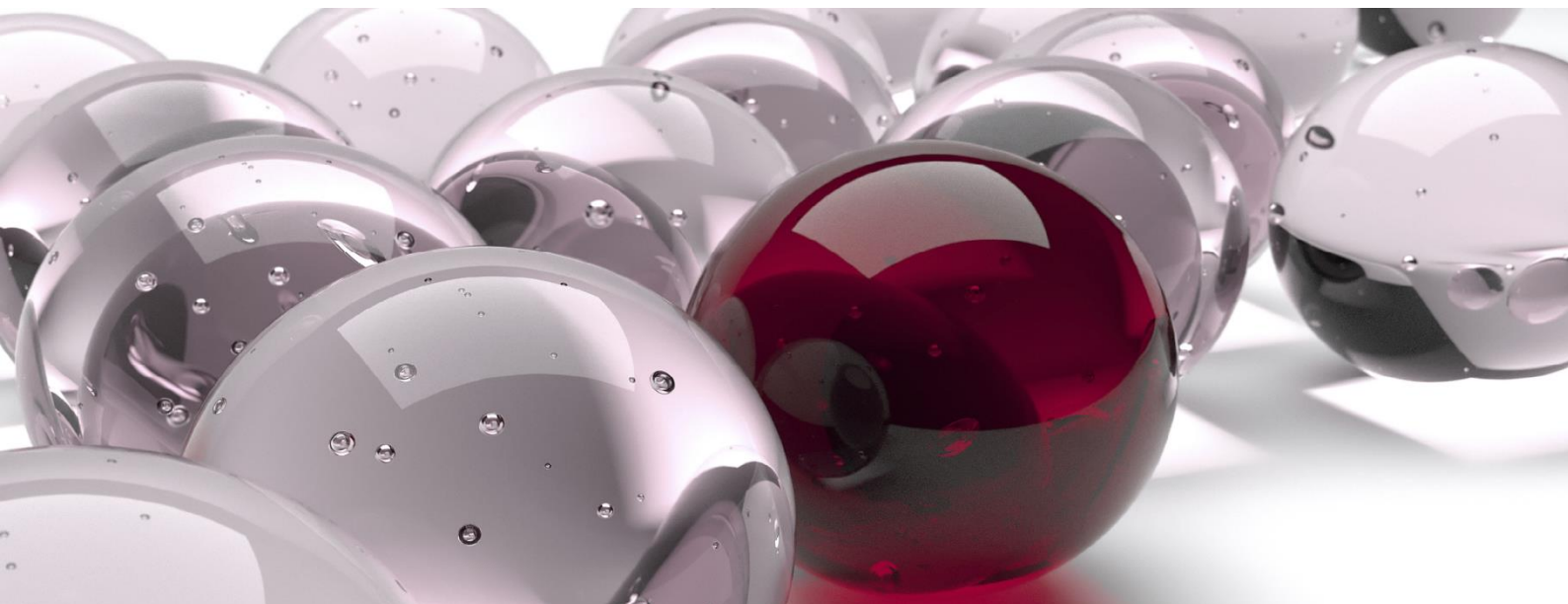


# Beyond the GAAP

No. 100 – May 2016

Mazars' newsletter on accounting standards



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## Editorial

# 100<sup>th</sup> Beyond the GAAP!

Since the first edition in November 2006 we accompany you in the world of IFRSs.

Throughout these 100 editions of Beyond the GAAP, we helped you follow the developments of Business Combinations phase II, understand the genesis of the consolidation package or the different phases of IFRS 9, the new standard on financial instruments... Four years in a row, we have announced the forthcoming publication of the new standard on Revenue recognition, and have kept you holding your breath month after month with the progress of the Leases project. We have even explained what SORIE meant, and that the balance sheet would be forever replaced by the Statement of Financial Position.

We take the opportunity of the 100<sup>th</sup> issue to thank you for your loyalty and encouragements. As a gift, we have added a crossword – accounting related, sorry – to this issue.

Enjoy your reading!

Michel Barbet-Massin

Edouard Fossat

# IFRS Highlights

## Limiting the impact of the different effective dates of IFRS 9 and IFRS 4: the IASB concludes its deliberations and authorises exemptions for the accounts of equity-accounted insurance entities

At its May 2016 meeting, the IASB concluded its deliberations and gave the green light to the preparation of the final amendments. It also confirmed that it intends to publish these amendments in September 2016.

