Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

As 2023 year-end closing approaches, we present our traditional overview of the texts published by the IASB, taking account of their endorsement process at European level. This includes the latest developments concerning the European Union's endorsement of the IAS 12 amendments relating to OECD Pillar Two and the IFRS 16 amendments on lease liabilities arising from sale and leaseback transactions. The study also indicates which texts are mandatory and which are optional for this reporting period.

Looking a little further into the future, we also consider the IASB's recently published exposure draft of proposed amendments to IAS 32, IFRS 7 and IFRS 1 on the classification of financial instruments with characteristics of equity ("FICE"), for which the comment period runs until 29 March 2024.

IFRS Highlights

FICE project: IASB publishes exposure draft

On 29 November 2023, the International Accounting Standards Board (IASB) published an exposure draft of proposed amendments to IAS 32, IFRS 7 and IFRS 1 on the classification of financial instruments with characteristics of equity ("FICE"). The exposure draft can be consulted here.

Readers will recall that the purpose of this project, which led to the publication of a discussion paper in June 2018, is to clarify the principles of IAS 32, to address the issues of its practical application and to improve disclosures (see Beyond the GAAP no 124 of July-August 2018).

These amendments chiefly aim to:

- clarify a number of principles relating to the classification of financial liabilities and equity instruments under IAS 32, in particular concerning:
  - whether or not applicable laws and regulations need to be taken into account in the contractual analysis of the financial instruments concerned;
  - analysis of the "fixed-for-fixed" criterion when classifying a derivative that is or may be settled in the issuer's own equity instruments;
  - instruments involving an issuer's obligation to repurchase its own equity instruments;
  - instruments with contingent settlement provisions;
  - how to treat contractual obligations at the discretion of the entity's shareholders;
  - the circumstances in which reclassifications between financial liabilities and equity might occur during the lifetime of the financial instruments;
- improve IFRS 7 disclosures on:
  - the nature and priority of claims against an entity arising from financial liabilities and equity instruments;
  - the main contractual features of financial instruments, including those with both financial liability and equity characteristics;
  - compound instruments;

  - the potential dilution of ordinary shares;
  - reclassifications of financial liabilities and equity instruments;
  - instruments containing obligations to repurchase an entity's own equity instruments; and
  - financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in its net assets;
- require an entity (under new provisions in IAS 1) to present amounts attributable to ordinary shareholders separately from amounts attributable to other holders of the entity's own equity instruments.

The comment period runs until 29 March 2024.

We will return to this exposure draft in more detail in a future issue.

First IASB deliberations on draft amendments to IFRS 9 and IFRS 7

The IASB has begun its deliberations after the feedback received to the exposure draft Amendments to IFRS 9 and IFRS 7 on the classification and measurement of financial instruments (see the study published in Beyond the GAAP no 176 of April 2023).

At its meeting on 13 November 2023, this analysis led the Board to make a tentative decision to modify its draft amendments relating to the derecognition of financial liabilities settled via an electronic payment system and to the presentation in the notes of equity instruments measured at fair value through non-recyclable other comprehensive income (OCI).

Derecognition of financial liabilities settled via an electronic payment system

On this topic, many stakeholders emphasised the need to clarify the following points in particular:

- the principle of settlement date accounting introduced in paragraph B3.1.2A, given the risk of unintended consequences in some circumstances;
- the first criterion put forward for characterising a financial liability settled via an electronic payment system, namely "no ability to withdraw, stop or cancel the payment instruction" (paragraph B3.3.8(a)), as this criterion is considered too restrictive as currently worded.

To take these comments into account, the Board has tentatively decided to:

- delete the principle of "settlement date accounting" in the draft amendment and replace it with a reference to "settlement date" in paragraph B3.1.2A;
- clarify that the "settlement date" is the date on which the right to receive or the obligation to pay cash (or another financial asset) is established or extinguished;
- amend the wording of paragraph B3.3.8(a) to make it more flexible and align it with the wording of paragraph B3.3.8(b), which reads "no practical ability [...]".

Disclosure on equity instruments measured at fair value through equity without recycling (FV-OCI-NR)

For the disclosure on equity instruments measured at fair value through non-recyclable OCI, some stakeholders have highlighted the need to clarify the aggregation level of disclosures required by IFRS 7 for these instruments.

