



Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

With the war in Ukraine raging for over a month now, it is time for companies to assess the impact of the crisis on their financial statements – though obviously, not all companies will have the same level of exposure. While market regulators and national authorities have already published statements drawing entities' attention to their duty of transparency in disclosures, there are certain issues where clarification is needed. We provide some answers in this issue.

March also saw the appointment of EFRAG's new Sustainability Reporting Board, which held its first meeting on 31 March. The SR Board will have the formidable task of launching the public consultation on the proposed European Sustainability Reporting Standards (of which there are around 20) in the near future. While the ISSB is not yet up to full strength, it nonetheless managed to get a step ahead by publishing for comment its first two exposure drafts of IFRS Sustainability Disclosure Standards (IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures*). The comment period is open until 29 July 2022.

IFRS Highlights

New Chair for IFRS IC

On 1 March, the IFRS Foundation announced that Bruce Mackenzie had been appointed as Chair of the IFRS Interpretations Committee (IFRS IC), with immediate effect. He succeeds Sue Lloyd, who has been appointed vice-chair of the International Sustainability Standards Board (ISSB).

Bruce Mackenzie has been a member of the International Accounting Standards Board (IASB) since October 2020 and will continue to be a member of the IASB alongside his new role as IFRS IC Chair.

IFRS IC publishes final agenda decision on TLTRO III programme

At the IASB meeting in March 2022, the Board approved the IFRS IC tentative agenda decision on the targeted longer-term refinancing operations programme (TLTRO III) for European banks (cf. the February 2022 IFRIC Update, updated in March and available [here](#)). The programme

was put in place in 2019 by the European Central Bank (ECB) following two similar programmes launched in 2014 and 2016. They aim is to stimulate lending to households (except for property loans) and non-financial corporations by offering attractive refinancing interest rates, provided that the bank reaches a certain minimum growth rate in the amount of such loans over a given period.

In this context, the IFRS IC decision focused primarily on the following topics:

- whether or not the benefit of the favourable interest rates should be treated as a government grant under IAS 20, either on initial recognition or subsequently;
- how to calculate the effective interest rate (EIR) on initial recognition and when revising estimates subsequently:
 - either because the bank has revised its assessment of whether the performance conditions have been met;

- or because the ECB has decided to change its rates for the programme.

As regards whether such loans should be treated as government grants under IAS 20, the IFRS IC notes that the two following conditions must be met:

- the bank must conclude that the ECB meets the definition of a government agency or similar body; and
- either the interest rates offered by the ECB are below-market interest rates at the transaction date, or the loan is a forgivable loan.

The IFRS IC concluded that these judgements lay beyond its remit and must be assessed by each bank with regard to the specific facts and circumstances. However, the Committee noted that a grant, when corresponding to a below-market rate, can be recognised only at initial recognition, whereas subsequent recognition of the financial liability falls under the scope of IFRS 9.

As regards how the EIR should reflect the conditionality relating to both the bank's loan performance and subsequent interest rate changes by the ECB: the IFRS IC noted that this is part of a broader issue that should be tackled in the Post-implementation Review of the classification and measurement phase of IFRS 9, which is currently under way. It thus made no further comments at this stage.

The IFRS IC also noted that banks must provide disclosures in the notes on their main judgements and estimates and their choices of accounting policy, in accordance with IAS 1 and (for financial instruments) IFRS 7.

Eight out of fourteen Committee members voted in favour of the tentative agenda decision. The Committee will not carry out a

standard-setting project on this topic, and will refer the issues relating to the EIR to the Post-implementation Review of IFRS 9, currently being carried out by the IASB.

Redeliberations continue on Primary Financial Statements project

At its March 2022 meeting, the IASB continued its redeliberations on the proposals in the December 2019 *General Presentation and Disclosures* exposure draft, in the wake of comments received from stakeholders.

Entities with specified main business activities

The IASB has started redeliberating the proposals applicable to certain companies (as an exception to the general model, which the Board began discussing in March 2021, cf. [Beyond the GAAP no. 153](#)).

These proposals relate to companies that:

- in the course of their main business activities, invest in assets that generate a return individually and largely independently of the other assets of the entity; or
- provide financing to customers as a main business activity.

The discussion focused on the concept of “main business activities”, which is essential to deciding which items should be presented in the various categories of the income statement (“operating”, “investing” and “financing”). The IASB has proposed that the categories in the income statement should be the same for all entities, but the content of each category could vary depending on the company's business model. Specifically, the exposure draft proposed that income and expenses from investments made in the course of the entity's main business activities (except for investments accounted for using the equity method) should be classified in the

“operating” category rather than the “investing” category. Similarly, some income and expenses should be presented in the “operating” category rather than the “financing” category, particularly income and expenses arising from financing activities, and from cash and cash equivalents relating to the provision of financing to customers.

The IASB has reached the following (tentative) decisions:

- in the proposed future IFRS Accounting Standard, entities will only need to consider their “main business activities” in order to determine whether they invest in the course of their main business activities or provide financing to customers as a main business activity. In other words, an entity will not need to consider all its activities and determine which of them are “main business activities”;
- whether an entity invests in the course of its main business activities is a matter of fact, not an assertion. This requires the use of judgement. As far as possible, the assessment should be based on observable evidence, such as operating performance measures used in public communications, or segment information published in accordance with IFRS 8. If a reportable segment comprises a single business activity, this activity is a “main business activity” for the entity. However, if an operating segment comprises a single business activity, more analysis is needed to determine whether the activity is a “main business activity”;
- subtotals that are similar to gross profit and that are not “management performance measures” (see below), such as net interest income or insurance service result (to pick two

examples from the exposure draft), are examples of important indicators of operating performance for entities that invest in the course of their main business activities or provide financing to customers as a main business activity.

