

Beyond the GAAP

MAZARS' NEWSLETTER ON ACCOUNTING
STANDARDS

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Editors-in-Chief:

Michel Barbet-Massin, Edouard Fossat, Carole Masson

Columnists:

Vincent Gilles, Vincent Guillard, Florence Michel, Eglé Mockaityte, Marion Platevoet, Arnaud Verchère



Exaltis, 61, rue Henri Régnauld
92 075 – La Défense – France
Tel.: +33 (0)1 49 97 60 00
www.mazars.com

EDITORIAL

In contrast to the three previous issues, Beyond the GAAP is back to its traditional format this month, with no COVID-19 supplement. Things are getting back to normal as regards accountancy news, although it is expected that further statements will be published locally for instance on the consequences of the crisis on accounting for State-guaranteed loans in France.

In this issue, Beyond the GAAP sets out the most recent agenda decisions published by the IFRS Interpretations Committee. While the final agenda decisions reached in June are unlikely to have any major impact on preparers, the ongoing discussions on reverse factoring constitute a trickier issue. However, at this stage of the due process, the Committee is not planning to amend existing IFRSs. Stakeholders have until 30 September to respond to this tentative agenda decision.

In the more immediate future, preparers are likely to be devoting their energies to the interim financial statements, which may be heavily impacted by the health and economic crisis. It seems unlikely that the amendment to IFRS 16 on rent concessions granted to lessees will be endorsed by the EU before the date when the financial statements are authorised for issue. Under these circumstances, if an entity would like to make use of the practical expedient offered by the IASB, it will be up to the auditors to assess materiality in the context of its financial statements.

Enjoy your reading!

Edouard Fossat

Carole Masson





IFRS highlights

Amendments to IFRS 17 and IFRS 4 published

On 25 June, the IASB published the final amendments to IFRS 17, which aim to simplify and clarify various aspects of the accounting for insurance and reinsurance contracts. One of the key amendments is that the mandatory effective date of IFRS 17 will be deferred by two years, to annual reporting periods commencing on or after 1 January 2023. IFRS 4, which permits insurers to defer application of IFRS 9 – Financial Instruments, has also been amended so that insurers can apply IFRS 9 and IFRS 17 at the same time (i.e. by 2023 at the latest).

The IASB has not made any changes regarding the annual cohort issue. In other words, preparers are still required to group contracts by year of issue (including contracts with direct participation features). It will be interesting to see what EFRAG says in its endorsement advice.

For more details, see our previous issues of Beyond the GAAP for summaries of the IASB's discussions on this project: July-August 2019, November 2019, December 2019 and March 2020.

The amendments are available on the IASB's website with a paid subscription:

<https://www.ifrs.org/news-and-events/2020/06/iasb-issues-amendments-to-ifrs-17-insurance-contracts/>

IFRS IC publishes agenda decision on player transfer payments

The IFRS Interpretations Committee (IFRS IC) received a request about the recognition in profit or loss of transfer payments received when a football club transfers a player under contract to another club.

In the fact pattern submitted to the Committee, the first club originally paid an amount to another club for the exclusive right to the player's services over a set period. This right was recognised as an intangible asset under IAS 38.

In the June 2020 IFRIC Update, the Committee stated that the transfer payment received by the club shall be taken into account when calculating the gain or loss to be recognised in accordance with paragraph 113 of IAS 38 for derecognition of the intangible asset. There is thus no revenue to be recognised under IFRS 15.

The player transfer payment shall be presented as part of investing activities in the statement of cash flows.

IFRS IC publishes agenda decision on sale-and-leaseback transactions with variable payments

The IFRS Interpretations Committee (IFRS IC) received a request about the accounting treatment of sale-and-leaseback transactions with variable payments. The fact pattern described in the submission is as follows:

- an entity (seller-lessee) has entered into a sale-and-leaseback transaction whereby it transfers an item of property, plant and equipment to another entity (buyer-lessee) and leases the asset back for five years;
- this transaction meets the requirements in IFRS 15 to be accounted for as a sale, and the amount paid is the item's fair value at the date of the transaction;
- the lease payments are at market rates and are variable payments, calculated as a percentage of the revenue generated from use of the underlying asset. The variable payments are not in-substance fixed payments as described in IFRS 16.

In this context, the request asked how the seller-lessee should measure the right-of-use asset arising from the sale-and-leaseback transaction, and how much gain or loss it should thus recognise at the date of the transaction.