Discussions had focused on the deferral approach to the application of IFRS 9, on the treatment of entities accounted for using the equity method, and on the possibility of applying one or the other of these approaches to first-time adopters of IFRS Standards.

### Deferral approach

The discussions focused on the possibility of reviewing the eligibility criteria for this approach after the initial date on which the insurance 'predominance ratio' was assessed (statement of financial position for a reporting period ending between 1 April 2015 and 31 March 2016, see Beyond the GAAP no 99, April 2016). Whether entities were disqualified at the start or eligible, they should reassess their eligibility and recalculate their insurance predominance if there has been a demonstrable change in the entity's corporate structure that could significantly change the predominant activities of the entity. In particular, the acquisition or disposal of a significant business could require the reassessment of eligibility for deferred application of IFRS 9.

### Equity-accounted companies

A group could choose not to restate the accounts of investees accounted for by the equity method (joint ventures and/or associates) when, in establishing their own accounts under IFRS, they have adopted an approach different from that chosen by the group. Thus:

- A group applying IFRS 9 would be able to account by the equity method for an investee that uses either approach without having to restate the accounts of this investee;
- A group using either approach would not be obliged to restate the accounts of equity-accounted investees applying IFRS 9;
- An equity-accounted investee applying the overlay approach could co-exist in the group's accounts with another equity-accounted investee applying the deferral approach. The option not to restate the accounts is granted on an investment-by-investment basis.

## First application of IFRS

The other decision which departs from the proposals in the exposure draft (see Beyond the GAAP no 95 of December 2015 and no 92 of September 2015) gives first-time adopters of IFRSs the option to apply these approaches.

The comprehensive account of the IASB's decisions is available at:

[https://s3.amazonaws.com/ifrswebcontent/2016/IASB/May/IASB\\_May\\_Update.html](https://s3.amazonaws.com/ifrswebcontent/2016/IASB/May/IASB_May_Update.html)

## A French appointee to the IFRS IC

The IFRS Foundation has announced the appointment of two new members to the IFRS IC (the IFRS Interpretations Committee), both with business backgrounds:

- Mr Bertrand Perrin, Director of standards and special projects at Vivendi, and
- Mr Yang Zheng, Vice-president and Financial Director of the China Life Insurance Company.

Their term of office begins on 1 July 2016 and will run for three years. The next meeting of the IFRS IC will be held in July 2016.

The press release is available at the following address:

<http://www.ifrs.org/Alerts/Governance/Pages/IFRS-Foundation-announces-new-appointments-to-the-IFRS-Interpretations-Committee.aspx>

## The IASB starts to put its research programme in order

During deliberations following the work plan consultation (see Beyond the GAAP no 91 of July-August 2015), the IASB decided that it should focus on a limited number of subjects that could be addressed within a reasonable timeframe.

At its meeting of May 2016, the IASB discussed its research programme in general and some of its research projects in particular.

The board came to the following decisions:

- Termination of projects: share-based payments (IFRS 2), post employment benefits (IAS 19, with the exception of one topic, see below), and income taxes (IAS 12);
- Confirmation of termination of projects: high inflation (IAS 29), foreign currency translation (IAS 21);

- Continuation of work on the following topics in the active research programme:
  - Disclosure Initiative;
  - Primary Financial Statements;
  - Distinction between Debt and Equity;
  - Goodwill and Impairment;
  - Dynamic Risk Management; and
  - Business Combinations under Common Control.
- The following topics will be entered or maintained in the ‘research pipeline’:
  - Equity Method of Accounting; this topic has been postponed until the results of the forthcoming Post Implementation Review of the consolidation packages are known (IFRS 10, 11 and 12 and IAS 28);
  - Extractive Activities;
  - Pollutant Pricing Mechanisms;
  - Provisions, Contingent Liabilities and Contingent Assets;
  - Variable and Contingent Consideration;
- Launch of three feasibility studies:
  - SMEs that are subsidiaries—to assess whether it would be feasible to permit SMEs to use the recognition and measurement requirements in IFRS Standards and the disclosure requirements in the IFRS for SMEs;
  - Post-employment Benefits that depend on asset returns—to assess whether it would be feasible to take account of the relationship between the cash flows included in the measurement of those benefits and the discount rate;
  - High Inflation—to assess whether it would be feasible to extend the scope of IAS 29, Financial Reporting in Hyperinflationary Economies, to cover economies subject to only high inflation.

The board will continue to discuss its work plan in June 2016.