The IASB has also (tentatively) decided that the assessment of the main business activities should be carried out at the level of the reporting entity, i.e. at the group level for consolidated financial statements.

Finally, any change in the outcome of an entity’s assessment of its main business activities should be accounted for prospectively, without restating the comparative periods presented. In this situation, the entity must disclose the fact that the outcome has changed. It must also disclose the impact of the change to allow users of the financial statements to perform trend analysis of operating profit.

The next few months should see further clarifications of the provisions applicable to entities for which adaptations to the general model for presentation of the income statement are necessary.

Management performance measures

In March, the IASB also continued its redeliberations on management performance measures (MPMs). Readers will remember that MPMs are very narrowly defined in the exposure draft. They are measures that an entity uses in communications outside IFRS financial statements. The IASB is hoping to establish a framework for MPMs, according to which certain disclosures would be required in the notes to the financial statements.

The Board tentatively confirmed that disclosures required under the new IFRS should be presented in a single note to the financial statements.

It also decided not to add any provisions relating to the inclusion of disclosures about MPMs in the financial statements by reference to another document (such as the management report). In practice, this means that since cross-referencing will not be explicitly permitted under the new standard (contrary to what is indicated under IFRS 7 for certain disclosures on financial instruments), cross-referencing will *de facto* be prohibited, and all the disclosures required on MPMs will have to be presented in the relevant single note.

For an overview of all the redeliberations on MPMs, see previous issues of Beyond the GAAP (cf. [Beyond the GAAP no. 153](#), [no. 156](#), [no. 158](#), [no. 160](#) and [no. 162](#), from March, June, September and November 2021 and January 2022).

IPTF adds Turkey to list of hyperinflationary economies

On 16 March, the International Practices Task Force (IPTF) of the Center for Audit Quality (CAQ) SEC Regulations Committee updated its document for discussion identifying countries that are considered to have hyperinflationary economies, originally published on 6 November 2021 (cf. [Beyond the GAAP no. 162](#), January 2022). The update adds Turkey to the list of hyperinflationary economies.

For more details, the IPTF discussion document is available [here](#).

IFRS Foundation announces annual conference

The IFRS Foundation has announced the date and programme for its next annual conference. It will take place on 23 and 24 June 2022, and delegates may attend either in person or remotely.

The programme for the first day includes:

- addresses by the Chair of the IFRS Foundation, Erkki Liikanen; the Chair of the International Organization of Securities Commissions (IOSCO), Ashley Alder; and the Chair of the ISSB, Emmanuel Faber;
- an introduction to the structure and remit of the ISSB;
- digital reporting and the impact of technology on the investment process; and
- breakout sessions on the ISSB's two public consultations on the climate and on the general principles of sustainability disclosures.

The programme for the second day includes:

- an address by the Chair of the IASB, Andreas Barckow;
- an update on the work of the IASB and IFRS IC;
- breakout sessions on different aspects of the IASB's work; and
- an interactive question and answer session with IASB leaders.

For more information on the programme and how to book, see the [conference website](#).

Publication of IFRS Accounting Taxonomy 2022

On 24 March, the IFRS Foundation published the IFRS Accounting Taxonomy 2022. It reflects IFRS standards published at 1 January 2022, including those that have not yet come into effect.

The changes from the 2021 taxonomy are the result of amendments to:

- IAS 1 on disclosure of accounting policies (cf. [Beyond the GAAP no. 152](#), February 2021);

- IAS 8 on accounting estimates (idem);
- IFRS 17, to provide insurers with a transition option for IFRS 9 (cf. [Beyond the GAAP no. 161](#), December 2021).

The IFRS Accounting Taxonomy 2022 is available [here](#).

European Highlights

War in Ukraine: the regulators' advice for issuers

In a press release published on 14 March (accessible [here](#)), the European Securities and Markets Authority (ESMA) reports that it is closely monitoring the financial market impact of the war in Ukraine and sanctions against Russia, in coordination with the national authorities.

The press release outlines its specific supervisory and coordinating activities, and presents the key issues for listed entities, reminding them of their duty of transparency in terms of permanent and periodic information (annual and half-yearly financial reports).

In particular, ESMA urges listed entities to:

- disclose as soon as possible any inside information concerning the impacts of the crisis on their business, prospects, and financial situation unless the conditions for delayed disclosure are met (see the European Market Abuse Regulation);
- disclose both qualitative and quantitative information on the actual and foreseeable direct and indirect impacts of the crisis on their business activities, strategy, exposures, supply chains, financial situation and economic performance in their 2021 year-end financial report if applicable and to the annual general meeting, or in their future interim financial reporting.

In the same spirit, Accountancy Europe, the organisation representing the accounting profession in Europe, has issued a report entitled *War in Ukraine – What European accountants need to know* (accessible [here](#)), which also aims to alert the profession to the impacts of the war in Ukraine. This document draws their attention to aspects of accounting, audit, anti-money laundering and cybersecurity against the background of the war. It is also an opportunity for Accountancy Europe to provide an overview of responses from national accounting bodies and its own members to the war in Ukraine and sanctions against Russia.

This issue of Beyond the GAAP will also focus on some of the accounting consequences of the crisis.

Endorsement of amendments to IAS 1 and IAS 8

The amendments to IAS 1 on accounting policy information and the IAS 8 amendment on the definition of accounting estimates, both issued in February 2021 by the IASB, have been endorsed by the European Union and published in the Official Journal of the European Union (OJEU) of 3 March (accessible [here](#)).