The IFRS IC responded to this request by publishing an agenda decision in the June 2020 IFRIC Update.


Drawing on the provisions of paragraph 100 (a) of IFRS 16, the Committee stated that to measure the right-of-use asset arising from the sale-and-leaseback transaction, the seller-lessee shall determine what proportion of the rights have been sold to the buyer-lessee by comparing them with the right of use retained through the lease at the transaction date.

Noting that the standard does not specify a particular method for determining this proportion, the Committee stated that:

- the seller-lessee may determine this proportion by comparing, for example, (a) the present value of expected payments for the lease (including those that are variable), with (b) the fair value of the transferred asset at the date of the transaction;
- the gain or loss recognised by the seller-lessee is a consequence of its measurement of the right-of-use asset, measured as a proportion of the carrying amount of the transferred asset, and the amount of the gain or loss thus relates only to the rights transferred to the buyer-lessee;
- the seller-lessee must also recognise a liability at the date of the transaction (not classified as a lease liability). The initial valuation of this liability is only a consequence of the assessment of the right to use, even if the lease payments are variable and do not depend on an index or rate. The initial measurement of the liability derives directly from how the right-of-use asset is measured.

The Committee provided an illustrative example, which is unusual enough to be noted.

Alongside this agenda decision, the IASB decided at its May meeting, on the recommendation of the IFRS IC, to amend IFRS 16 to specify how a seller-lessee would subsequently measure a liability arising from a sale-and-leaseback



transaction. An exposure draft on this topic is scheduled for the third quarter of this year.

IFRS IC publishes agenda decision on accounting for deferred tax related to an investment in a subsidiary

The IFRS IC received a request about how an entity, in its consolidated financial statements, should account for deferred tax related to its investment in a subsidiary when profits are taxable only when distributed (i.e. only the group's distributed profits are taxed; profit distributions that have already been taxed once at the subsidiary level are not taxed again at the parent company level).

The IFRS IC stated that this tax regime does not exempt the entity from applying the requirements of IAS 12 regarding investments in subsidiaries (paras. 38-45), notably the requirement to recognise a deferred tax liability for any positive temporary difference between the carrying amount of the investment and its tax base, if the parent is unable to control the timing of the reversal of the temporary difference or it is probable that the temporary difference will reverse in the foreseeable future.

In this situation, the IFRS IC stated that:

- paragraph 57A of IAS 12 (which specifies that the income tax consequences of dividends shall be recognised when the entity recognises a liability to pay a dividend) only applies to dividends payable by the reporting entity (i.e. the parent company, in the case of consolidated financial statements);
- paragraph 52A of IAS 12 (which specifies that the tax rate used to calculate current and deferred tax shall be that applicable to undistributed profits, in circumstances where the tax rate differs depending on whether or not profits are paid out as dividends) does not apply to the measurement of current or deferred tax that itself reflects the tax consequences of a distribution of profits – i.e. this paragraph does not apply to deferred tax measured in accordance with the requirements of IAS 12 regarding investments in subsidiaries (paras. 38-45).

The IFRS IC concluded that the principles of IAS 12 provide an adequate basis to address the request, so does not intend to pursue this matter beyond the agenda decision.

IFRS IC publishes tentative agenda decision on reverse factoring

On 16 June, the IFRS IC published a tentative agenda decision entitled, "Supply Chain Financing Arrangements – Reverse Factoring". The comment period is open until 30 September 2020. This tentative agenda decision primarily relates to the impact of reverse factoring arrangements on the presentation in the balance sheet of the liabilities to which the arrangements relate; decisions regarding the presentation in the statement of cash flows; and disclosures required in the notes to the financial statements.

A more detailed study of the Committee's initial views will appear in the next issue of Beyond the GAAP. In the meantime, the tentative decision is available on the IASB's website via the following link:

<https://www.ifrs.org/news-and-events/updates/ifric-updates/june-2020/#1>.

IOSCO encourages issuer's fair disclosure about COVID-19 related impacts

On 29 May, IOSCO (the International Organization of Securities Commissions, which brings together market regulators such as ESMA, the European Securities and Markets Authority) issued a press release encouraging preparers of financial statements to publish fair disclosure on the impacts of the COVID-19 crisis.

