

# Beyond the GAAP

Mazars' newsletter on accounting standards

NEWSLETTER / No 119 – February 2018



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## Editorial

With less than a year to go before the effective date of IFRS 16 on Leases, the report of the ANC's (The French accounting standards setter) decisions on the duration of 3/6/9 leases, published in February, is certainly the most anticipated announcement for French entities. This is because it should enable most of them to resolve this thorny question in their plans for implementation. This decision will of course also be useful to entities with subsidiaries in France.

Europe is continuing its lengthy work on long-term investment and sustainable finance, with studies and consultations which could well eventually have impacts on the accounting and reporting frameworks of European entities. For its part, the IASB has held a first working meeting of the transition resource group supporting the implementation of IFRS 17, *Insurance contracts*.

Enjoy your reading!

Edouard Fossat

Isabelle Grauer-Gaynor

# IFRS Highlights

## First TRG meeting on the introduction of IFRS 17

On 6 February 2018, the IASB organised the first working session of the transitional resource group (TRG), set up to discuss the introduction of IFRS 17 – *Insurance contracts*.

The following six topics were addressed in detail:

- separation of insurance components of a single insurance contract;
- boundary of contracts with annual repricing mechanisms;
- boundary of reinsurance contracts held;
- treatment of insurance acquisition cash flows paid (commissions) and future renewals;
- determining the quantity of benefits for identifying coverage units; and
- insurance acquisition cash flows when using fair value transition.

A working document was presented addressing 12 other submissions, classified in the following three categories:

- submissions that can be answered applying only the words in IFRS 17 (six questions),
- submissions that do not meet the submission criteria (four questions), and
- submissions that will be considered through a process other than a TRG discussion (two questions).

To fulfil the submission criteria, implementation questions:

- must be related to, or arise from, IFRS 17;
- may result in possible diversity in practice; and
- are expected to be pervasive, i.e. relevant to a wide group of stakeholders.

A summary of the TRG discussions can be consulted at:

<http://www.ifrs.org/-/media/feature/meetings/2018/february/trg-for-ic/meeting-summary-trg-for-ifs-17-february-2018.pdf>

## IASB publishes narrow-scope amendment to IAS 19

The IASB has published a narrow-scope amendment to IAS 19 - *Employee benefits* on the impacts of a plan amendment, curtailment or settlement on the determination of service cost and net interest.

This amendment stipulates that the service cost and net interest for the period following a plan amendment, curtailment or settlement must be determined using the updated assumptions applied when accounting for the changes to the plan.

Amendments have also been made to IAS 19 to clarify how the requirements of a plan amendment, curtailment or settlement affect the asset ceiling requirements.

These amendments to IAS 19 should be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted, but an entity that chooses to do so must disclose that fact.

## French national accounting standards setter publishes a statement of conclusions on French commercial property leases

The Autorité des Normes Comptables (ANC), the French accounting standards setter, has issued its response to the submission of the national auditing body regarding the application of IFRS 16 to 3/6/9 commercial leases in France. The question related to the existence of an option to renew as well as to the enforceable period and the non-cancellable period of French commercial property leases from an accounting standpoint in the context of the implementation of the international financial reporting standard relating to lease contracts (IFRS 16).

The ANC's response takes the form of a report of its decisions published on its website at the following address:

[http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/2.%20Normes%20internationales/NI%202018/Relev%c3%a9-de-conclusions\\_Baux%20commerciaux%20fran%c3%a7ais\\_f%c3%a9v2018.pdf](http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/2.%20Normes%20internationales/NI%202018/Relev%c3%a9-de-conclusions_Baux%20commerciaux%20fran%c3%a7ais_f%c3%a9v2018.pdf)

Its conclusion is that, in accounting terms, there is no renewal option at the end of the lease and therefore the period for which the contract is enforceable is generally nine years (the non-cancellable period therefore being three years). For example, given the termination options which only the lessee has at the end of each three-year period (see IFRS 16.18 and IFRS 16.B35), the duration of a 3/6/9 lease may be:

- three years if the lessee is not reasonably certain, at the commencement date, that it will not exercise the termination option at the end of the first three-year period (i.e. the lessee is not reasonably certain that it will extend the lease beyond three years),
- six years if the lessee is reasonably certain, at the commencement date, that it will not exercise the

termination option at the end of the first three-year period, but is not reasonably certain that it will not exercise the termination option at the end of the second three-year period (i.e. the lessee is reasonably certain that it will extend the lease to six years, but is not reasonably certain that it will continue thereafter), or

- nine years when the lessee is reasonably certain, at the commencement date, that it will not exercise either of these termination options.

However, entities should examine any contractual exemption that might, in certain cases and depending on the facts and circumstances, lead to a longer duration.

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# European highlights

## Accounting recommendations from the High-Level Expert Group on Sustainable Finance

The High-Level Expert Group on Sustainable Finance, set up by the European Commission following signature of the Paris agreement on 12 December 2015, published its recommendations on 31 January.