The comprehensive account of the IASB’s decisions is available at:

[https://s3.amazonaws.com/ifrswebcontent/2016/IASB/May/IASB\\_May\\_Update.html](https://s3.amazonaws.com/ifrswebcontent/2016/IASB/May/IASB_May_Update.html)

### IFRS Foundation and IOSCO strengthen cooperation in the development and implementation of IFRS Standards

On 14 May 2016, IOSCO (the International Organization of Securities Commissions) and the IFRS Foundation announced a Statement of Protocols that sets out their joint objective of promoting and facilitating transparency within capital markets through the development and consistent application of IFRS Standards.

The Statement identifies three areas of interaction between the organisations:

- Strategic discussions of broad financial reporting issues during periodic meetings between the leadership of the two organisations and members of the Board;
- Development of IFRS Standards: the IASB’s projects and initiatives will be discussed regularly with IOSCO, which will respond to the exposure drafts published by the IASB, commenting in particular on financial reporting suitability and on enforceability issues;
- Implementation of IFRS standards: the sharing of information by the two organisations will be strengthened in order to support the application of IFRS Standards on a globally consistent basis and to limit the development of divergent practices.

The Statement of Protocols can be consulted at the following address:

<http://www.ifrs.org/Alerts/PressRelease/Pages/IFRS-Foundation-and-IOSCO-to-strengthen-cooperation-in-the-development-and-implementation-of-IFRS-Standards.aspx>

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# European Highlights

## EFRAG set to appoint a French president?

The Committee on Economic and Monetary Affairs (ECON) of the European Parliament (EP) has held a hearing of the French MEP Jean-Paul Gauzès, the European Commission's candidate for the position of Chairman of EFRAG. Before the appointment is made, the EP and the European Council have to give their endorsement (see our study on the new EFRAG governance in Beyond the GAAP no 85 of January 2015).

Readers will remember that Wolf Klinz, also a former MEP, had previously been nominated, interviewed and endorsed but was forced to withdraw for health reasons (see Beyond the GAAP no 87 of March 2015 and 89 of May 2015).

## ECON publishes its report evaluating IFRSs and the activities of the IFRS Foundation and EFRAG

On 3 May 2016 the Committee on Economic and Monetary Affairs of the European Parliament (ECON) published its report evaluating IFRSs and the activities of the IFRS Foundation and EFRAG. This report is a non-binding draft resolution that has to be presented for approval to the full session of the European parliament before submission to the European Council and to the European Commission. If it is approved, this draft resolution, although not binding, will establish a benchmark for future European legislation.

Among the many messages of this report, we pick out just a few.

### IFRSs: good, but could do better

The Committee observes that the objectives assigned to the application of IFRSs in Europe have been met. Nonetheless, it lists the points of friction existing between the principles of IFRSs and the principles applicable in European law, highlighting concepts such as stewardship, prudence (particularly in relation to the European rules on capital and the distribution of dividends) and reliability. It highlights the fact that accounting standards are a matter of the common good, and should be conducive to the public interest and not jeopardise financial stability. It also encourages international and European institutions to work together closely on these topics, both in developing IFRSs and in order to foster clarification and a common understanding of the general European criteria for the endorsement of the standards.

More specifically, the Committee suggests that the incurred losses approach of IAS 39 might be contrary to the objective of prudence (and consequently should not have been endorsed) and encourages Europe, in the course of its endorsement process, to frame the expected loss approach in IFRS 9 carefully and prudently, to allow clear supervisory guidance on asset impairment. It also takes the view that the off-balance sheet accounting issue has not yet been properly and effectively addressed, due to mechanistic rules which can be circumvented.

More generally, the Committee calls for more effective impact analyses of the standards, and a reduction in their complexity. Equally, it encourages the European Commission and EFRAG to involve the Parliament at an earlier stage when developing financial reporting standards in general and in the endorsement process in particular, and calls for the creation of a forum in which stakeholders can discuss fundamental accounting principles at the European level.

Provided that these aspects are addressed, the Committee believes that the Parliament should play the role of an active promoter of IFRS.

The report also mentions the subject of SMEs and the possibility of extending IFRSs to them in some to be defined form (in particular following the European Commission's action plan for a single capital market), the involvement of national accounting standard setters, and aspects of ESMA's enforcement work.

