

Beyond the GAAP

MAZARS' NEWSLETTER ON ACCOUNTING
STANDARDS

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EDITORIAL

The year 2019 drew to a close with the publication of an exposure draft proposing significant changes to the presentation of IFRS financial statements, particularly the statement of comprehensive income. Consultations will continue in the new year, with many projects listed in the IASB's work plan.

For example, in March, the IASB is expected to publish a Discussion Paper on goodwill and impairment. While the IASB is unlikely to propose the reintroduction of amortisation of goodwill, it is expected to make proposals aimed at improving disclosures in the notes and reducing the cost of impairment testing.

Also in the first half, the Board is expected to publish a request for information related to the post-implementation review of the consolidation standards, which came into effect in 2013. The review is likely to tackle some tricky issues, such as the equity method and the practical difficulties involved in its implementation.

In addition, the IASB is expected to seek input on its future work plan (the last consultation was in 2015), so stakeholders will have plenty of opportunities to share their opinions in 2020!

Happy reading!

Edouard Fossat

Carole Masson



IFRS 16: shipping contracts and the right to direct the use of a ship

The IFRS Interpretations Committee (IFRS IC) received a submission asking whether a customer has the right to direct the use of a ship throughout the five years of a contract. The fact pattern described in the submission is as follows:

- there is an identified asset (the ship);
- the customer has the right to obtain substantially all the economic benefits from use of the ship;
- many, but not all, of the decisions about how and for what purpose the ship is used are predetermined. The customer has the right to make the remaining decisions, which are relevant because they affect the economic benefits to be derived from use of the ship;
- the supplier operates and maintains the ship throughout the contract term.

The question is whether the contract contains a lease under IFRS 16, and the Committee published a final agenda decision on the matter in January 2020.

The Committee noted that not all the relevant decisions are predetermined and that the customer must thus assess whether it has the right to direct the use of the leased asset, i.e. the right to direct how and for what purpose the ship is used throughout the period of use (cf. IFRS 16 B24 (a)).

In this specific case, the Committee noted that the customer does have this right, because it is the customer that makes the relevant decisions affecting the economic benefits to be derived from use of the ship. The scope of the customer's right of use is limited by the decisions predetermined in the contract, but the customer still has the ability to make the decisions that are most relevant to changing how and for what purpose the ship is used, within the scope of the contract.

The Committee observed that the supplier's decisions relating to the operation and maintenance of the ship are essential to its efficient use, but do not give the supplier the right to decide how and for what purpose the ship is used.

The Committee therefore concluded that the customer has the right to direct the use of the ship, and the contract thus contains a lease as defined in IFRS 16.

Amendments to IAS 1 on classification of liabilities as current or non-current

On 23 January 2020, the IASB published narrow-scope amendments to IAS 1 – *Presentation of Financial Statements*. The amendments, entitled *Classification of*

Liabilities as Current or Non-current, aim to promote consistency in classification.

In particular, they should help companies to determine the classification of liabilities with an uncertain settlement date in the statement of financial position.

The amendments make the following clarifications:


- an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period;
- if the right to defer the settlement is subject to the entity complying with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period (this applies even if the lender has not assessed whether the entity is in compliance with the conditions at this date);
- classification is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria to be classified as non-current, it shall be classified in this way even if the management intends or expects the entity to settle it in within twelve months after the end of the reporting period (or even if the entity has settled it between the end of the reporting period and the date when the financial statements are authorised for issue). In such situations, entities are encouraged to disclose information about the timing of settlement, to enable users to understand the impact of the liability on the entity's financial position;
- 'settlement' is defined as the transfer to a counterparty of cash, other economic resources (such as goods or services) or the entity's own equity instruments.

These amendments clarify current requirements but do not substantially change them and are thus not expected to have a significant impact on entities' financial statements.

They are mandatory for financial periods commencing on or after 1 January 2022 and shall be applied retrospectively. Early application is permitted.

IASB publishes 2020 consultation schedule

On 7 January, the IASB published the schedule of consultations currently planned for 2020, with a view to encouraging stakeholders to participate in the standard-setting process.



The key upcoming consultations are as follows:

Q1 2020:

- Goodwill and Impairment (Discussion Paper, March 2020)

Q2 2020:

- IBOR Reform – Phase 2 (Exposure Draft)
- Business Combinations under Common Control (Discussion Paper)
- Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 (Request for Information)

H2 2020:

- Targeted improvements to disclosures for IAS 19 – *Employee Benefits* and IFRS 13 – *Fair Value Measurement* (Exposure Draft)
- Rate-regulated Activities (Exposure Draft)
- Management Commentary (Exposure Draft)

Details of these consultations are available on the IASB's work plan page, which is updated frequently and is accessible via the following link:

<https://www.ifrs.org/projects/work-plan/>

IPTF publishes document for discussion on hyperinflationary economies

On 24 January 2020, the International Practices Task Force (IPTF) of the Center for Audit Quality (CAQ) (a task force of the SEC Regulations Committee) published a document for discussion identifying countries that are considered to have hyperinflationary economies. The document, dated 19 November 2019, has not been considered or acted upon by the SEC or the FASB (the US standard-setter). However, it is commonly considered to be a useful reference document for identifying hyperinflationary economies, particularly when applying IAS 29. The standard itself only provides a list of characteristics of a country's economic environment that may indicate hyperinflation (notably the fact that the cumulative inflation rate over three years is approaching or exceeds 100%).