To take account of these comments, the Board has decided to clarify that the disclosures required by IFRS 7 paragraphs 11A and 11B in respect of equity instruments designated at fair value through non-recyclable OCI are made by class of instrument as defined by paragraph 6 of IFRS 7, for example by business segment, geographical area, or any other relevant and consistent approach to the analysis.

In the coming months, the IASB will continue to analyse these comments with a view to finalising the draft amendment in the first half of 2024.

Ninth compilation of IFRS IC agenda decisions

In early November, the IFRS Foundation published the ninth compilation of IFRS Interpretations Committee (IFRS IC) agenda decisions taken between May and October 2023. The compilation is available here.

The decisions presented in this compilation relate to the following topics:

- IFRS 17 and IFRS 9: treatment of premiums receivable from an intermediary (see Beyond the GAAP no 181 of October 2023);
- IAS 19: homes and home loans provided to employees;
- IFRS 9: guarantee over a derivative contract.

European Highlights

Endorsement of amendments to IAS 12 – OECD Pillar Two

On 8 November, the European Commission endorsed the amendments to IAS 12 published in May of last year by the IASB. These amendments create a temporary exception to the recognition of deferred taxes resulting from the implementation of the OECD Pillar Two rules (see Beyond the GAAP no 176 of April 2023 for a description of these amendments).

Regulation (EU) 2023/2468, published in the OJEU on 9 November 2023 and effective from the day after its publication, is of mandatory application to annual reporting periods beginning on or after 1 January 2023.

It is available in all official European Union languages here.

Endorsement of amendments to IFRS 16 – Lease liability in a sale and leaseback

On 20 November, the European Commission endorsed the amendments to IFRS 16 published by the IASB in September 2022 relating to lease liabilities in a sale and leaseback transaction (see the study published in Beyond the GAAP no 169 of September 2022).

Regulation (EU) 2023/2579, published in the OJEU on 21 November 2023, enters into force on the twentieth day after its publication, and is of mandatory application to annual reporting periods beginning on or after 1 January 2024. Early application is permitted at the 2023 reporting date.

The Regulation is available in all official European Union languages here.

EFRAG and GRI conclude new collaboration agreement with an interoperability index for their respective standards

On 30 November 2023, the European Financial Reporting Advisory Group (EFRAG) and the Global Reporting Initiative (GRI) announced a new Memorandum of Understanding (MoU) that (i) demonstrates the alignment achieved between the European Sustainability Reporting Standards (ESRS) and the GRI Standards and (ii) commits the organisations to continue working together to deliver technical support for reporting entities. EFRAG's press release can be consulted here.

A proposed GRI-ESRS interoperability index was made publicly available (accessible here) with a view to approval in December by EFRAG's Sustainability Reporting Board. This tool illustrates the links between the disclosure requirements and the associated data points in each set of standards. It highlights the significant similarity already achieved and lays the foundations for the construction of a common digital Taxonomy.

EFRAG's press release also reiterates the key issue of interoperability, aiming to avoid the need for entities to prepare multiple reports and offering them a user-friendly reporting system without undue complexity. Hence entities reporting under ESRS will be assumed to be reporting 'with reference to' GRI standards. Existing GRI reporters will be able to leverage their current reporting efforts to prepare their ESRS sustainability statement.

EFRAG and CDP announce cooperation to drive market uptake of ESRS

On 8 November 2023, EFRAG and the Carbon Disclosure Project (CDP) announced a collaboration to accelerate the market uptake of the ESRS and to support the market readiness of entities for sustainability reporting. The statement can be accessed here.

EFRAG, the European Commission's (EC) technical advisor, is already working towards this end through the development of a support system for the implementation of ESRS. These tools include the Q&A platform on ESRS implementation launched in late October (see Beyond the GAAP no 181 of October 2023) and the development of implementation guidance on materiality assessment and the value chain (close to finalisation; a call for comments is expected between mid-December and the end of January 2024).

In the course of this collaboration, the CDP will harmonise its reporting system[1] - recognised by users of sustainability information and used by a large number of international entities - with the ESRS reporting requirements, and will also offer webinars and technical advice to facilitate the implementation of ESRS-compliant reporting through this system.

This partnership reflects Europe's desire to integrate these new sustainability reporting standards into a consistent global framework, work that has already been undertaken by the EC and EFRAG in collaboration with other recognised international bodies (the International Sustainability Standards Board and the GRI).