### The activities of the IFRS foundation and EFRAG: more emphasis on matters of public interest

The Committee recommends that the Monitoring Board of the IFRS Foundation should focus more of its attention to matters of public interest. It also supports better integration of the IFRS organisation into the system of international financial institutions and calls for the expansion of the stakeholders to include consumer representation agencies, medium-sized businesses and public finance authorities. It is critical of its financing system, which currently mainly relies on private funding, which is a potential source of conflicts of interest. It calls on the organisation to change its financing structure, and to link financing and representation in its various bodies.

It also calls for a better gender balance within the respective forums and for more transparency (transparency registers and rules on transparency of lobby meetings) to prevent conflicts of interests;

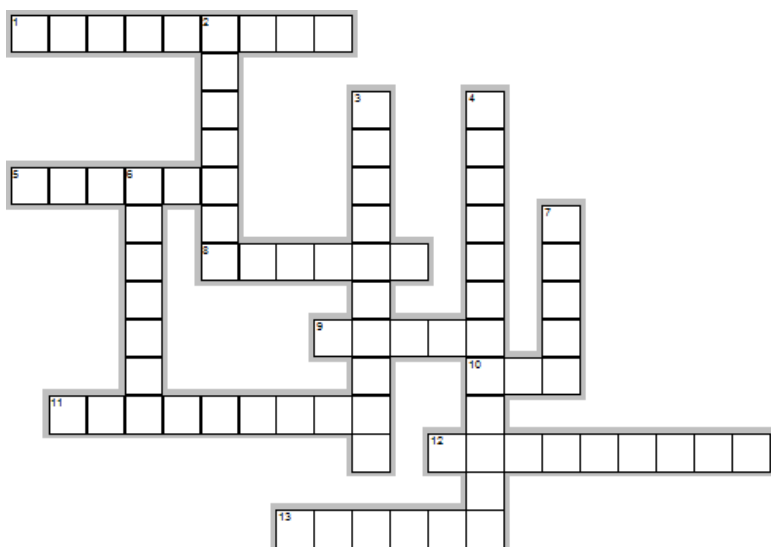
Welcoming the progress in reforming EFRAG, the Committee deplores the absence of a president (see Highlights above) and the European Commission's only partial implementation of the Maystadt proposals for EFRAG. In particular, it encourages all Member States to create a system of national financing for EFRAG and hopes that in the long term it can be transformed into a public agency. Finally, it calls for increased representation of the users of financial statements (currently just one member on the Board).

On matters of substance, it asks the IASB to work on topics associated with pollutant pricing mechanisms (a project which is not part of the IASB's active research programme, see Highlights, above) and calls on EFRAG and the European Commission to look into the shift in pension asset allocation from equities to bonds as a result of the introduction of fair value measurement in IFRS.

The report is available at the following address:

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bREPORT%2bA8-2016-0172%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN>

## Crossword: How well do you know IFRS 16?



### Across :

1. Leases are a source of it
5. Entity which leases out an asset
8. Synonym of tenant
9. First criterion in the definition of a lease
10. Type of right which is recorded as an asset for a lease contract
11. IFRS 16 proposes two of those: for low-value contracts and short term contracts
12. Nature of item against which the asset of a lease contract is recorded
13. Is to be taken into account to assess the lease term

### Down :

2. Second criterion of the definition of a lease contract
3. Profile of annual expense recorded for lease contracts under IFRS 16
4. Right of the supplier that needs to be assessed in identifying an asset in a lease contract
6. Type of contract that is not a lease
7. Type of contract which is in the scope of IFRS 16

# A Closer Look

## Standards and interpretations applicable at 30 June 2016

To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position 8 June 2016):

<http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FsiteAssets%2FEFRAG%2520Endorsement%2520Status%2520Report%252008%2520June%25202016.pdf>

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

- The IASB's draft standards cannot be applied as they are not published standards.
- IFRIC's draft interpretations may be applied if the two following conditions are met:
  - The draft does not conflict with currently applicable IFRSs;
  - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published but not yet adopted by the European Union may be applied if the European adoption process is completed before the interim financial reports have been approved by the relevant authority (i.e. usually the board of directors).

