

Beyond the GAAP

MAZARS' NEWSLETTER ON ACCOUNTING
STANDARDS

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EDITORIAL

There is no doubt that the preparation of the 2020 interim accounts will be particularly difficult this year. Properly reflecting the impact of the COVID-19 crisis in the financial statements is certain to be the main subject of concern. Once again, this month's COVID-19 supplement summarises the current issues to be taken into account, in particular the ESMA press release for listed entities.

This issue of Beyond the GAAP presents a summary of the standards and amendments that will be of mandatory application for the first time at 30 June 2020. At the time of publication, the main uncertainty concerns whether the European Union will have endorsed the IFRS 16 amendment on COVID-19-related rent concessions between now and the 30 June reporting date. But we can assume that everything is being done to ensure that Europe does not prevent businesses from taking advantage of the exemption granted by the IASB on 28 May.

This aside, no major new standards and amendments come into effect in 2020, unlike in previous years. Unfortunately, the COVID-19 crisis will give entities no opportunity to take a break!

Enjoy your reading!

Edouard Fossat

Carole Masson





IFRS highlights

Amendment to IFRS 16 on COVID-19-related rent concessions

28 May saw the publication of the definitive amendment to IFRS 16 Leases, addressing the issue of COVID-19-related rent concessions.

This amendment gives lessees, and only lessees, the option to elect not to assess whether a COVID-19-related rent concession is a lease modification. This practical expedient requires lessees to account for COVID-19-related rent concessions as if they did not constitute lease modifications, and to recognise the impact of these concessions in profit or loss for the period.

This expedient applies to COVID-19-related rent concessions that fulfil the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- the rents must have been originally due no later than 30 June 2021;
- there is no substantive change to other terms and conditions of the lease.

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Early application is permitted. Application is retrospective, but the comparative figures do not have to be restated (impact on the opening balance of retained earnings, or other component of equity, at the beginning of the reporting period in which the amendment is first applied). The information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors is not required (i.e., a lessee is not required to disclose, for the current period and each prior period presented, the amount of the adjustment for each affected line item in the financial statements, nor for the basic and diluted earnings per share, as appropriate).

A lessee applying this practical expedient must disclose the fact, along with the amount recognised in profit or loss to reflect changes in lease payments that arise from COVID-19-related rent concessions.

The IASB has not extended this practical expedient to lessors, so they are not exempted from conducting analyses to determine whether any rent concessions represent a lease modification.

The IFRS 16 amendment on COVID-19-related rent concession can be consulted freely on the IASB website via the following link:

<https://www.ifrs.org/news-and-events/2020/05/iasb-issues-amendment-to-ifrs-standard-on-leases/>

At European level, this amendment will have to be the subject of an accelerated endorsement procedure if its application is to be possible in time for the 2020 interim accounts.

The background and the contents of the amendment are presented in more detail in this month's COVID-19 supplement, together with the consequences for lessors.

IFRS 3 amendments to the reference to the conceptual framework

On 14 May, the IASB issued amendments to IFRS 3 Business combinations. These limited-scope amendments bring IFRS 3 into line with the new Conceptual Framework published in March 2018. This new Conceptual Framework amended the definition of assets and liabilities, which could have led to the derecognition of certain liabilities immediately after acquisition. To prevent this, the IASB has now clarified that, for transactions and other events within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, an acquirer must apply these standards to identify the liabilities assumed in a business combination.

The IASB has also added an explicit statement to the effect that an acquirer should not recognise any contingent assets acquired in the course of a business combination.

These amendments will be of mandatory application to business combinations taking place during current financial periods from 1 January 2022. Early application is authorised, provided that all the amendments to the Conceptual Framework published by the IASB in March 2018 are applied at the same time.

Amendments to IAS 16: proceeds before intended use

On 14 May, the IASB issued amendments to IAS 16 Property, plant and equipment. These amendments follow the discussions in the IFRS IC aiming to standardise practices for the recognition of proceeds and costs during the test phase of an asset (for example, when manufacturing samples to ensure that the asset functions correctly).

This amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such sales proceeds are therefore accounted for in profit or loss (and not as a reduction in the cost of the capital asset). The cost of these items must be measured in application of IAS 2 Inventories.

This amendment is to be applied retrospectively, but only for the tangible fixed assets that will be brought to the location and condition necessary for operation as intended by management at the start of the first comparative period presented in the financial statements to which these amendments are first applied. The mandatory effective date is 1 January 2022. Early application is authorised.

Amendments to IAS 37 on onerous contracts

On 14 May, the IASB issued amendments to IAS 37 Provisions, contingent liabilities and contingent assets. These amendments are intended to standardise practices when identifying and measuring provisions for onerous contracts, in particular for losses at completion recorded on customer contracts accounted for in application of IFRS 15.

They specify that the costs to be taken into account to estimate the “cost of fulfilling a contract” are those that relate directly to the contract. These costs include the incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling the contract (for instance, the allocation of a proportion of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments will apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which they are first applied. Comparative periods will not be restated. The impacts of the change of accounting policy will be recognised in the opening retained earnings for the first period of application.

The mandatory effective date is 1 January 2022. Early application is authorised.

Improvements to IFRSs – 2018-2020 Cycle

On 14 May, the IASB issued its Improvements to IFRSs for the 2018-2020 cycle. These limited-scope amendments concern IFRS 1, IFRS 9, IAS 16 and IFRS 41:

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

The amendment states that a subsidiary adopting IFRSs after its parent company and that elects to apply paragraph D16(a), may measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRSs.

