirements.
    - The ISSB will follow a similar due process to that used by the IASB.
- The ISSB is expected to start work officially in early 2022, once the Trustees of the IFRS Foundation have appointed the 14 Board members (including the Chair and Vice-Chair), by launching public consultations, drawing on the work already carried out by the TRWG (Technical Readiness Working Group).

Contact us

Michel Barbet-Massin, Partner, Mazars
michel.barbet-massin@mazars.fr

Edouard Fossat, Partner, Mazars
edouard.fossat@mazars.fr

Carole Masson, Partner, Mazars
carole.masson@mazars.fr

Contributors to this issue:

Vincent Guillard, Carole Masson, Florence Michel, Cédric Tonnerre and Arnaud Verchère

Beyond the GAAP is published by Mazars. The purpose of this newsletter is to keep readers informed of accounting developments. Beyond the GAAP may under no circumstances be associated, in whole or in part, with an opinion issued by Mazars. Despite the meticulous care taken in preparing this publication, Mazars may not be held liable for any errors or omissions it might contain.

The drafting of the present issue was completed on 3 December 2021

About Mazars

Mazars is an international, integrated and independent firm, specialising in audit, advisory, accountancy, tax and legal services [1]. With a presence in 91 countries and territories across the world, Mazars brings together the expertise of 40,400 professionals – 24,400 in our integrated partnership and 16,000 in the United States and Canada via the Mazars North America Alliance – to serve clients of all sizes at every stage of their development.

[1] Where permitted under applicable country laws

www.mazars.com