

# Beyond the GAAP

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Mazars' newsletter on accounting standards



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## Editorial

Beyond (the) dates...

A quick glance at the highlight titles and one may get the impression of a focus on “date shifting”. This, however, demonstrates the importance the IASB and others attach to getting or making things right, be it in terms of implementing IFRS 15 or defining the Conceptual Framework, two highly important standard setting projects. Of none less importance, having issued its feedback on its review of the implementation of IFRS 3 on business combinations, the IASB is now consulting on its 2016-onwards work plan and the IFRS Foundation on its governance: it may be helpful for their constituents to consider these documents together and take these occasions to help steer the “how”, the “what” and the “where to” of IFRS standard setting.

Europe is also at a turning point with calls for candidates for no less than the EFRAG Chair, the EFRAG TEG Chair and CEO and up to four other TEG members. When these positions are filled, the reform of EFRAG will finally be complete.

2016 already looks like an interesting year.

Enjoy your reading!

Michel Barbet-Massin      Edouard Fossat

# IFRS Highlights

## Proposed clarifications to IFRS 15 published

As reported in our June issue, the IASB published the exposure draft of its proposed clarifications to IFRS 15 on 30 July 2015.

Readers of Beyond the GAAP will be unsurprised to learn that these clarifications pertain to the following issues, previously discussed by the TRG:

- Identifying the performance obligations in a contract (changes made to the illustrative examples – see the February 2015 issue of Beyond the GAAP);
- Distinguishing between an agent and a principal (amendments to the standard and changes/additions to the illustrative examples – see the May and June 2015 issues of Beyond the GAAP);
- The nature of rights provided by a licence: a right to access or a right of use (amendments to the standard and changes/additions to the illustrative examples – see the February 2015 issue of Beyond the GAAP);
- Changes to the transition requirements with the addition of two new reliefs (see the March 2015 issue of Beyond the GAAP).

As noted in our previous issues, the IASB and its US counterpart, the FASB, did not always reach the same conclusions on the changes to be made to the standard as originally published. Therefore, the Basis for Conclusions on the IASB's exposure draft summarises each Board's reasoning on the above topics, as well as listing the topics addressed by the FASB but not the IASB. (These are as follows: collectability when identifying a contract in Step 1 of the new revenue recognition model; measuring the value of non-cash consideration; and presentation of sales taxes in the statement of comprehensive income.) The IASB is seeking comments from stakeholders on its proposed amendments.

If adopted, these amendments will be applicable retrospectively, and the effective date will probably be the same as the new effective date for IFRS 15 (see next item). In practice, these amendments would thus be implemented from the transition date as if they had always formed part of the standard.

The comment period closes on 28 October 2015, as the IASB hopes to finalise the amendments by the end of the year.

The exposure draft is available on the IASB's website via the following link:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Clarifications-IFRS-15-Issues-from-TRG-discussions/Pages/Clarifications-to-IFRS-15-Exposure-Draft-and-Comment-Letters.aspx>

## IASB confirms one-year deferral of IFRS 15 mandatory effective date

As reported in the May 2015 issue of Beyond the GAAP, the IASB recently published an exposure draft proposing a one-year deferral of the mandatory effective date of IFRS 15. In the light of comments received on the ED, the IASB confirmed in its July meeting that the effective date would be postponed. This follows a similar decision by its US counterpart, as reported in the June 2015 issue of Beyond the GAAP.

Thus, the standard will be mandatory for financial periods commencing on or after 1 January 2018, with early application permitted. Formal confirmation should be issued in the near future. The FASB published its official confirmation on 12 August of this year.

Further to EFRAG's recommendation of EU endorsement (see Beyond the GAAP, March 2015), the advisory group wrote to the European Commission stating that it recommends the new effective date for application in Europe.

## Proposed postponement of amendments to IFRS 10 and IAS 28

On 10 August 2015, the IASB published an exposure draft proposing to postpone the effective date of amendments to IFRS 10 and IAS 28. These amendments were published in September 2014 and are intended to clarify the accounting treatment of the sale or contribution of assets (in the broad sense) between an entity (i.e. the parent company and its subsidiaries) and equity-accounted investments (cf. Beyond the GAAP, September 2014). The IASB has proposed an open-ended deferral, although early application is permitted.