These amendments are intended to:

- help companies to identify the disclosures they should present on their accounting policies, to ensure the information is useful to users of financial statements; and
- clarify the distinction between accounting policies and accounting estimates.

The amendments will be mandatory for financial periods beginning on or after 1 January 2023 (For further details, see [Beyond the GAAP no. 152](#), February 2021).

EFRAG launches a study of IFRS 15 among preparers and users

In 2021, the European Financial Reporting Advisory Group (EFRAG) decided to support a university study of the impacts of IFRS 15, the standard on revenue recognition which came into effect on 1 January 2018. This decision was taken with a view to contributing, in due course, to the post-implementation review of IFRS 15 which the IASB will conduct as part of its work programme for 2022-2026.

In March 2022, EFRAG launched a survey (accessible [here](#)) among interested preparers (whose questionnaire can be found [here](#)) and users (questionnaire [here](#)) to contribute to the ongoing university study.

The purpose of the survey is to gather information on the effects of the new requirements introduced by IFRS 15, how the requirements for implementing the new IFRS standards impact internal reporting and its use, and the net costs of adopting IFRSs.

New members for EFRAG's Financial Reporting Board

On 16 March, EFRAG announced the appointment of two members to its Financial Reporting Board. These appointments are part of the reform of EFRAG, with the creation of another technical board, the Sustainability Reporting Board (see report below) and an Administrative Board responsible for the organisation, administration, financing and due process of EFRAG.

For Sweden, Fredrik Walmeus replaces Anders Ullberg, who has moved to a new role as a member of the EFRAG Administrative Board.

For France, Marie Seiller replaces Patrick de Cambourg, who has been appointed as

EFRAG Sustainability Reporting Board member.

Both have been appointed for the remaining mandate, which runs to 30 April 2024

Nomination of the members of EFRAG's Sustainability Reporting Board

On 10 March, EFRAG announced the nomination of the 21 members of its new Sustainability Reporting Board, with:

- 8 representatives of the major European professional bodies;
- 8 representatives of national organisations; and
- 5 representatives of civil society.

The full list of appointments can be found [here](#).

ESMA publishes its report on Corporate reporting enforcement and regulatory activities for 2021

On 30 March, ESMA published its annual report on its own activities and those of the European enforcers it coordinates and oversees.

The report (available [here](#)) provides an overview of the activities of ESMA and European enforcers in 2021, focusing in particular on the compliance of financial and non-financial information published by issuers for 2020 (i.e. at the height of the Covid-19 crisis).

Compliance of financial reporting

With regard to the compliance of financial reporting with IFRS, European enforcers carried out 711 audits (including 619 ex post audits), or approximately 17% of all European listed issuers (the same rate as in 2020). Of these, 250 resulted in enforcement actions taken against issuers due to material departures from IFRSs, or

an action rate of 40% (compared with 38% in 2020).

In more detail: 30% of these cases concern recognition and/or measurement issues (led by the recognition of financial instruments), and 70% concern disclosure issues (primarily related to impairment of non-financial assets). These actions mainly consisted of requiring the issuer to correct the relevant matter in the future financial statements.

European enforcers also examined the 2020 financial statements of 166 issuers to assess their compliance with the European Common Enforcement Priorities (ECEP) identified by ESMA for year-end financial statements in Europe and applied by national enforcers. This led enforcers to take actions against 39 of these issuers.

In the case of alternative performance indicators, European enforcers examined 537 management reports to assess compliance with ESMA's guidelines on this topic. These management reports represented 13% of listed European issuers publishing IFRS financial statements. Eighteen per cent of these examinations resulted in action.

In addition to its recurring activities, ESMA undertook a number of other activities during 2021 to promote the effective and consistent application of IFRS. These included in particular ESMA's February 2021 letter to the European Commission with proposals to improve the Transparency Directive after the Wirecard case in 2020.

Compliance of non-financial reporting

As regards non-financial reporting, European enforcers carried out 711 examinations, representing 36% of the estimated total number of issuers required to publish this information (compared with

37% in 2020). Of these, 10% resulted in action (compared with 5% in 2020).

As in the case of financial reporting, enforcers assessed the extent to which ESMA's European Common Enforcement Priorities were taken into account, examining the non-financial statements of 116 issuers and taking actions against 19 of these, mainly requiring corrections in the following year's non-financial statement.

ESMA's analysis, particularly on climate change risk disclosures, is particularly instructive. ESMA notes that it is essential to provide a comprehensive account of how the company is affected by climate risk.

In 2021, ESMA also monitored the work of EFRAG's PTF-ESRS as an observer, and was able to express its views on the application of the texts (e.g. in relation to investor protection), with a view to the adoption by Europe of standards on sustainability reporting.

Publication in OJEU of the 2021 update of the ESEF taxonomy

The 2021 update of the accounting taxonomy to be used for annual financial reporting in the European Single Electronic Format (ESEF) has been endorsed by the European Union and published in the OJEU on 7 March (available [here](#)).

The amendments to the ESEF Delegated Regulation came into force on 27 March and apply to annual financial reports including financial statements relating to financial years starting on or after 1 January 2022. They may also be applied to annual financial reports including financial statements for financial years beginning before 1 January 2022.

For more details of this update, see [Beyond the GAAP no. 161](#), December 2021.

