

# Beyond the GAAP

Mazars' newsletter on accounting standards

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## Editorial

June 2017 saw the publication of IFRIC 23 – *Uncertainty over Income Tax Treatments*. According to this Interpretation, entities must now assume that any uncertainty over income tax treatments will be examined by the taxation authorities, and must consider the probable outcome of such examination when determining the amount of income tax to be recognised in the financial statements.

As we come up to the interim closing of accounts, we review the financial reporting on the implementation of IFRS 9 published by industrial and commercial companies at year-end 2016. This is a timely reminder that the effective date of the new standard is just over the horizon, and regulators are expecting more detailed financial reporting at 30 June 2017!

Finally, the IASB's website [www.ifrs.org](http://www.ifrs.org) got a facelift in June. Unfortunately for regular readers of our newsletter, this means that the links included in issues prior to no. 111 (May 2017) will no longer work. However, all the relevant information on topics we have covered recently has been transferred to the new site, or will appear there in the near future.

Enjoy your reading!

Edouard Fossat

Isabelle Grauer-Gaynor

# IFRS Highlights

## A new look for IFRS.org!

On 12 June 2017, the IASB launched its new website, still at [www.ifrs.org](http://www.ifrs.org). The new site uses state-of-the-art technology and has been designed to better align with the IASB's key priorities. The interface has been simplified to ensure a better user experience and is optimised for the various different devices (computers, mobile phones, tablets, etc.) that visitors may use to access it. The site allows users to 'follow' specific projects and to receive targeted updates on these projects via a personalised dashboard.

The tabs are grouped according to the various activities carried out by the IASB, such as standard-setting and maintenance of published standards.

Some of the information that was available on the previous site has not yet been uploaded to the new site, and it is likely that some historic information never will be. Until a long-term archiving solution is found, the information will remain available on [www.archive.ifrs.org](http://www.archive.ifrs.org).

We apologise to all our readers for the fact that the links included in issues prior to no. 111 (May 2017) will no longer work.

## IASB proposes narrow-scope amendments to IAS 16

On 20 June 2017, the IASB published an exposure draft proposing narrow-scope amendments to IAS 16 – *Property, Plant and Equipment*.

The proposed changes would ensure consistent application of IAS 16. They have been published following the IFRS Interpretations Committee's discussions regarding recognition of sales proceeds and the costs of testing.

The amendments propose that the proceeds from selling items produced during an asset's testing phase (i.e. before it is operating in the manner intended by management) should no longer be recognised as a deduction from the cost of the asset, but instead in profit or loss.

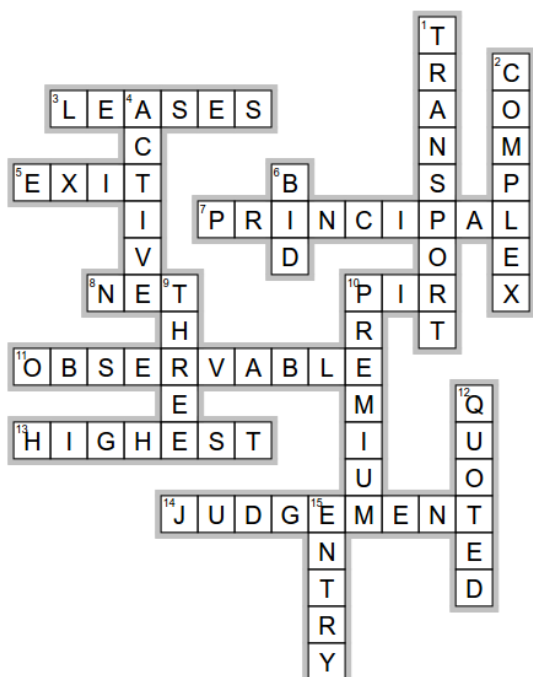
The comment period for the proposed amendments to IAS 16 is open until 19 October 2017.

The exposure draft ED/2017/4 *Property, Plant and Equipment – Proceeds before Intended Use* is available on the IASB's website via the following link: <http://www.ifrs.org/projects/work-plan/property-plant-and-equipment-proceeds-before-intended-use/>