According to the IPTF, the following countries have a three-year cumulative inflation rate exceeding 100%: Argentina, South Sudan, Sudan, Venezuela and Zimbabwe. The Islamic Republic of Iran is the only country (so far) identified as potentially meeting this criterion in the future. Angola and Suriname both have recent three-year cumulative inflation rates exceeding 100%, following a spike in inflation over a discrete period.

However, the IPTF notes that the list is based on available data and does not pretend to be exhaustive (e.g. Syria is omitted).

For more details, the IPTF discussion document is available here:

https://www.thecaq.org/wp-content/uploads/2020/01/caq_iptf_monitoring_inflation_2019-11.pdf

EUROPEAN highlights

IBOR amendments adopted

On 26 September 2019, the IASB published *Interest Rate Benchmark Reform Amendments* to IFRS 9, IAS 39 and IFRS 7, following the IBOR reform instigated by the publication of a Financial Stability Board (FSB) report in 2014.

The amendments are now applicable in Europe, having been adopted by the European Union on 15 January 2020 (and published in the OJEU on 16 January). Any affected entities may now elect to apply these amendments early, i.e. for the financial period ending on 31 December 2019.

Readers will remember that these amendments constitute phase 1 of the IBOR reform project, which focuses on issues that may arise prior to the replacement of existing interest rate benchmarks. The primary purpose of the amendments is to permit temporary exceptions to hedge accounting requirements in order to enable entities to maintain hedging relationships that are affected by IBOR reform (the highly probable requirement for hedged future cash flows, more flexibility around prospective and retrospective effectiveness assessments, etc.). They also introduce new disclosure requirements.

For more details, see our special study in *Beyond the GAAP* no. 134, June 2019, or see the OJEU for the published amendments:

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3A0J.L.2020.012.01.0005.01.ENG&toc=OJ%3AL%3A2020%3A012%3ATOC>

EFRAG launches limited update of IFRS 17 impact analysis

In 2018, as part of the European Union endorsement process for IFRS 17 – *Insurance Contracts*, EFRAG carried out an impact analysis to assess the expected consequences of IFRS 17 and any potential implementation challenges for European preparers.

Since then, the IASB has initiated amendments to the standard (scheduled for June 2020) and it is thus necessary to carry out a limited update of the existing impact analysis. Although the amendments have not yet been finalised (*Beyond the GAAP* will present in its next issue a summary of the IASB's discussions at its end-January meeting), the new impact analysis has already been launched and details are available here: <https://www.efrag.org/News/Project-400/IFRS-17-Limited-update-of-2018-Case-Studies>. The document will be updated in the near future to reflect the IASB's most recent decisions on IFRS 17 (with the final amendments scheduled for the second quarter of 2020).

EFRAG has launched a call for responses from companies operating in the insurance sector. The closing date for expressions of interest to be submitted to EFRAG is 28 February 2020.

EFRAG publishes technical advice on long-term investments

On 1 June 2019, the European Commission asked EFRAG for advice on alternative accounting treatments to fair value through profit or loss for equity instruments held as part of long-term investment strategies.

The aim was to assess the possibility of using accounting treatments that would better reflect the performance and risks of long-term investments, particularly in line with the move towards sustainable development.

In response to this request, EFRAG published its technical advice on 30 January 2020. The letter can be found here: <https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/Project%20Documents/1806281004094308/Technical%20advice%20letter%20Equity%2030%20January%202020.pdf>



EFRAG: call for candidates for advisory panel on intangibles

EFRAG is seeking experts for an advisory panel on intangible assets, to consider the question of how to improve the information provided to investors on how entities create, maintain and enhance value.

It is particularly looking for users of financial statements (including valuers) and preparers.

Applications should be sent by 21 February 2020. For more information, see:

<http://www.efrag.org/News/Project-398/EFRAG-Advisory-Panel-on-Intangibles-Call-for-candidates>



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Frequently asked questions

IFRS

- Accounting for dismantling costs
- Accounting for a Software as a Service (SaaS) contract
- Factoring of trade receivables
- Accounting for interest relating to an earnout
- Sale-and-leaseback transactions
- Recognition of deferred tax assets in the context of a business combination: facts and circumstances in existence at the acquisition date, and the relevant measurement period
- Assets held for sale and discontinued operations

UPCOMING MEETINGS OF THE IASB, IFRS INTERPRETATIONS COMMITTEE AND EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
24-28 February	3-4 March	18 February	5 March
16-20 March	29 April	17 March	26 March
20-24 April	16-17 June	21 April	16 April

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