Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

In mid-September, the European Commission (EC) launched a consultation on a draft delegated act that proposes to increase by 25% the size criteria set out in the Accounting Directive to classify undertakings and groups into different categories (micro, small, medium and large), in order to reflect inflation over the past ten years. This change in the thresholds, presented as part of a plan to increase the competitiveness of EU companies, would reduce the number of undertakings affected by the obligation to present and publish financial statements and by the requirements on sustainability reporting introduced by the Corporate Sustainability Reporting Directive (CSRD).

Following the summer break, the IASB began work again in September. It has published an exposure draft on volume 11 of *Annual Improvements to IFRS Accounting Standards*, and tentatively decided to widen the scope of its project on climate-related risks in the financial statements to include other sources of uncertainty. Meanwhile, the European Financial Reporting Advisory Group (EFRAG), which is the technical advisor to the EC on the European Sustainability Reporting Standards (ESRS), has continued to focus on draft standards for SMEs. On 28 November 2023, EFRAG will hold its annual conference, on the theme, "European Corporate Reporting: two pillars for success".

IFRS Highlights

IASB amends *IFRS for SMEs* standard in line with international tax reform

On 29 September, the International Accounting Standards Board (IASB) published amendments to the *IFRS for SMEs* standard, arising from the introduction of the OECD Pillar Two rules. In practical terms, the amendments bring *IFRS for SMEs* into line with the final amendments to IAS 12, *International Tax Reform – Pillar Two Model Rules*, which were published last May (cf. Beyond the GAAP no. 177, May 2023).

IASB publishes exposure draft on volume 11 of *Improvements to IFRSs*

On 12 September, the IASB published an exposure draft on volume 11 of *Annual Improvements to IFRS Accounting Standards*, available here.

The exposure draft proposes necessary but minor amendments (i.e. minor clarifications and corrections of oversights or conflicts) to five standards, discussed further below.

IFRS 1 – *First-time Adoption of International Financial Reporting Standards*

The proposed amendment relates to hedge accounting by a first-time adopter. The Board is proposing to amend paragraphs B5 and B6 of IFRS 1 in order to improve their consistency with the hedge accounting requirements of IFRS 9 – *Financial Instruments.*

IFRS 7 – Financial Instruments: Disclosures

The proposed amendments relate to both the body of the standard and the implementation guidance.

Firstly, the Board is proposing to amend paragraph B38 of IFRS 7 to avoid potential confusion arising from an obsolete cross-reference to a paragraph that was deleted on publication of IFRS 13 – *Fair Value Measurement.*

IFRS 9 – *Financial Instruments*

The exposure draft proposes two amendments to IFRS 9.

The first relates to derecognition of lease liabilities by a lessee. The IASB is proposing to amend paragraph 2.1(b) (ii) of IFRS 9 to add a cross-reference to paragraph 3.3.3 of the same standard. The Board believes this will avoid any potential confusion. However, we might question whether this amendment will adequately address the recognition of rent concessions in the lessee's accounts, and the relationship between the requirements of IFRS 16 on lease modifications and the requirements of IFRS 9 on derecognition of financial liabilities.

The second proposed amendment to IFRS 9 aims to remove any potential confusion around the definition of "transaction price". This confusion arises from the fact that Appendix A of IFRS 9 refers to the definition of "transaction price" set out in IFRS 15 – *Revenue from Contracts with Customers*, but the term "transaction price" is used elsewhere in IFRS 9 in a different sense.

IFRS 10 – *Consolidated Financial Statements*

The proposed amendment relates to the concept of a "de facto agent". Once again, the IASB is aiming to resolve potential confusion, resulting from inconsistency between two paragraphs of the standard (B73 and B74 of IFRS 10).

IAS 7 – *Statement of Cash Flows*

Here again, the IASB is aiming to eliminate potential confusion arising from the use of the term "cost method" in paragraph 37 of IAS 7, as this term is no longer defined in IFRS Accounting Standards.

Comments on the exposure draft should be sent to the IASB by 11 December 2023 at the latest.

Discussion on the equity method

At its September meeting, the IASB continued deliberations on the Equity Method project (for which the Board is planning to publish an exposure draft in the second half of 2024). In particular, the Board discussed possible improvements to disclosure requirements on investments in associates, and tentatively decided to propose amendments to IFRS 12 – *Disclosure of Interests in Other Entities.*

The IASB tentatively decided that an investor should disclose the gain or loss from recognising its share of other changes in its associate's net assets that change its ownership interest, while retaining significant influence.

At the meeting, the IASB also tentatively decided that an investor that has entered into a contingent consideration arrangement should disclose:

- on obtaining significant influence in the associate:
  - the amount recognised as part of the cost of the investment;
  - a description of the arrangement and the basis for determining the amount of the contingent consideration; and
  - an estimate of the range of amounts of the contingent consideration (undiscounted) or, if a range cannot be estimated, the reasons why not.
- for each subsequent reporting period, until the investor collects or settles the contingent consideration or it is cancelled or expires:

- any changes in the amounts recognised, including any differences arising upon settlement;
- any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
- the valuation techniques and key model inputs used to measure the contingent consideration.

Lastly, the IASB tentatively decided that an investor should:

- disclose its gains or losses on transactions to its associates;
- disclose information that enable users of its financial statements to understand the changes in investments in associates, and
- disclose a reconciliation between the opening and closing carrying amounts.

New steer for IASB project on climate-related risks in the financial statements

At its September meeting, the IASB reconsidered the focus of its project on climate-related risks in the financial statements. The first of the two decisions on the agenda related to whether or not to extend the focus beyond climate-related risks to include "other uncertainties". The Board voted in favour.