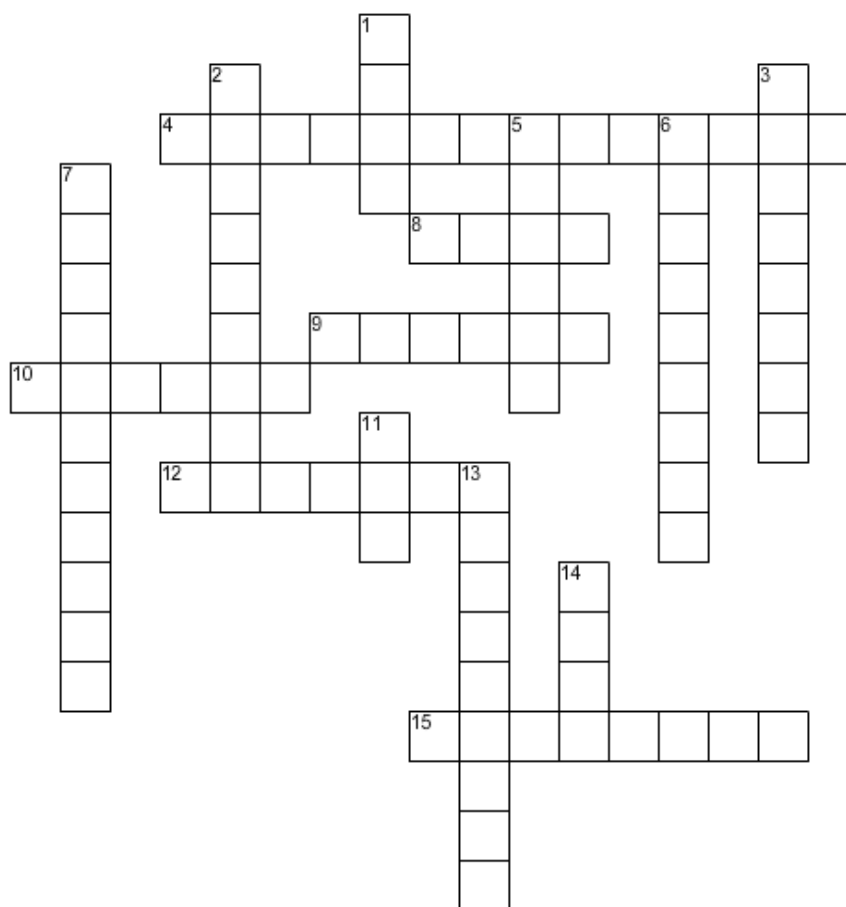
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## Crossword: last month's solution

### Do you have a fair knowledge of fair value?



# Crossword: Quick IFRS tax test



## Down:

1. The month in which the IFRIC 23 interpretation was published
2. When applying IFRIC 23, an entity shall assume that the probability of \_\_\_\_\_ is 100%
2. Recognition of \_\_\_\_\_ arising in a business combination does not usually give rise to recognition of deferred tax
5. The carryforward of tax \_\_\_\_\_ may lead to the recognition of deferred tax assets
6. The term used for differences between the carrying amount and the tax base of an item in the balance sheet
7. IFRIC 23 deals with \_\_\_\_\_ over income tax treatments
11. Acronym for a type of liability that may, under certain conditions, be used to justify the recoverability of deferred tax assets
13. If an entity controls the distribution of \_\_\_\_\_ by a subsidiary, in principle it also controls the reversal of the associated temporary differences
14. Under IAS 12, there is a rebuttable presumption that the carrying amount of an investment property measured at fair value will be recovered through \_\_\_\_\_

## Across:

4. Tax \_\_\_\_\_ explains the relationship between the tax expense recognised in the accounts and the theoretical tax expense
8. The tax base of an asset is often equal to its \_\_\_\_\_
9. Under IAS 12, an entity shall \_\_\_\_\_ deferred tax assets and liabilities when certain conditions are met
10. Companies should present information on the impact of this major European event on deferred tax assets
12. An entity shall take account of the tax rates that have been (substantively) \_\_\_\_\_ at the end of the reporting period
15. The type of tax that may be recognised when the tax base differs from the carrying amount

# A Closer Look

## Companies' financial reporting at year-end 2016 on the expected impacts of implementation of IFRS 9 on 1 January 2018

IFRS 9 becomes mandatory for financial periods commencing on or after 1 January 2018.

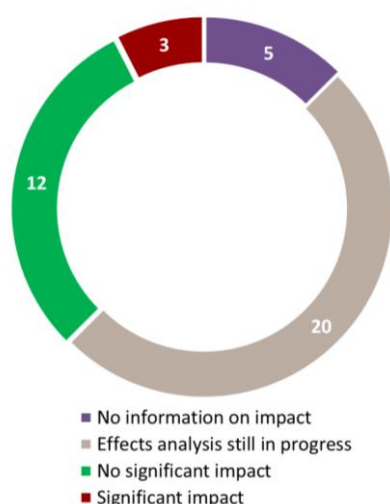
Prior to this date, IAS 8 requires entities to present information that will allow users to assess the expected impacts of implementation.

Moreover, regulators such as the AMF in France and ESMA for the European Union not only published specific recommendations on this subject in 2016 (see Beyond the GAAP no. 105, November 2016) but also listed it as one of their enforcement priorities.