Focus on some accounting consequences of the war in Ukraine and the sanctions against Russia

On 24 February 2022, Russia launched its invasion of Ukraine. The conflict has been unfolding for more than a month and the situation is changing daily, not only in military - and human - terms, but also in terms of economic sanctions against Russia. More broadly, this conflict is having an impact on many parts of the economy, particularly in Europe, whether it be the rise in the price of certain raw materials (and energy in particular), supply difficulties, exchange rate fluctuations, etc.

While these events generally had little impact on the financial statements for the period prior to 24 February 2022 (information in respect of a "non-adjusting" post-reporting date event was to be provided on a case-by-case basis in the financial statements not yet authorised for issue, with a reassessment, if necessary, of the going concern assumption), the rapid deterioration of the situation at every level is expected to have a more significant impact on the financial statements for financial years commencing after 24 February 2022. These consequences will be specific to each entity, depending on its geographical location, the scale of its economic relations with Ukraine and Russia and, more broadly, its exposure to the potentially wide-ranging impacts of the conflict.

Beyond the GAAP presents some key considerations for the 2022 accounts (interim or otherwise), in addition to the positions of some market regulators (see Highlights in this issue).

Presentation of the impacts of the Russian-Ukrainian crisis on the income statement and on financial communication more generally

The conflict between Russia and Ukraine and its many consequences are likely to impact the financial performance of companies to a greater or lesser extent, depending on the geographical areas and business sectors in which entities are operating. These impacts may be exactly identifiable or more diffuse.

The question of how to present these impacts in the income statement is analogous to the question of how to present the effects of the COVID-19 crisis in the 2020 (and 2021) income statements. It therefore seems worth recalling the positions taken at the time, in particular by ESMA.

Ahead of the publication of the 2020 interim financial reports, ESMA advised caution regarding separate presentation of the impacts of the COVID-19 pandemic in the statement of profit or loss. Instead, it encouraged issuers to provide qualitative and quantitative information on the significant impacts recognised, in a separate note to the financial statements.

We believe that these positions continue to apply to the presentation of the effects of the Russian-Ukrainian crisis in the income statement.

That said, it is also useful to recall that IAS 1 requires additional line items to be presented in the income statement when such a presentation is useful for understanding the entity's financial performance. For example, the impact of the loss of control over a subsidiary in Ukraine or Russia may, if material, deserve separate presentation in the income statement.

Finally, with regard to the use of Alternative Performance Measures (APMs), it is also appropriate to recall that following the update of its Q&A during the health crisis, ESMA advised that APMs should be used consistently over time, that the introduction of a "COVID-19" APM was not in principle appropriate and that priority should be given to enriching the disclosures provided in the notes to the financial statements (see [Beyond the GAAP no. 143 - April 2020 - COVID-19 Special Issue](#)). Once again, we believe that this position should apply to the case of the Russia-Ukraine conflict.

Ability to continue as a going concern

In accordance with IAS 1, each time an entity prepares its financial statements, it must assess its ability to continue as a going concern taking into account all available information about the future, which extends at least, but is not limited to, twelve months from the end of the reporting date. The going concern assumption should therefore be applied unless management intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

In accordance with IAS 10 on events after the reporting period, the going concern assumption must be assessed up to the date the financial statements are authorised for issue (i.e. taking into account all facts and circumstances at that date). Therefore, an entity may not prepare financial statements on a going concern basis if it becomes aware, between the end of the reporting period and the date when the financial statements are authorised for issue, that its ability to continue as a going concern is irredeemably compromised, even if the event leading to this situation is a "non-adjusting event" under IAS 10.

If there are material uncertainties around the entity's ability to continue as a going concern, but this ability is not irredeemably compromised, the entity may still prepare financial statements on a going concern basis. Nevertheless, these uncertainties must be disclosed in the notes. It is as well to recall the existence of teaching material published by the IASB in January 2021 aimed at supporting companies in the implementation of IFRS when preparing their financial statements on a going concern basis (see [Beyond the GAAP no. 151](#), January 2021).

In the present case, and in contrast with the situation at the height of the COVID-19 pandemic, the going concern risk is likely to relate mainly to subsidiaries in Ukraine and Russia, and to those whose operations are carried out almost exclusively with these countries. It is therefore unlikely that the going concern assumption will have to be abandoned in the consolidated financial statements.

In practice, if a subsidiary has to prepare its individual accounts in net asset values because its going concern status is irretrievably compromised, it will be necessary for consolidation purposes to restate these values at the carrying amounts determined in accordance with IFRS if the group has established that it can continue to prepare its consolidated financial statements as a going concern. Nevertheless, the implications of this situation for the consolidated accounts will have to be considered, particularly in terms of the valuation of that subsidiary's assets.

Impairment of assets

Assets held in Ukraine

Many companies have tangible assets in Ukraine held either directly or through leases, and these assets are usually covered by damage insurance policies.

These assets may have been destroyed or damaged by bombing; or it may be that companies have no information on the physical integrity of their assets in conflict zones.

Under these circumstances, it is useful to recall the following principles:

- if the asset has been destroyed, it should be derecognised;
- an insurance product can only be accounted for as an asset if it is virtually certain that the company will be compensated (see below);
- if the company is uncertain about the physical integrity of any of its assets, it will have to disclose this uncertainty in the notes to the financial statements, but it will not be able to apply a separate accounting treatment to the destroyed assets, or even to fully depreciate the assets concerned.

Special attention should be paid to assets held through leases. This is because, while the points above may apply to the right-of-use in leased assets, the consequences for the lease liability are more difficult to appreciate. Entities will need to examine the facts and circumstances relating to the conditions of use of the asset, the reasons that restrict access to it, and the particular contractual arrangements.