IOSCO emphasises that, in the context of the current uncertainties resulting from the COVID-19 pandemic, a reliable and timely financial reporting is critical for the markets to function properly. In these circumstances, IOSCO emphasises that investors and other stakeholders are all the more in need of financial information that is high-quality, transparent and entity-specific, including information on the impacts of COVID-19 on the entity's financial performance, financial position, liquidity and future prospects.

More specifically, IOSCO:

- reiterates the importance of disclosures on the impact of COVID-19 on the amounts recognised, measured and presented in the financial statements;
- underlines the importance of complete financial information which, in light of the high level of uncertainty, should be transparent and entity-specific, particularly as regards significant judgements and estimates (for example, estimates of the impacts of COVID-19, assessment of going concern issues, judgements and estimates used to assess impairment of goodwill, etc.);
- reaffirms the need for issuers to be mindful of the elements of Alternative Performance Measures (APMs or non-GAAP measures) to ensure they are not potentially misleading;
- notes that interim financial statements will require more detailed disclosures on material information and management's responses to the situation;
- reminds auditors of their responsibilities to report on Key Audit Matters, and how they addressed these matters;
- encourages preparers to find the right balance between taking advantage of extensions to reporting deadlines, and their responsibility to provide timely and comprehensive financial information.

The IOSCO press release is available [here](#).

EUROPEAN highlights

IFRS 16 amendment: the European adoption process could complicate application in the interim financial statements

On 28 May, the IASB published the amendment to IFRS 16 on COVID-19-related rent concessions.

This document, which was produced and published in record time, simplifies matters for lessees by offering them a practical expedient that applies to periods beginning on or after 1 June 2020, with a possible early application.

However, for European companies, this is complicated by the endorsement process for IFRS standards and interpretations, which may delay the effective date of the amendment, potentially until after the issue date of the interim financial statements. A standard or interpretation must indeed go through a specific process in order to be endorsed by the EU. The stages of this process are as follows:

- EFRAG carries out a technical assessment of the standard or interpretation, organises consultations and then issues an opinion (EFRAG endorsement advice);
- the European Commission (EC) prepares a draft regulation for adoption;
- the draft regulation is submitted to the Accounting Regulatory Committee (ARC) for approval within three months;
- the European Parliament and the Council of the European Union have three months in which to oppose the adoption of the draft regulation by the European Commission;
- the EC adopts the draft regulation once it has received the favourable opinion of the European Parliament and the Council, or once three months have elapsed without any objection (silence means consent);
- the regulation is published in the Official Journal of the European Union (OJEU), in all the official EU languages, and comes into effect on the date specified in the regulation, or failing that, on the 20th day following publication in the OJEU.

Given the number of steps in the EU endorsement process for IFRS standards and interpretations, and the difficulty in reducing the time needed for some of them, we fear that the amendment to IFRS 16 on COVID-19-related rent concessions will not be endorsed in time for it to be applied in the interim financial statements, which many issuers publish at the end of July.

Notwithstanding the speed with which EFRAG issued its opinion on the amendment (on 2 June 2020), and the positive vote from the ARC on 2 July, the amendment is unlikely to be published in the OJEU before the end of September (EFRAG's website says that endorsement is expected in Q3/Q4 2020).

ESMA publishes example of an annual financial report in electronic format

In order to assist stakeholders with implementing the requirements of EU Regulation 2019/815 on the European single electronic reporting format (European Single Electronic Format or ESEF), which came into effect on 1 January 2020, ESMA has published an example of a 2019 financial report in HTML format with iXBRL tagging (cf. the Regulatory Technical Standards or RTS on ESEF developed by ESMA).

The Global Legal Entity Identifier Foundation (GLEIF) 2019 annual report is available here:

<https://www.gleif.org/en/about/governance/annual-report>

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Events and FAQ

Frequently asked questions

IFRSs

- Lessor accounting for COVID-19-related rent concessions
- Lessee accounting for COVID-19-related rent concessions
- Changes to non-market vesting conditions (IFRS 2)
- Sale of a business in a hyperinflationary economy
- COVID-19 crisis and disclosures in the 2020 interim accounts
- Repayment by a subsidiary of a loan classified as a net investment in a foreign operation
- Accounting for loss of significant influence

UPCOMING MEETINGS OF THE IASB, IFRS INTERPRETATIONS COMMITTEE AND EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
20-24 July	15-16 September	16 July	8 July
21-25 September	1-2 December	28 July	2-3 September
26-30 October		10 September	24 September

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