Some of these recommendations, if adopted, could have accounting consequences. These include:

- updating the accounting Directive to place greater emphasis on the need to integrate non-financial information and discuss the governance of addressing long-term and sustainability risks and opportunities;
- investigating alternative accounting approaches to fair value/mark-to-market valuation for long-term investment portfolios of equity and equity-type instruments;  
Note that EFRAG is already working in this area (see Beyond the GAAP no 118 of January 2018) and should shortly publish a discussion document with a call for comments.
- changing the IAS Regulation 1606/2002 on accounting rules in the EU in order to:
  - specify that international accounting standards should only be adopted if they are ‘conducive to the European public good, including its sustainability and long-term investment objectives’ (Article 3.2; underlined text proposed addition); and
  - provide the power to the EU to adjust specific aspects of IFRS standards adopted by the IASB before transposing them into EU law;
- ensuring that the IFRS 17 accounting standard on insurance contracts safeguards a combined working between the accounting on the liability side and the accounting on the asset side; and
- encouraging and supporting the development and use of standards, metrics and methods for quantifying, financial reporting and managing natural capital risks and decision opportunities by financial institutions. This recommendation should also consider accounting standards.

This report will be taken into account by the European Commission in its evaluation of reporting by companies (see below).

The full report is available at the following address:  
[https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf).

## European Commission evaluates corporate reporting

The European Commission has published a roadmap for evaluating the public reporting obligations of companies in the EU (*“Fitness check on public reporting by companies”* (Accounting Directive, Transparency Directive, Non-financial Reporting Directive, Bank Accounts Directive and Insurance Accounts Directive, and IAS Regulation)).

The intention is to establish:

- whether the public reporting obligations for EU companies are meeting their objectives (effectiveness, relevance and added value),
- whether the different adaptations to public reporting are consistent with one another (coherence of current legislation taken as a whole), and
- whether the cost and burden stemming from the various legal reporting obligations are reasonable and proportionate (efficiency).

This survey will cover the various reporting requirements arising from the European Accounting Directive, the Directive on non-financial information, the Transparency Directive, the Bank Accounts Directive and the Insurance Accounts Directive.

Alongside the many sources of information used by the survey (including the submissions of the High Level Group of Experts on Sustainable Finance discussed above, or the studies commissioned by the European Commission and the Commission’s own 2015 evaluation of the IAS Regulation), a public consultation lasting at least 12 weeks will be launched during the first quarter of 2018.

This public consultation will ask participants to give their views on:

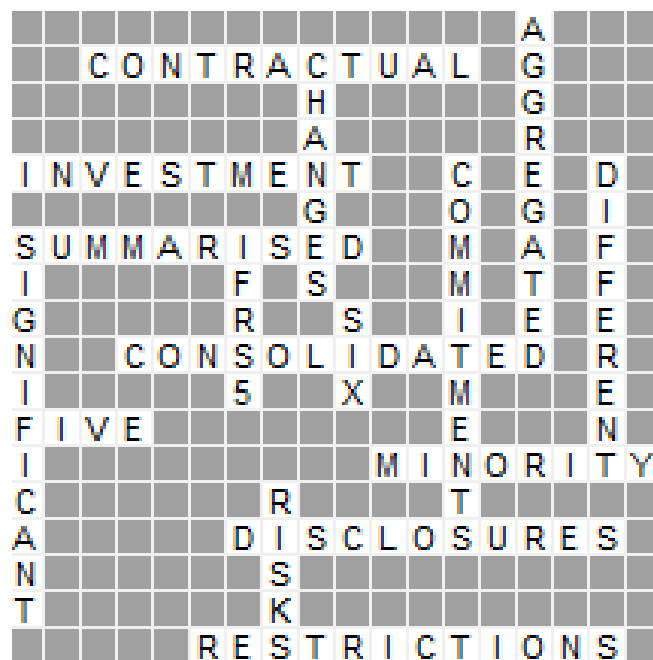
- whether the current financial reporting framework meets its objectives and will continue to do so in the digital economy;
- whether the level of harmonisation and simplification meets the needs of large international groups and SMEs respectively;
- whether IFRS are detrimental to long-term and sustainable investments;
- the coherence of sectoral accounting legislation with other prudential legislations (banks and insurance companies);

- whether the financial and non-financial disclosures in the area of Environmental, Social and Governance reporting by companies are fit for purpose, including as regards sustainability disclosures;
- whether to encourage experimentation with integrated reporting as a way to make the EU reporting framework more effective and efficient;
- whether corporate reporting takes enough consideration of technological progress and how to make the best use of these new technologies.