Thus, entities were encouraged to disclose qualitative and, if possible, quantitative information on the expected impacts of implementation of IFRS 9 in their 2016 year-end financial statements. Additional detail is expected in interim financial statements published prior to 31 December 2017.

Below, we present the key findings of our analysis of 2016 year-end financial reporting by 40 industrial and commercial companies from the Euro Stoxx 50 index.

### Few areas of impact mentioned, lack of detailed information presented



None of the companies in the sample presented quantitative disclosures at 31 December 2016.

Of the 40 companies, 20 said that the effects analysis was still in progress, while 12 were already in a position to say that no significant impact on the financial statements is expected from implementation of the standard. Only three companies said that they expected a significant impact.

Two of these companies said the expected impacts primarily related to their substantial long-term investments in shares and mutual-fund units. These instruments are currently classified in the available-for-sale category, which will cease to exist, with consequences for how they are recognised in the income statement. Investments in shares will henceforth be recognised at fair value through profit or loss, or at fair value through other comprehensive income without recycling to profit or loss on derecognition.

The third company said that the impact on its operating result was expected to come from the cost of the forward element of forward contracts and of option premiums on hedging derivatives, as these items are currently classified within the financial result. The company also mentioned the impact of presenting the additional disclosures that are required in the notes to the financial statements.

### Application date of IFRS 9

None of the companies in our sample said that they were planned to early apply the standard in the 2017 financial statements.

In fact, Adidas said that it was considering deferring application of the new hedge accounting rules until the document on macro-hedging by banks is released (as permitted by the standard). This was due to constraints imposed by its information systems.

Meanwhile, BMW and Daimler stated that they would not be presenting comparative information for the "Classification and measurement" and "Impairment" sections of the standard (this option is also permitted under IFRS 9).

### Classification and measurement of financial instruments

As noted by some of the companies in the sample (see above), the principal impact of the standard in this area is the removal of the available-for-sale category. This is particularly significant for companies with substantial amounts of unconsolidated securities and/or long-term investments in shares or mutual-fund units.

Only two companies said that they had already decided how these instruments would be accounted for in the future:

- BASF: at initial recognition, the entity will decide between fair value through profit or loss and fair value through OCI with no recycling on an instrument-by-instrument basis;
- Nokia: default classification, i.e. fair value through profit or loss.

## Impairment

Seven companies in the sample expect to see an increase in loss allowances for financial assets measured at amortised cost (including trade receivables).

## Hedge accounting

Although they did not venture any opinions on expected impacts, the companies in the sample emphasised the

following three improvements introduced by IFRS 9:

- the forward element of forward contracts and the time value of options are treated as a cost of hedging, reducing volatility in profit or loss;
- the constraints on commodities hedging are less strict, opening up the possibility of hedging risk components; and
- it will be possible to add hedges without having to discontinue existing hedging relationships.

The industrial and commercial companies on the Euro Stoxx 50 index had made little progress with preparations for IFRS 9 at year-end 2016. This contrasts with banks and insurance companies, which will be much more heavily affected by the new standard.

This state of affairs is exacerbated by the concurrent need to prepare for the mandatory effective dates of IFRS 15 – *Revenue from Contracts with Customers* from 2018 and IFRS 16 – *Leases* from 2019; these standards are likely to have much more significant impacts on the companies in our sample. As a result, preparations for IFRS 9 at industrial and commercial companies have sped up substantially in the second quarter of 2017, particularly as regards impairment of trade receivables.

### Key points to remember:

1. Half of the sample did not give any details other than stating that the effects analysis was in progress;
2. As regards classification and measurement of financial instruments, the major impact relates to the fact that the available-for-sale category will disappear, and instruments in this category (non-consolidated securities and long-term investments in shares or mutual-fund units) will henceforth be measured at fair value through profit or loss or fair value through OCI without recycling to profit or loss;
3. Most of the companies in the sample are still assessing the potential impacts relating to impairment of assets measured at amortised cost;
4. The new hedge accounting rules have been welcomed by companies, although they have so far made little progress with identifying the expected impacts.

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# A Closer Look

## IFRIC 23 and uncertainty over income tax treatments (Interpretation of IAS 12)

On 7 June, the IASB published IFRIC 23, an interpretation of IAS 12 focusing on uncertainty over income tax treatments. Here, we summarise the key points of the interpretation.

### 1. Scope: when does this interpretation apply?

IFRIC 23 applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law. It is not limited to actual ongoing disputes. Thus, in some circumstances, an entity may need to reflect uncertainty over an income tax treatment in its accounts, even if it has not received any notification or been subject to an examination.