- IFRS 9 – Financial instruments

The amendment states that for the purposes of the ‘10% test’ used when assessing whether to derecognise a financial liability, only fees paid or received between the borrower and the lender should be taken into account, including fees paid or received by either the borrower or lender on the other’s behalf.

An entity shall apply the IFRS 9 amendment to financial liabilities that are modified or exchanged on or after the beginning of the first annual reporting period in which the entity first applies the Annual Improvements to IFRS Standards 2018–2020.

- IFRS 16 – Leases

The amendment changes Illustrative Example 13 of IFRS 16 to remove the example of payments from the lessor relating to leasehold improvements incurred by the lessee. In its original form, Illustrative Example 13 was a source of confusion regarding the treatment of lease incentives.

- IAS 41 Agriculture

The amendment removes the requirement in paragraph 22 under which entities were obliged to exclude cash flows for financing taxation when measuring the fair value of a biological asset (using the present value method). This maintains consistency with IFRS 13 on fair value measurement.

The amendments issued in the Annual Improvements to IFRS Standards 2018–2020 are of mandatory application to current reporting periods at 1 January 2022. Early application is authorised.

Note that the amendment to IFRS 16 has no mandatory application date, since it refers to an illustrative example in the standard.

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EUROPEAN highlights

ESMA makes some recommendations regarding the implications of the COVID-19 pandemic on the half-yearly financial reports

On 20 May, ESMA published a press release on the main principles to be followed in preparing the half-yearly financial reports (and the accompanying documents, in particular the half-yearly management reports), in light of the COVID-19 outbreak.

The main subjects addressed are as follows:

- the issues at stake in the 2020 interim financial reporting, against the background of the COVID-19 crisis;
- how to adapt the timing of publication of half-yearly financial reports, where applicable;
- what additional disclosures are expected in the interim financial statements and the half-yearly management reports;
- how to present the implications of the COVID-19 crisis in the financial statements;
- the approach to assessing an entity's ability to continue as a going concern, impairment testing and the recognition of leases (not least in conjunction with the IFRS 16 amendment on rent concessions granted by a lessor to a lessee).

The ESMA press release is available at the following address:

<https://www.esma.europa.eu/press-news/esma-news/esma-calls-transparency-covid-19-effects-in-half-yearly-financial-reports>

More details of this press release can be found in this month's COVID-19 supplement.



Standards and interpretations applicable at 30 June 2020

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 at 3 June 2020) :

<http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520Endorsement%2520Status%2520Report%25203%2520June%25202020%2520.pdf>

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

1. The IASB's exposure-drafts cannot be applied as they are not published standards.
2. The IFRS IC'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.
3. 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).

4. 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 the IASB	Date of publication in the Official Journal	Application status at 30 June 2020
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1/01/2016 Early application permitted	No endorsement The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard	Not permitted
IFRS 17	Insurance Contracts (issued on 18 May 2017)	1/01/2023 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	Postponed Early application permitted	Deferred	Permitted ⁽¹⁾
Amendments to the Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1/01/2020	6 December 2019 Effective for annual periods beginning on or after 1 January 2020	Mandatory

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2020
Amendments to IAS 1 and IAS 8	Definition of Material (issued on 31 October 2018)	1/01/2020 Early application permitted	10 December 2019 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform (issued on 26 September 2019)	1/01/2020 Early application permitted	16 January 2020 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IFRS 3	Definition of a business (issued on 22 October 2018)	1/01/2020 Early application permitted	22 April 2020 Effective for annual periods beginning on or after 1 January 2020	Mandatory
Amendments to IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or non-current (issued on 23 January 2020)	1/01/2022* Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use (issued on 14 May 2020)	1/01/2022 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 3	Reference to the Conceptual Framework (issued on 14 May 2020)	1/01/2022 Early application permitted (if the entity applies at the same all others updates to the Conceptual Framework of March 2018)	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 37	Onerous Contracts— Cost of Fulfilling a Contract (issued on 14 May 2020)	1/01/2022 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted ⁽²⁾
Annual Improvements to IFRSs 2018–2020 Cycle	Annual improvements to various Standards (issued on 14 May 2020)	1/01/2022 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IFRS 16	Covid-19-Related Rent Concessions (publiés le 28 May 2020)	1/01/2020 Early application permitted	Awaiting endorsement by the EU (expected Q3/Q4 2020)	Permitted ⁽²⁾

⁽¹⁾ If the entity had not developed an accounting policy

⁽²⁾ If the amendment is endorsed before the date when the financial statements are authorised for issue or if the amendment is a clarification of an existing standard and is not in contradiction with current standards

* The IASB has issued an exposure draft to defer the effective date to 1 January 2023.

Frequently asked questions

IFRSs

- Lessor accounting for COVID-19-related rent concessions granted to lessees
- Recognition of losses at completion
- Disclosures on the fair value of shares held by investment entities
- Reverse acquisition
- Impact of the COVID-19 crisis on impairment testing under IAS 36
- COVID-19 crisis and disclosures in the half-yearly accounts
- Sale-and-leaseback transactions
- Recoverability of deferred taxes

UPCOMING MEETINGS OF THE IASB, IFRS INTERPRETATIONS COMMITTEE AND EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
22-26 June	16-17 June	16 June	3-4 June
20-24 July	15-16 September	16 July	2 July
21-25 September	1-2 December	28 July	8 July

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