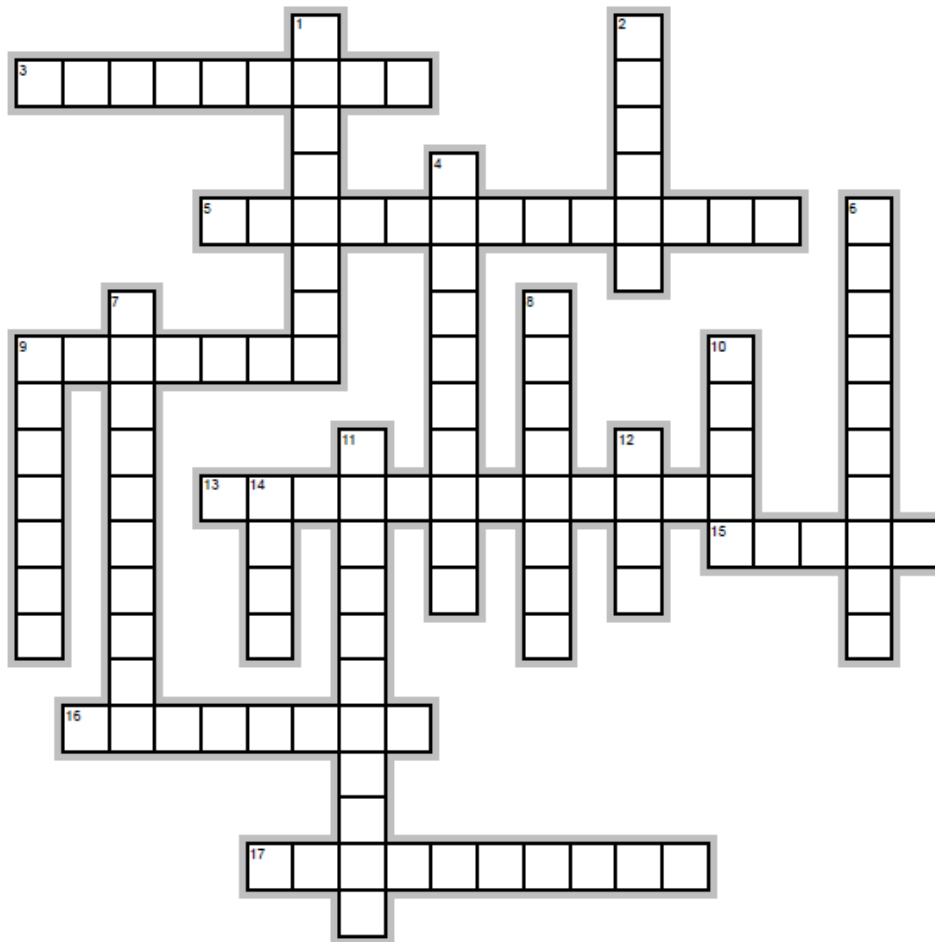
For more details of the European Commission project, see link below:

[https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-744988\\_en#evaluation-and-fitness-check-roadmap](https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-744988_en#evaluation-and-fitness-check-roadmap)

## Crossword: last month's solution



# Crossword: A question of consolidation



## Across

3. When significant, it does not constitute control, and therefore does not lead to consolidation
5. Accounting consequence of the loss of control
9. When assessing the power of one entity over another, its ability to direct the relevant activities must be this
13. Aspect to be taken into account in an agent/principal analysis
15. Number of conditions necessary to satisfy the principle based on which an entity must consolidate another
16. Control of one entity over another is assessed on its ability to direct this type of activity of the investee
17. Type of entity with specific characteristics which does not have to consolidate its subsidiaries

## Down

1. An entity may control another even if it holds none in it
2. Power results from these elements
4. Consolidation requires that the accounting policies for similar transactions and events occurring in similar circumstances must be this

6. The equity of the owners of the parent company and that of non-controlling interests must be presented in this way
7. This type of rights plays no part in assessing the control of one entity by another
8. The returns to which an entity is exposed due to its links with another entity must be this in order to meet the conditions for control
9. Under IFRS 10, the consolidation of one entity by another is based on this principle
10. Type of control when two or more investors control the activities of an entity by taking their decisions unanimously
11. Description of a right that the holder has the practical ability to exercise
12. Name often given to a ring-fenced portion of a legal entity which may be controlled and consolidated by one of the investors independently from other parts of the legal entity
14. Type of strategy documenting the way in which an investment entity expects to achieve capital gains

# Events and FAQ

## Frequently asked questions

### IFRS

- Accounting for a put on non-controlling interests.
- Impact of reorganisation on CGUs and operating segments.
- Concept of an investment entity: fair value measurement of interests in subsidiaries.
- Obligating event for recognition of a provision for collective contractual termination.

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

IFRS		EFRAG	
IASB	Committee	Board	TEG
19-23 March	13-14 March	20 March	6 April
23-27 April	9 May	23 April	16-17 May
21-25 May	12-13 June	30 May	5 June

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The drafting of the present issue was completed on 9 March 2018  
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