The IASB has not set a new effective date as it is carrying out a broader review relating to the equity method of accounting.

The comment period is open until 9 October 2015. The exposure draft is available on the IASB's website via the following link:

<http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-10-IAS-28/Exposure%20Draft%20August2015/Pages/Exposure-Draft-and-Comment-letters.aspx>

## Consultation on IASB work plan 2016-2020

On 11 August 2015, the IASB published a Request for Views on its work plan for 2016-2020.

After explaining how responses to the previous consultation have influenced both the content and procedures of its activities since 2012, the document defines and describes the following five broad categories of projects:

- Research projects;
- Standards-level projects;
- Maintenance and implementation projects;
- The *Conceptual Framework* (see *Beyond the GAAP*, June 2015);
- The Disclosure Initiative (see *Beyond the GAAP*, December 2014).

The questions for stakeholders address issues such as prioritisation and allocation of resources to each category of projects and specific projects within each category. Stakeholders are also asked to identify any topics which should be added to the work plan, or any which should be removed.

The IASB is also consulting with stakeholders on how frequently such consultations should be carried out. Currently, the Constitution of the IFRS Foundation requires consultations to be carried out every three years.

The comment period is open until 31 December 2015. The Request for Views is available on the IASB's website via the following link: <http://www.ifrs.org/Features/Pages/IASB-begins-agenda-consultation-2015.aspx>

## Review of structure and effectiveness of IFRS Foundation

On 7 July 2015, the IFRS Foundation published a Request for Views to assess the structure and effectiveness of the organisation.

This review, which is required every five years under the IFRS Foundation's Constitution, focuses particularly on the following issues:

- The scope of the organisation's activity, particularly as regards standards for not-for-profit organisations, information technology, and involvement in wider corporate reporting through co-operation with other organisations;
- The structure of the organisation and the relationship between its three tiers (Monitoring Board, Trustees, IASB);
- The number and composition of the Trustees and the IASB, and a proposal to reduce the number of IASB members from 16 to 13;
- The organisation's financing strategy;
- The frequency of these reviews.

The comment period is open until 30 November 2015. The Request for Views is available on the IASB's website via the following link:

<http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Review-of-Structure-and-Effectiveness-Request-for-Views-and-Comment-Letters.aspx>

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# European highlights

## EFRAG requests two-month extension of comment period on *Conceptual Framework* exposure draft

On 16 July 2015, EFRAG wrote to the IASB requesting that the comment period on the *Conceptual Framework* exposure draft (see *Beyond the GAAP*, June 2015) be extended to 26 December 2015.

EFRAG justifies this request with arguments relating to both the content and the process. For example, it points out that a significant number of changes have been made between the 2013 Discussion Paper and the exposure draft. Stakeholders thus need time to formulate proposals, particularly as regards measurement bases and entities' performance. In terms of the process, EFRAG notes that the consultation began over the summer break, and consultations on other key issues (the IASB's work plan and the review of the structure and effectiveness of the organisation, both discussed above) are ongoing over the same period. All these topics will reduce the length of time that stakeholders are able to spend considering the *Conceptual Framework*.

On 10 August 2015, the Japanese standard-setter also requested an extension, albeit of only one month.

EFRAG's letter is available on the organisation's website via the following link:

<http://www.efrag.org/Front/n1-1504/EFrag-requests-extension-of-the-comment-period-on-the-Conceptual-Framework-Exposure-Draft.aspx>

## EFRAG seeking new Chairman and members for TEG

On 4 August 2015, EFRAG published two calls for applicants: one for a new Chairman of the Technical Expert Group (TEG) and the other for five new TEG members (see the January 2015 issue of *Beyond the GAAP*). The mandate period for the Chairman and Group members expires in March 2016.