What is more, the current situation in Ukraine is in itself an indication of impairment, which should lead the groups concerned to conduct impairment tests on their tangible and intangible assets, including goodwill, for the preparation of the 2022 interim or annual accounts. Under these circumstances:

- if the recoverable amount of individual assets can be determined, then those assets should be tested individually and if necessary impaired. However, if

only the fair value of the assets is determinable, and this is less than their net carrying amount, the value in use of the Cash Generating Unit (CGU) to which the assets belong should be calculated to confirm the need for impairment;

- given the situation in the country, we believe it will be necessary to carry out a country-level impairment test in all cases.

If the group has no goodwill allocated at the country level:

any impairment will be allocated to the country's assets in proportion to their relative carrying amounts.

If goodwill is allocated at a higher level (e.g. geographical area), then an impairment test will also need to be performed at that level but only after recognising impairment losses arising at country level.

If the group allocates goodwill at the country level:

Any impairment loss should first be applied to the value of the goodwill allocated to the country and secondly, if necessary, to that country's other assets in proportion to their relative carrying amounts.

Assets held in Russia or Belarus

For assets – and activities – in Russia or in Belarus, the issue is very different. There is no real risk to the physical integrity of the assets or the ability to operate them.

However, international sanctions and the deterioration of a number of economic parameters have caused operating conditions and prospects to deteriorate significantly, which is an indicator of impairment that justifies impairment testing.

As with the first closures following the start of the COVID-19 pandemic in 2020, conducting these tests involves updating

business plans, based on operational assumptions in a highly uncertain environment. Disclosure of these assumptions, together with sensitivity testing, will therefore be key to the quality of financial reporting for groups with significant operations in Russia.

Over and above the operational assumptions, particularly given the fall in the rouble and soaring inflation in Russia, reporting on sensitivity to financial assumptions also seems necessary, taking into account a wider than usual range of reasonably possible scenarios.

Impairment of operations outside Russia or Ukraine

The activities of certain groups outside Ukraine or Russia may also be affected, either because significant transactions with these countries (sales or supplies) have become more difficult or even impossible, or because of a sensitivity to energy prices or the cost of certain raw materials whose price has risen sharply.

In their 2022 financial statements, these entities will have to determine whether there is evidence that warrants impairment testing. In all cases, operational and financial assumptions will need to be updated, at least for the annual impairment tests. As with the COVID-19 pandemic, the duration of the effects of the crisis, particularly for inflation or supply prices, will be a key assumption.

Assessing the degree of control or influence over Russian and Ukrainian entities

Aside from the accounting impacts on the value of assets and liabilities due to the Ukrainian crisis, the current context may lead groups to question the level of control or significant influence exercised over

interests held in entities located in Ukraine or Russia.

In the case of Ukrainian entities, the war has led some entities to question whether they still control their activities, given the sometimes substantial intervention of the Ukrainian administration in the management of their day-to-day operations (especially in the case of activities that are already highly regulated, or related to the war effort), the departure to the front of some of their employees, the flight of others, and the difficulty in maintaining contact and obtaining information on the current status of their activities, or indeed on the integrity of their production assets.

When assessing the level of control or influence over Ukrainian entities, all the facts and circumstances specific to that entity should be taken into account. Nevertheless, the fact that the group has less room for manoeuvre, or that the role of the regulator is more burdensome, or that the war situation locally no longer allows operations to be conducted as expected (or even forces the temporary suspension of operations) does not necessarily mean that control is lost. Generally speaking, and despite the new constraints on the business, the entity will always be presumed to have retained control.

In the case of Russian entities, the question is posed in different terms. On the one hand, the economic sanctions on Russia may cause some to fear that it will be difficult to operate in the future, while on the other hand, political and media pressures may lead entities established in Russia to seek to disengage from this country, at least until the economic and geopolitical context has eased. Finally, the risks of nationalisation or expropriation cannot be ruled out.

In any event, a group must continue to consolidate its subsidiaries as long as it has control, and the mere intention to leave Russia is not sufficient to qualify as a loss of control.

The main objective may be a simple concern for appearances (e.g. expressing solidarity with the Ukrainian people or fear of unfavourable media coverage by remaining in Russia), but it may also be the result of anticipated difficulties in managing the entity in an environment where sanctions make management from a distance complicated, or even the simple fact that the subsidiary's economic prospects in a "post-sanctions" economic environment no longer justify remaining in that country.

In practice, and in order to reconcile diverging objectives such as the desire to distance themselves from Russia on the one hand, and the need to safeguard the future on the other, some groups may envisage a "temporary" withdrawal (at least potentially), by combining the sale of a majority (or even all) of the shares of a Russian entity with a purchase option that can be exercised in the future, allowing them to return to the country.

In such a case, any conclusion as to whether there is control of the Russian subsidiary will depend on the individual facts and circumstances. Demonstrating loss of control will require an entity to show, *inter alia*, that it retains no right to make decisions about the relevant business during the "interim" period between the sale of a majority of the shares and the date of possible exercise of the purchase option, and it has no power to regain these rights without delay.

In the same spirit, it will also be necessary to show that the transferee cannot be considered a *de facto* agent, in other words

that it does not act on the group's behalf during the interim period, despite the fact that the "choice" of transferee was doubtless guided by the group's confidence in it, and even if the group can negotiate protective rights (intended to limit the extent of the changes that may be decided by the transferee). Since the notion of a "de facto agent" is both very subjective and rather poorly defined, the assessment of control will require a significant level of judgment on the part of management, which should be detailed in the notes.

More generally, and in all cases, the notes to the financial statements should explain the group's situation regarding the Ukrainian and Russian subsidiaries and their impact on the accounts.