The IASB then discussed research on the nature and causes of concerns about this type of reporting, as well as potential ways of addressing these concerns through standard-setting or non-authoritative guidance. The Board unanimously voted in favour of a (tentative) decision to develop illustrative examples to assist with implementation of IFRSs.

A majority also voted to explore how to improve requirements in IFRSs in relation to disclosures about estimates.

However, the Board voted not to explore other potential amendments to standards, relating to connectivity, materiality thresholds, and general requirements in IAS 1. The IFRS Interpretations Committee will be consulted on certain topics.

ISSB announces membership of Transition Implementation Group

The ISSB (International Sustainability Standards Board) announced on 14 September 2023 that it had appointed 17 technical experts[1] on sustainability and/or financial reporting as members of its Transition Implementation Group (TIG) (press release available here).

The purpose of the TIG is to support international implementation of the first two ISSB sustainability disclosure standards, IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 – *Climate-related Disclosures*, via a public forum for stakeholders from 15 different jurisdictions.

It should be noted that the TIG will not issue authoritative guidance, but summaries and recordings of its meetings will be made available on the IFRS Foundation website.

TNFD publishes recommendations on management of nature-related risks and associated disclosures

On 18 September, the TNFD (Task Force on Nature-related Financial Disclosures) published 14 recommendations to help companies and financial institutions to (i) manage their nature-related dependencies, impacts, risks and

[1] Of which 13 are preparers and four are sustainability assurance providers.

opportunities and (ii) voluntarily disclose information on how these are managed.

Eleven of the recommendations are based on those of the TCFD (Task Force on Climate-Related Financial Disclosures) and an additional three relate specifically to nature. The 14 recommendations also use the TCFD's four-pillar structure:
(i) governance; (ii) strategy;
(iii) management of impacts, dependencies, risks and opportunities; and (iv) metrics and targets.

They are consistent with (i) the ISSB Sustainability Disclosure Standards and (ii) the European Sustainability Reporting Standards (ESRS), as well as (iii) the impact materiality approach set out by the GRI (Global Reporting Initiative). The ISSB and EFRAG (the European Financial Reporting Advisory Group) have both acknowledged this high level of alignment, as well as the TNFD's contribution to understanding nature-related impacts, risks and opportunities. The ISSB will draw on the TNFD's work when developing its own framework, which will eventually cover biodiversity, ecosystems and ecosystem services.

To help organisations implement these recommendations, the TNFD has published additional guidance, particularly on using the LEAP approach (Locate, Evaluate, Assess, Prepare) to assess risks, carry out scenario analysis and set nature-related targets.

For more details, see Mazars' guide to these recommendations and their implications for companies.

European Highlights

Regulation (EU) 2023/1803 brings together all international accounting standards in force in the EU

On 26th September, Commission Regulation (EU) 2023/1803 of 13 September 2023 was published in the Official Journal of the European Union (OJEU).

This regulation brings together all the international accounting standards in force in the European Union. It covers all the standards and interpretations published by the IASB and adopted by the European Commission as of 8 September 2022.

The regulation is available in all of the EU languages here.

EC proposes to amend the thresholds in the Accounting Directive

On 13 September, the European Commission (EC) launched a consultation on a draft delegated act that proposes to adjust the size criteria set out in the Accounting Directive to classify undertakings and groups into different categories (micro, small, medium and large).

This was presented as part of a plan to increase the competitiveness of EU companies and to reduce and rationalise reporting requirements.

As permitted under Article 3 of the Accounting Directive, the EC is proposing to increase the thresholds for turnover and total balance sheet by 25% in order to take account of inflation, as these thresholds had not been reviewed since 2013. The thresholds for number of employees will not be changed.

As an example, using the new thresholds, large undertakings would be defined as undertakings that meet two out of the following three criteria:

- total balance sheet > €25m (rather than €20m);
- net turnover > €50m (rather than €40m);
- number of employees > 250 (not adjusted).

This increase in the thresholds would reduce the number of undertakings affected by (i) the requirements in the Accounting Directive to present and publish (and audit) financial statements, and (ii) the equivalent requirements on sustainability reporting introduced by the Corporate Sustainability Reporting Directive (CSRD) for large undertakings, listed SMEs and large groups.

Following the consultation period, which closed on 3 October 2023, the adoption of these measures could occur in the final quarter of 2023, then entering into force from financial periods commencing on or after 1 January 2024.

EFRAG and GRI confirm interoperability of their respective sustainability reporting standards

On 4 September, EFRAG and the GRI published a joint statement confirming that they had achieved a high level of interoperability between their respective standards, the European Sustainability Reporting Standards (ESRS) and the GRI Standards. The statement is available here.

The two organisations have been working together to align the ESRS and the GRI Standards as regards impact materiality, with both frameworks using the same definition. This will (i) avoid the need for double reporting, and (ii) reduce the complexity of sustainability reporting.

Entities that prepare and publish a sustainability statement in accordance with the ESRS will be considered as reporting “with reference to the GRI standards”. They will also have the option of disclosing additional information that is not required under the ESRS, by applying the GRI Standards (or another recognised framework, such as the ISSB Sustainability Disclosure Standards), subject to certain conditions set out in ESRS 1.

Finally, work on alignment between the ESRS and the GRI Standards will continue, with the development of a shared digital taxonomy and a multi-tagging system, including a full mapping of the two sets of standards.

ESMA publishes 2024 work programme

On 28 September, the European Securities and Markets Authority (ESMA) published its work programme for 2024.

ESMA’s priorities for the coming year include developing sustainable finance rules as part of the new European Green Bond Regulation. It will also submit its final report on greenwashing and propose actions to combat this practice. In addition, ESMA will finalise technical standards for the European Single Access Point (ESAP). Readers will remember that ESAP will provide a centralised hub for financial and sustainability information published by European companies.

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[1] Where permitted under applicable country laws

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