- Interpretations published but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that under IAS 34 "Interim Financial Reporting", the changes in accounting policies required by new standards must also be disclosed in the interim financial reporting published during the course of the year

### 1. Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 30 June 2016
Annual improvements to IFRSs 2010-2012 Cycle	Annual improvements to various Standards (issued on 12 December 2013)	<b>1/07/2014</b> Early application permitted	<b>9 January 2015</b> Effective for annual periods beginning on or after <b>1 February 2015</b>	<b>Mandatory</b>
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions (issued on 21 November 2013)	<b>1/07/2014</b> Early application permitted	<b>9 January 2015</b> Effective for annual periods beginning on or after <b>1 February 2015</b>	<b>Mandatory</b>
Annual improvements to IFRSs 2012-2014 Cycle	Annual improvements to various Standards (issued on 25 September 2014)	<b>1/01/2016</b> Early application permitted	<b>16 December 2015</b> Effective for annual periods beginning on or after <b>1 January 2016</b>	<b>Mandatory</b>
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014)	<b>1/01/2016</b> Early application permitted (prospectively)	<b>3 December 2015</b> Effective for annual periods beginning on or after <b>1 January 2016</b>	<b>Mandatory</b>
Amendments to IAS 16 and IAS 41	Bearer Plants (issued on 30 June 2014)	<b>1/01/2016</b> Early application permitted	<b>24 November 2015</b> Effective for annual periods beginning on after <b>1 January 2016</b>	<b>Mandatory</b>

## 1. Situation of European Union adoption process for standards and amendments published by the IASB (continued)

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 30 June 2016
<b>Amendment to IAS 27</b>	Equity Method in Separate Financial Statements (issued on 12 August 2014)	<b>1/01/2016</b> Early application permitted	<b>23 December 2015</b> Effective for annual periods beginning on or after <b>1 January 2016</b>	<b>Mandatory</b>
<b>Amendment to IAS 1</b>	Disclosure Initiative (issued on 18 December 2014)	<b>1/01/2016</b> Early application permitted	<b>19 December 2015</b> Effective for annual periods beginning on or after <b>1 January 2016</b>	<b>Mandatory</b>
<b>Amendments to IFRS 10, IFRS 12 and IAS 28</b>	Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014)	<b>1/01/2016</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q3 2016)	<b>Permitted <sup>(1)</sup></b>
<b>Amendments to IFRS 10 and IAS 28</b>	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	<b>Postponed</b> Early application permitted	<b>Differed</b>	<b>Permitted <sup>(2)</sup></b>
<b>Amendments to IFRS 11</b>	Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014)	<b>1/01/2016</b> Early application permitted	<b>25 November 2015</b> Effective for annual periods beginning on or after <b>1 January 2016</b>	<b>Mandatory</b>
<b>IFRS 9</b>	Financial Instruments	<b>1/01/2018</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q4 2016)	<b>Not permitted</b>
<b>IFRS 15</b>	Revenue from contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date (issued on 11 September 2015)	<b>1/01/2018<sup>(*)</sup></b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected Q3 2016)	<b>Not permitted</b>
<b>Amendments to IFRS 15</b>	Clarifications to IFRS 15 (issued on 12 April 2016)	<b>1/01/2018</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q1 2017)	<b>Not permitted</b>
<b>IFRS 14</b>	Regulatory Deferral Accounts (issued on 30 January 2014)	<b>1/01/2016</b> Early application permitted	<b>No endorsement</b> The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard	<b>Not permitted</b>
<b>IFRS 16</b>	Leases (issued on 13 January 2016)	<b>1/01/2019</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in 2017)	<b>Not permitted</b>
<b>Amendments to IAS 12</b>	Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016)	<b>1/01/2017</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q4 2016)	<b>Permitted <sup>(1)</sup></b>
<b>Amendments to IAS 7</b>	Disclosure Initiative (issued on 19 January 2016)	<b>1/01/2017</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q4 2016)	<b>Permitted <sup>(1)</sup></b>

(\*)The IASB has deferred the effective date of IFRS 15 by one year (i.e. for annual reporting periods beginning on or after 1 January 2018).

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

## 2. Situation of European Union adoption process for interpretations published by the IFRS IC

Nil

# Events and FAQ

## Frequently asked questions

### IFRS

- Effect of a business combination on available-for-sale securities
- Deductible temporary differences generated during the recognition of a business combination: what DTA should be recognised?
- Accounting treatment of a global supply chain with purchase of goods by the partner
- Accounting treatment of a post-acquisition contract of services signed with former shareholders

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

IFRS		EFRAG	
IASB	Committee	Board	TEG
20-24 June	12 July	19 July	30 June -1 July
18-22 July	6-7 September	7-8 September	25-27 July
19-23 September	8-9 November	6 October	14-16 September

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