Application of IFRS 5

Finally, it may also be necessary to consider the question in the light of IFRS 5 where a loss of control is contemplated or occurs. The application of this standard has consequences for:

- the statement of financial position. The classification on a specific line (on the assets and liabilities side) of assets (and liabilities linked to assets) "held for sale" (i.e. when the sale has not yet taken place), presupposes an entity's commitment to a process of disposal (or loss of control) which is highly likely to be completed within one year. Here it should be noted that the mere risk (or even threat) of nationalisation - or expropriation - cannot in itself be a criterion for the application of IFRS 5. However, a law or other government decision in Russia requiring the transfer of ownership of the subsidiary's securities or business may trigger the application of IFRS 5 to the subsidiary's assets and liabilities.

When the conditions are met, the carrying amount of assets held for sale is compared with the fair value less costs to sell, and any unrealised loss is recognised immediately as an impairment loss. However, this calculation does not take account of exchange differences, as these are recognised in "other comprehensive income" within equity and will only be recycled to profit or loss on the date that control is lost. Where appropriate, it will be necessary to allocate a portion of globally assessed goodwill to those entities held for sale. In practice, estimating the fair value of a Ukrainian or Russian subsidiary is likely to pose practical difficulties and leave considerable room for judgment. This clearly justifies full disclosure of the assumptions applied (and a sensitivity analysis of the various parameters) in the notes;

- the income statement. The concept of discontinued operations, which leads to the reclassification of all the entity's results and the result of the disposal (if any) on a separate line of the income statement ("result of discontinued operations") for all the periods presented, only partially overlaps with the concept of an asset held for sale. In other words, where the size of the subsidiary justifies classification as a discontinued operation, this derogating classification is applied not only to activities held for sale but also to ceased activities as well as to a divested business (or over which the group has lost control);
- despite the unusual circumstances, and although the concept of a discontinued operation also involves judgement, the criteria for classification as a discontinued operation remain

unchanged and normally assume a certain, if not a definite, size (since the implicit rationale for restating the income statement over all the periods presented is that failure to restate would impair the transparency of the group's performance). This is because IFRS 5 defines a discontinued operation as a component of the group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations.

Thus, for each actual or anticipated loss of control, it is necessary to consider the application of IFRS 5 to the statement of financial position, income statement and cash flow statement (which is also impacted by the identification of a discontinued operation).

Employee benefits

Wages paid in advance

Some businesses have chosen to pay their Ukrainian employees several months' advance wages.

These businesses do not always know exactly what their employees are doing, or even what has become of them. Some have moved to neighbouring countries or other parts of Ukraine and are managing - or not - to work from their new location. Others have remained in conflict zones to defend their country and will not be working for the company in the coming weeks or months.

A wage paid in advance is naturally recognised on the asset side as a prepayment, as the company can legitimately expect to receive services from the employee in the future.

However, in the current situation it is legitimate to question whether these future services really exist. It is likely that some of

these employees will be unable to perform these services when requested.

Accordingly, each entity will need to determine what portion of these wages will not generate services in the future and should therefore be expensed at the time of payment.

Maintaining wages

Against this the background, some entities have chosen to continue to pay wages while allowing their employees not to work over a given period. Generally, employees will not work, will work little or will work under unduly constrained conditions during this period.

We believe that this situation resembles a short-term benefit and is not far removed from the case of paid absences (e.g. holidays or short-time working): in theory, the company can ask the employee to return to work at any time and could suspend payments to those employees who do not attend when required.

IAS 19 specifies that only accumulating paid absences give rise to the recognition of a liability (i.e. a situation where employees accumulate rights to further paid absences as they render services to the company). Otherwise (i.e. in the case of non-accumulating paid absence entitlements), the company recognises the expense when the absence occurs.

Under the present circumstances, there is no accumulation of paid absence rights for employees. Therefore, these wages paid during periods of employee absence should not be provisioned, but simply expensed in the period to which they relate.

Damage coverage through insurance contracts

War is generally excluded from coverage by standard damage insurance policies.

However, the conflict that broke out some years ago between Ukraine and Russia led many companies to take out insurance against political risks and political violence, which covers most of these exclusions, as long as one of the other four members of the UN Security Council does not enter into conflict with Russia. In general, it is clear to both the insured and the insurer whether a loss is excluded from insurance cover. However, the coverage of cyber attacks in a war context remains unclear under these insurance policies and will probably merit specific legal consideration.

Credit insurance policies also usually contain exclusions in the event of "declared or undeclared" war between certain countries. They also include exclusion arrangements by default for sanctioned debtors. These factors are not always standardised and will have to be considered on a case-by-case basis by both the insurer and the policyholder. For policyholders, the economic challenge is accompanied by an accounting challenge when this credit insurance contributes to the deconsolidation effect of a programme to assign receivables under IFRS.

An insurance claim receivable first meets the definition of a contingent asset and can only be recognised in the accounts when it is virtually certain to be paid (IAS 37.33). If there is uncertainty about the inclusion of a loss in the insurance cover, the insurer's confirmation that the loss is covered will demonstrate the near-certain nature of the payment and allow it to be recognised as an asset. An insurance claim receivable is generally recognised separately from the risk covered, rather than, for example, as a reduction in the impairment of an asset.

Sustainability reporting: EFRAG and ISSB finalise governance structures, and first public consultations are launched

March has been a busy month on both the governance front and the technical front for sustainability standard-setters in Europe and worldwide.