Publication in the OJEU of additional delegated regulations on the Taxonomy of sustainable activities adopted by the Commission in June 2023

On 21 November, two delegated acts were published in the Official Journal of the European Union (OJ EU) in all official EU languages. These regulations were adopted by the EC and made public in June 2023 (see Beyond the GAAP no 178 of June 2023 for more details on the content and implementation timetable).

[1]The CDP's work mainly addresses issues relating to climate change, forests and water, and the resulting impacts and risks.

Standards and interpretations applicable at 31 December 2023

Now that accounts are being finalised for 31 December 2023, 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 as at 21 November 2023, available on EFRAG's website here).

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

1. The IASB's draft standards cannot be applied as they do not form part of the 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 by the IASB but not yet adopted by the European Union at 31 December may be applied if the European adoption process is completed before the date when the financial statements are authorised for issue by the relevant authority (i.e. usually the board of directors).
4. Interpretations published by the IASB but not yet adopted by the European Union at the date when the financial statements are authorised for issue may be applied unless they conflict with standards or interpretations currently applicable in Europe.

Remember that in accordance with IAS 8 the notes of an entity applying IFRSs must include the list of standards and interpretations published by the IASB but not yet effective that have not been early applied by the entity.

In addition to this list, the entity must provide an estimate of the impact of the application of those standards and interpretations.

As relates to minor amendments and interpretations, it seems relevant to limit such list to only those amendments and/or interpretations which are likely to apply to the entity's activities.

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2023
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
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) **and effective date** (issued on 17 December 2015)	Postponed Early application permitted	Deferred	Permitted [1]
IFRS 17 and amendments	**IFRS 17 Insurance Contracts** (issued on 18 May 2017); including **Amendments** (issued on 25 June 2020)	1/01/2023 Early application permitted	23 November 2021 (UE introduces an option to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement)	Mandatory
Amendments to IFRS 17	**Initial Application of IFRS 17 and IFRS 9 – Comparative Information** (issued on 9 December 2021	An entity that elects to apply the amendments shall apply them when it first applies IFRS 17	9 September 2022	Mandatory
Amendments to IAS 1	**Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies** (issued on 12 February 2021)	1/01/2023 Early application permitted	3 March 2022	Mandatory
Amendments to IAS 8	**Definition of Accounting Estimates** (issued on 12 February 2021)	1/01/2023 Early application permitted	3 March 2022	Mandatory
Amendments to IAS 12	**Deferred Tax related to Assets and Liabilities arising from a Single Transaction** (issued on 7 May 2021)	1/01/2023 Early application permitted	12 August 2022	Mandatory

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

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 31 December 2023
Amendments to IAS 12	**Income taxes: International Tax Reform – Pillar Two Model Rules** (issued on 23 May 2023)	1/01/2023 Immediate application	9 November 2023	Mandatory
Amendments to IFRS 16	**Lease Liability in a Sale and Leaseback** (issued on 22 September 2022)	1/01/2024 Early application permitted	21 November 2023	Permitted
Amendments to IAS 1	**Classification of Liabilities as Current or Non-current** (issued on 23 January 2020) **Deferral of Effective Date** (issued on 15 July 2020 and on 31 October 2022) **Non-current Liabilities with Covenants** (issued on 31 October 2022)	1/01/2024 Early application permitted	Awaiting endorsement by the EU (expected Q4 2023)	Permitted(2)
Amendments to IAS 7 and IFRS 7	**Supplier Finance Arrangements** (Issued on 25 May 2023)	1/01/2024 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted (3)
Amendments to IAS 21	**Lack of Exchangeability** (issued on 15 August 2023)	1/01/2025 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Permitted (3)

(2) Subject to adoption by EU in Q4, as announced.
(3) The amendment is a clarification of an existing standard and is not in contradiction with current standards. In our opinion it can be applied even if not adopted by the EU. Retrospective application will then be required, and any transitional provisions provided for in the amendment will not apply.

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About Mazars

Mazars is an international, integrated and independent firm, specialising in audit, advisory, accountancy, tax and legal services [1]. With a presence in 95 countries and territories across the world, Mazars brings together the expertise of 47,000 professionals – 30,000 in our integrated partnership and 17,000 in the United States and Canada via the Mazars North America Alliance – to serve clients of all sizes at every stage of their development.

[1] Where permitted under applicable country laws

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