The scope of the Interpretation includes all taxes covered by IAS 12, i.e. both current tax and deferred tax. However, it does not apply to uncertainty relating to taxes covered by other standards.

The accounting treatment of interest and penalties is also excluded from the scope of the Interpretation (as noted in the Basis for Conclusions). Entities must therefore make use of judgement to determine whether or not interest and penalties are considered to be income tax falling within the scope of IAS 12 (and thus IFRIC 23).

### 2. Recognition/measurement of uncertainty: what approach should be used?

The Interpretation states that an entity shall assume that the taxation authorities:

- will examine the amounts declared; and
- will have full knowledge of all relevant information when making those examinations.

In other words, the “risk of detection” shall be assumed to be 100%. With this in mind, an entity shall consider whether it is probable that the taxation authorities will accept the tax treatment used or planned to be used in its income tax filings.

The effect of uncertainty shall only be taken into account in determining income taxes if the entity concludes it is not probable that the taxation authorities will accept the tax treatment in question.

In the converse scenario, the entity shall determine income taxes in line with the tax treatment used (or planned to be used) in its income tax filings.

If the entity concludes it is probable that the tax authorities will reject the tax treatment, the entity shall measure the effect of the uncertainty using whichever of the following methods it expects to better predict the resolution of the uncertainty:

- either the most likely amount;
- or the expected value, which is the weighted average of the various possible outcomes (this approach is directly inspired by the rules set out under IFRS 15 for estimating variable consideration).

Uncertainty shall be taken into account when calculating income tax recognised, rather than recording a separate provision.

When uncertainty over an income tax treatment affects both current tax and deferred tax, the entity must ensure that its estimates and judgements are consistent. These estimates may be made:

- either for each uncertainty separately;
- or considered together, if the resolution of one uncertainty would affect, or be affected by, another uncertainty.

Thus, the entity must use judgement to determine the unit of account that it believes will best predict the resolution of the uncertainty.

The Interpretation also states that an entity shall revise its judgements and estimates if a change in facts and circumstances occurs subsequently.

### 3. Disclosures in the notes: are any changes required?

The Interpretation does not introduce any new disclosure requirements but simply makes reference to the existing requirements, notably:

- IAS 1 (§122 and 125-129) relating to significant assumptions and judgements; and
- IAS 12 (§88, which refers back to IAS 37) relating to contingent assets and liabilities.

## 4. What are the transition requirements?

IFRIC 23 becomes operative for financial periods commencing on or after 1 January 2019. Early application is permitted, subject to adoption by the EU (which is scheduled for 2018). On transition, the Interpretation shall be applied retrospectively, either in accordance with IAS 8 (restating all comparative information) if this can be done without the benefit of hindsight, or by recognising the

cumulative effect of the change in accounting method as an adjustment to the opening balance of retained earnings at the beginning of the period in which the entity first applies the Interpretation (i.e. 2019, unless the entity opts for early application). If this second approach is chosen, comparative information is not restated.

### Key points to remember:

1. IFRIC 23 applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law;
2. The effect of uncertainty over income tax treatments shall be taken into account in determining income taxes if the entity concludes it is not probable that the taxation authorities will accept the tax treatment in question. IFRIC 23 requires entities to assume that the taxation authorities would examine this particular point, i.e. a 100% “risk of detection”;
3. The effect of the uncertainty shall be measured using whichever of the following methods will better predict the resolution of the uncertainty: either the most likely amount, or the weighted average of the various possible outcomes (the expected value);
4. Estimates may be made either for each uncertainty separately, or for a group of uncertainties considered together, depending on whether there are interactions between different types of uncertainties;
5. IFRIC 23 becomes mandatory for financial periods commencing on or after 1 January 2019, and early application is permitted, subject to adoption by the EU;
6. The transition requirements offer a choice between full retrospective application or modified retrospective application (recognising the cumulative effect of the change in accounting method as an adjustment to the opening balance of retained earnings at the start of the period in which the entity first applies the Interpretation, without restating comparative information).

# Events and FAQ

## Frequently asked questions

### IFRS

- Grant date of an IFRS 2 share-based payment plan when employees have been informed of the terms and conditions of the arrangement before it has been approved by the Board of Directors.
- Non-current assets held for sale and discontinued operations (IFRS 5).
- Business combinations and additional consideration that is contingent on continuing employment.
- Investment in an associate with reciprocal put and call options.
- Recognising eviction compensation in the lessor's financial statements.

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

IFRS		EFRAG	
IASB	Committee	Board	TEG
17-21 July	12-13 September	20 July	26-28 July
18-22 September	20-21 November	14 September	20-22 September
23-27 October		10 October	25-27 October

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