Governance

At the European level, EFRAG has finalised the composition of its Sustainability Reporting (SR) Board, in line with its commitment to reform its governance structure to reflect its new sustainability reporting responsibilities. The new SR Board members were officially appointed at the General Assembly on 15 March (cf. European Highlights, above). The Chair of the Board is to be appointed in the coming weeks, with Jean-Paul Gauzès filling the post in the interim and chairing the first meeting on 31 March. Two further meetings are scheduled for 7 and 22 April, at which the SR Board will:

- appoint the members of the new Sustainability Reporting Technical Expert Group (SR TEG). The public call for candidates closed at the end of February and the selection process is now in progress, under the supervision of the Nominating Committee. This will allow the SR TEG to begin its work as soon as possible (by mid-April);

- approve the launch of the public consultation on the exposure drafts that are currently being finalised by the PTF-ESRS (which will hold its last plenary meeting – and first in-person meeting! – on 25 April). The consultation process is set out in the new Sustainability Due Process Procedures, which were approved by the General Assembly on 15 March (available [here](#)).

Still on the governance side, but at the international level, the ISSB announced in February that it would be appointing Board members in a two-stage process. This was followed on 24 March by the announcement that it had signed a Memorandum of Understanding with the Global Reporting Initiative (GRI). Each of the organisations will be represented on the other's consultative body, and the collaboration will ensure the compatibility and interconnectedness of baseline sustainability information that meets the needs of investors while also maintaining relevance for a wider range of stakeholders. It is likely to involve coordinating their respective work programmes and, where possible, aligning their terminology, definitions and guidelines.

At a practical level, the ISSB officially established its presence in Frankfurt, Germany, on 2 March. It will have a global presence via offices in different locations, but Frankfurt will be its head office and the ISSB Chair, Emmanuel Faber, will be based there. The Frankfurt office will also serve as a hub for the Europe, Middle East and Africa region.

Technical matters

On the technical side, March saw the launch of several major consultations.

The Americans were first in to bat, with the Securities and Exchange Commission (SEC) publishing a proposed rule on 21 March. It would require all companies listed on US markets to publish information on climate-related risks in their annual reports and registration documents. The proposed rule is based heavily on the framework developed by the Task Force on Climate-Related Financial Disclosures (TCFD) and on the Greenhouse Gas (GHG) Protocol. It would require entities to disclose how they have taken account of climate-related risks and their impacts in their business strategy, governance and risk management system; the actual or potential impacts on their financial performance and ability to continue as a going concern; and their Scopes 1, 2 and 3 greenhouse gas emissions (direct and indirect).

The consultation period is open for two months, after which the SEC will make any necessary revisions before submitting the proposed rule to Congress. The current plan is that the proposed rule would be implemented in several stages, with the compliance date depending on the type of company (large accelerated filers, accelerated filers and non-accelerated filers) and the type of information required. Thus, if the proposed rule came into effect in December 2022 and the entity's reporting period was the same as the calendar year, the compliance date for disclosures in annual reports (except for Scope 3 disclosures) would be 2023 (filed in 2024) for large accelerated filers.

Next up was the ISSB, which launched a public consultation on its first two exposure drafts on 31 March, having published the

prototypes (prepared by the Technical Readiness Working Group) at the end of 2021:

- the first ED, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (available [here](#)), sets out the general principles for disclosing sustainability information under the IFRS and ISSB framework, including what to do when there is no standard yet published on a particular topic;
- the second ED, IFRS S2 *Climate-related Disclosures* (available [here](#)), specifies the disclosures to be provided on climate-related risks. These proposals also build on the TCFD's recommendations, as well as incorporating the Sustainability Accounting Standards Board (SASB) industry-based standards development approach.

The comment period is open for 120 days and closes on 29 July, and the ISSB plans to publish the final standards by the end of the year. The ISSB will launch a second consultation, on its work plan, later this year. Beyond the GAAP will return to the two exposure drafts in more detail in a future edition.

Meanwhile, EFRAG is also keeping busy. Although the public consultation will not open until the very end of April (closing on 31 July 2022), the Brussels-based institution has published its latest working papers, which will serve as the basis for the exposure drafts to be published for consultation. These include:

- ESRS 1 *General Provisions*, which will cover the broad principles of sustainability disclosures (available [here](#));

- the last of the four environmental standards, ESRS E4 on biodiversity and ecosystems (available [here](#));
- all seven of the standards relating to social issues. Four of these relate to the rights of the entity’s own workforce:
 - ESRS S1 (available [here](#)) covers cross-cutting general principles;
 - ESRS S2 (available [here](#)) deals specifically with working conditions;
 - ESRS S3 (available [here](#)) deals with workers’ equal opportunity rights;
 - ESRS S4 (available [here](#)) covers all other work-related rights.

The three other standards focus on the rights of other people who are potentially affected by the entity’s activities:

- ESRS S5 (available [here](#)) deals with the rights of workers in the value chain;
 - ESRS S6 (available [here](#)) addresses the rights of communities that have no business connection with the entity but that could be impacted by its activities; and
 - ESRS S7 (available [here](#)) deals with the rights and protection of consumers and end users of the entity’s products or services.
- the three standards relating to governance:
 - ESRS G1 (available [here](#)) deals with governance, risk management and internal control. This standard covers

cross-cutting topics that apply to the company as a whole and all its activities, rather than governance, risk management and internal control as they relate to sustainability matters, which are covered in ESRS 2 and ESRS 3 (cf. [Beyond the GAAP no. 162](#), January 2022);

- ESRS G2 (available [here](#)) tackles governance matters relating to the entity’s products and services, as well as the management and quality of relationships with business partners; and
 - ESRS G3 (available [here](#)) covers ethical business conduct.
- ESRS P1 (available [here](#)), which sets out where and how to present the information required by the other ESRS standards in the management report.