Applications should be sent to EFRAG by 8 October 2015. Further information can be found here:

<http://www.efrag.org/Front/n2-1517/Call-for-EFRAG-TEG-Applicants.aspx>

## European Commission re-opens call for applications for Presidency of EFRAG Board

On 31 August 2015, the European Commission published a call for applications for the Presidency of the EFRAG Board, closing on 9 October 2015.

Regular readers will remember that the position was about to be filled when the candidate had to withdraw for health reasons (see the May 2015 issue of *Beyond the GAAP*). For an explanation of EFRAG's operations and the process for appointing the President, see our 'A Closer Look' feature in the January 2015 issue of *Beyond the GAAP*.

The call for applications is available here:

[http://ec.europa.eu/finance/company-reporting/index\\_en.htm](http://ec.europa.eu/finance/company-reporting/index_en.htm)

## ESMA: 17th extract from database of enforcement decisions

On 21 July, ESMA (European Securities and Markets Authority) published the 17<sup>th</sup> extract from its database of enforcement decisions on financial statements. The extract comprises seven decisions made by European enforcers, addressing the following issues:

- Extinguishment of debt with equity instruments of a subsidiary instead of cash (IAS 27, IAS 39, IFRS 10, IFRIC 19)
- Assessing whether a decline in the fair value of available-for-sale assets is 'significant or prolonged' (IAS 39)
- Assessing whether a market is inactive in order to measure the fair value of financial instruments (IFRS 13)
- Measurement of fair value of fixed tangible assets in the context of a bargain purchase business combination (IFRS 3, IFRS 13)
- Presentation of two separate lines in the statement of comprehensive income related to the share of profit and loss for one single associate (IAS 1, IAS 28)
- Taking future penalties into account when calculating the percentage of completion on contracts that have been delayed (IAS 11)
- Consistency between IFRS 6 impairment indicators and considerations to be taken into account in impairment tests (IAS 36, IFRS 6).

The 17<sup>th</sup> extract from ESMA's database of enforcement decisions is available here:

<http://www.esma.europa.eu/content/17th-Extract-EECS%E2%80%99s-Database-Enforcement>

# A closer look

## Post-implementation Review IFRS 3 – What next?

The findings of the Post-implementation Review (PiR) of IFRS 3, which began at the end of January 2014, were published in June 2015.

Readers will remember that the PiR sought comments from stakeholders on the following issues:

1. Definition of a business;
2. Fair value;
3. Separate recognition of intangible assets from goodwill and the accounting for negative goodwill;
4. Non-amortisation of goodwill and indefinite-life intangible assets;
5. Accounting of non-controlling interests;
6. Step acquisitions and partial disposals resulting in a loss of control;
7. Disclosures;
8. Any additional matters that the IASB has not addressed in the PiR;
9. Impacts of IFRS 3.

For more details, see the February 2014 issue of *Beyond the GAAP*.

### What were the key areas of focus of the PiR consultation responses?

Here, we discuss only those issues on which the comments showed a general consensus.

The key messages include the following:

1. Many investors criticised the current accounting treatment of step acquisitions and loss of control. In particular, they would like more disclosures on the performance of acquired businesses.
2. Many preparers of financial statements, auditors and regulators felt that there were implementation difficulties around the following issues, requiring further clarification:
  - a. The definition of a business  
Many participants felt that the definition is too broad and that further clarification is needed on distinguishing between business combinations and asset acquisitions, particularly where processes are not significant or the acquired entity does not generate revenue.

- b. Fair value measurement  
In practice, it is difficult to measure contingent consideration, contingent liabilities, and intangible assets such as brand names and customer relationships.
  - c. Impairment testing of goodwill  
Many participants felt that impairment tests are time-consuming, complex, expensive, and require significant use of judgement, particularly as regards the assumptions used to calculate value in use and allocation of goodwill to CGUs.
  - d. Payments to shareholders who become managers/employees  
Some participants felt that the fact that payments are no longer due in the event of termination of employment should not be enough in itself to classify the payments separately from the consideration transferred in the acquisition; instead, this should simply be one indicator among many.
3. Some preparers felt that the effort and cost involved in meeting the requirements of IFRS 3 may, at least in some cases, exceed the benefits for investors.
  4. Many participants felt that the IASB and FASB should work together on these issues, so as to reduce the risk of ending up with divergent accounting treatments. In addition, some noted that the FASB recently decided to reconsider the post-acquisition accounting treatment of goodwill, and encouraged the IASB to follow suit.