The table below presents the overall framework developed by the PTF-ESRS, showing the working papers published in the first quarter of 2022 (blue for those published in January, green for February and grey for March).

| | | | | SECTOR-SPECIFIC STANDARDS | | PRESENTATION |
|--|--|---|---|---|---------------------------------|---|
| Strategy, governance, impacts, risks, opportunities | Environment | Social | Governance | Classification | ESG sector-specific disclosures | |
| ESRS 1 General provisions | ESRS E1 Climate change (mitigation and adaptation) | ESRS S1 Own workforce – general | ESRS G1 Governance, risk management and internal control | ESRS SEC1 Sector classification | | ESRS P1 Sustainability statements |
| ESRS 2 Strategy and business model | ESRS E2 Pollution | ESRS S2 Own workforce – working conditions | ESRS G2 Products and services, management and quality of relationships with business partners | | | |
| ESRS 3 Sustainability governance and organisation | ESRS E3 Water & marine resources | ESRS S3 Own workforce – equal opportunities | ESRS G3 Responsible business practices | | | |
| ESRS 4 Sustainability impacts, risks and opportunities | ESRS E4 Biodiversity & ecosystems | ESRS S4 Own workforce – other work-related rights | | | | |
| ESRS 5 Definitions for policies, targets, action plans and resources | ESRS E5 Circular economy | ESRS S5 Workers in the value chain | | | | |
| | | ESRS S6 Affected communities | | | | |
| | | ESRS S7 Consumers/ End-users | | | | |

| CONCEPTUAL GUIDELINES | | | | | |
|-------------------------------------|---|--------------------------------|---|---|-------------------------------|
| ESRG 1 Double materiality | ESRG 2 Characteristics of information quality | ESRG 3 Time horizons | ESRG 4 Boundaries and levels of reporting | ESRG 5 EU and international alignment | ESRG 6 Connectivity |

Two new reports published by Platform on Sustainable Finance

The Platform on Sustainable Finance, which advises the European Commission on the EU taxonomy for sustainable activities, published two final reports at the end of March. The reports, which are available [here](#), have been eagerly awaited by economic and financial organisations.

The first report, published on 29 March, presents the Platform’s recommendations on whether and how to extend the taxonomy to new sectors and economic activities that are not currently covered. The report acknowledges the need to provide institutional investors with the tools to finance environmental transition by a broader range of economic actors, not limited to those that already possess the technological solutions to achieve the environmental performance thresholds set out in the current taxonomy.

The Platform is thus proposing to classify all economic actors into four categories, divided into two “blocks”, based on their current environmental performance:

- activities that cause significant harm to the environment (taking account of all objectives, not just the climate-related ones) and that are classified as “red”. These can be further divided into:
 - those for which there is not, and can never be, a technological solution that would reduce their negative impact to a level where it does not cause significant harm. The only transition solution is to cease the activity and decommission the assets, as a matter of urgency;
 - those for which there are technological solutions that would improve environmental performance to a level where they do not cause significant harm. There is an urgent need to finance the technological transition that would allow them to move into the “amber” category;
- activities that do not cause significant harm, but nor do they make a substantial contribution to the environmental objectives. These can be further divided into:
 - those that may be able to improve their performance (even if they may never be able to attain the “green” classification awarded to activities covered by the current taxonomy). Here, the goal is again to finance the technological transition, with a view to encouraging better environmental performance. This category is labelled “amber”;
 - those that have a negligible impact on the environment (such as consulting or education), for which there are no significant opportunities to improve environmental performance. The issue here is not so much about financing transition, as about not automatically excluding them from sustainable financing channels. Whereas for other activities the evaluation criteria are primarily green turnover and investments, for these “low environmental impact (LEnVI) activities”, access to green financing could be based on

their green operating expenditure - i.e. their use of green technologies provided by other economic actors, starting with renewable energy and using consumer goods that comply with the principles of the circular economy.

The Platform does acknowledge that extending the taxonomy in this way could increase complexity and implementation costs, and would also involve developing numerous additional technical criteria for the assessment of “substantial contribution” and “significant harm”, which would take time.

The second report, which was published on 30 March, covers the equally eagerly-awaited technical criteria for the four other environmental objectives (pollution, sustainable use of water and marine resources, biodiversity and ecosystems, and the circular economy). A detailed analysis of the report will be presented in a future edition of Beyond the GAAP.

Neither report is binding: they simply represent the expert technical advice provided by the Platform to the Commission, which still needs to study the proposals before deciding whether to implement them. The Commission is under pressure to reach a quick decision on the second report, which is six months late and thus risks compromising the implementation of taxonomy reporting requirements for the non-climate-related objectives. These requirements were supposed to come into effect for the 2023 financial year. It will probably take the European Commission several months to study the recommendations and reach a decision. This will make it very difficult to adopt the Delegated Act – which would implement the technical criteria and the associated

reporting requirement – by the target date of June 2022 (which was already slightly delayed from the original roadmap). Realistically, it is more likely that the Commission will aim to adopt the Delegated Act by the end of 2022, which will probably necessitate delaying its entry into force until the 2024 financial year. We will keep you posted.

It may take even longer for the Commission to reach a decision on the first report, dealing with the possible extension of the taxonomy. There is a lot at stake here, and the Commission has already faced some difficulties with the first iteration of the green taxonomy. It may therefore prefer to take the time to observe the initial impacts of the taxonomy, and gather feedback on it, before considering extending it. Again, we will keep you posted.

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