### What are the next steps?

The following issues are listed in order of priority, as determined by the IASB.

*Research will be undertaken on points 1-4 below.*

1. Effectiveness and complexity of testing goodwill for impairment (high priority)  
IAS 36 could potentially be amended to improve impairment tests and to simplify the requirements.
2. Subsequent accounting for goodwill (high priority)  
This could involve improvements to impairment tests and/or development of an 'amortisation and impairment' model (provided that this can be done without losing the information provided by the current approach, which the academic literature suggested was useful).

3. Challenges in applying the definition of a business (medium/high priority)  
The IASB could attempt to clarify the definition of a business (and the application guidance on the subject). In this context, the IASB could consider whether a market-participant approach is preferable to an entity-specific approach.  
Similarly, certain accounting differences between business combinations and asset acquisitions (notably those relating to deferred taxes) could be re-examined with a view to reducing them. This would relieve some of the pressure relating to the definition of a business.
4. Identification and fair value measurement of intangible assets such as brand names and customer relationships (medium/high priority)  
The IASB could examine the question of whether certain intangible assets (such as customer relationships) should be subsumed into goodwill.  
It could also consider providing additional guidance on identifying and measuring customer relationships.  
*Depending on feedback from the Agenda Consultation, the IASB may consider carrying out additional work on the issues listed in points 5-12, below.*
5. Information about the subsequent performance of an acquiree (medium priority)  
The IASB may consider investigating whether it would be beneficial (in the sense of the cost/benefit ratio) to require entities to provide this information (and for how many periods).
6. Accounting treatment for contingent consideration/ price adjustments (medium priority)  
The IASB could investigate whether, in certain specific circumstances, changes in the fair value of contingent consideration could be recognised as an adjustment to the assets acquired.
7. Fair value measurement of contingent consideration and contingent liabilities (medium priority)  
Some participants wanted the IASB to review the accounting treatment of contingent consideration and contingent liabilities, in order to enhance relevance and faithful representation.
8. Accounting for step acquisitions and loss of control (medium priority)  
In practice, should remeasurements at fair value resulting from step acquisitions (for previously held interest) or from loss of control (for retained interest) be recognised in other comprehensive income (OCI)?
9. Measurement of non-controlling interests (low priority)  
Some participants queried whether the measurement of non-controlling interests should be a one-time accounting policy choice, applicable to all business combinations (rather than a transaction-by-transaction choice).
10. Pro forma prior year comparative information (low priority)  
Some participants queried whether it would be practical to prepare this information.
11. Recognition of negative goodwill in profit or loss (low priority)  
Some felt that negative goodwill should be recognised in other comprehensive income rather than profit or loss.
12. Contingent payments to selling shareholders who become employees (low priority)  
Some felt that the standard should be amended to clarify that the fact that payments are no longer due in the event of termination of employment should not automatically result in the payments being classified separately from the consideration transferred in the acquisition (i.e. this should be treated as one indicator among many).

Finally, we will be sure to keep you updated on future discussions, and on any amendments or clarifications made by the IASB.

# Events and FAQ

## Frequently asked questions

### IFRS

- Accounting treatment of a provisional badwill in the interim financial reporting
- Distribution of a subsidiary to shareholders
- Applying IFRIC 21 to employer contributions based on allocations of bonus shares
- Accounting for co-development agreements or contracts for outsourcing R&D
- Accounting for a death-in-service benefit
- Accounting for a 'Coface' market survey insurance contract in the financial statements of the insuree
- IFRS 2: modification of award from equity-settled to cash-settled.

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

IFRS		EFRAG	
IASB	Committee	Board	TEG
19-23 October	10-11 November	28 October	7-9 October
13-19 November	12-13 January	24 November	4-6 November
14-18 December	22-23 March	16 December	2-4 December

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