



Beyond the GAAP

Mazars' newsletter on accounting standards

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Editorial

A major development this month is the publication of a proposed amendment to IFRS 16 in the light of the ongoing public health crisis: the practical expedient that was rushed through by the IASB last spring may now be applied to rent concessions granted up to 30 June 2022, rather than 30 June 2021.

As with the original amendment on COVID-19-related rent concessions, the IASB has opted for an accelerated due process, with the final version of the amendment scheduled for publication by the end of March.

February also saw the IFRS Foundation take a further step towards the creation of a Sustainability Standards Board (SSB) to sit alongside the International Accounting Standards Board, which publishes IFRSs. The Foundation received huge support from stakeholders in response to its consultation on the need for global sustainability reporting standards, which was launched in autumn 2020. The SSB could be established by the end of 2021, and would then face the significant challenge of making rapid improvements to the global consistency and comparability of sustainability reporting.

IFRS highlights

Amendments to IAS 1 on disclosure of accounting policies

On 12 February 2021, the IASB published amendments to IAS 1 – *Presentation of Financial Statements* and Practice Statement 2 – *Making Materiality Judgements*. The amendments are entitled *Disclosure of Accounting Policies*.

The amendments are intended to help companies to identify the disclosures they should present on their accounting policies, to ensure the information is useful to users of financial statements.

The amendments are the result of the Board's research via its March 2017 Discussion Paper entitled *Disclosure Initiative – Principles of Disclosure*, and the subsequent Exposure Draft on disclosure of accounting policies published in August 2019.

The main change is that entities must disclose "material accounting policy

information" rather than their "significant accounting policies". The term "material", unlike "significant", is clearly defined in IAS 1, following the amendments on the definition of materiality that came into effect on 1 January 2020. As a reminder, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments published in February 2021 build on this, stating that, "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

The amendments also include the following clarifications, to help entities to identify the

material accounting policy information that should be disclosed in the notes to the financial statements:

- accounting policy information may be material even if the amounts involved are immaterial, if the related transactions, other events or conditions are material;
- not all accounting policy information relating to material transactions, other events or conditions is material;
- accounting policy information is likely to be material if users of the financial statements would need it to understand other material information in the financial statements. IAS 1 gives examples of situations in which information would be deemed to be material because the related transactions, other events or conditions are material, such as the following:
 - an entity has changed its accounting policy during the period, resulting in a material change to the information presented in the financial statements;
 - an entity has chosen an accounting policy from various options permitted by IFRSs; and
 - the accounting treatment required for the transactions, other events or conditions is complex and users of the financial statements would not be able to understand them without this information. However, the standard does not give any further details on what is meant by “complex”, so this could require significant use of judgement.

The amendments also state that:

- if the accounting policy information focuses on how an entity has applied the requirements of IFRSs to its own

situation, this provides entity-specific information that is more useful to users of financial statements than standardised information, or than information that only duplicates or summarises the requirements of the IFRSs; and

- if an entity decides to present immaterial accounting policy information, this must not obscure the material information.

Practice Statement 2 provides examples of how the principles set out in IAS 1 should be applied in practice.

The amendments are mandatory for financial periods commencing on or after 1 January 2023; early application is permitted. The Basis for Conclusions states that in most cases it will not be necessary to present comparative information.

The EFRAG Endorsement Status Report was updated on 12 February 2021 to reflect the new amendments, but as yet there is no provisional date for endorsement by the EU.

Amendments to IAS 8 on accounting estimates

On 12 February 2021, the IASB published amendments to IAS 8, entitled *Definition of Accounting Estimates*.

The amendments aim to clarify the distinction between accounting policies and accounting estimates. However, they focus exclusively on accounting estimates, which are now defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. Some typical examples of accounting estimates are also provided.

The amendments state that an accounting policy may require line items in financial statements to be measured in a way that

involves measurement uncertainty; in other words, the accounting policy may require these items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In this situation, the entity develops an accounting estimate to achieve the objective set out by the accounting policy.

The IASB's amendments to IAS 8 also clarify that:

- to develop an accounting estimate, an entity uses measurement techniques and inputs (e.g. techniques used to measure a loss allowance for expected credit losses in accordance with IFRS 9, or to measure the fair value of an asset or liability in accordance with IFRS 13); and
- the impacts on accounting estimates of a change in an input or a change in a measurement technique are changes in accounting estimates, unless they result from the correction of prior period errors.

The amendments to IAS 8 are applicable prospectively for financial periods commencing on or after 1 January 2023; early application is permitted.

No date has yet been announced for EU endorsement.

Exposure Draft on Covid-19-related rent concessions beyond 30 June 2021

As announced in our January 2021 issue, the IASB published a proposed amendment to IFRS 16 on Covid-19-related rent concessions on 11 February 2021 (available [here](#)).

The exposure draft proposes that the practical expedient permitted by paragraph 46A of IFRS 16 should be extended to cover concessions on lease

payments due up to 30 June 2022 (instead of 30 June 2021 as currently).

The amendment would be applicable retrospectively and the cumulative impact would be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, where appropriate) for the period in which the amendment is first applied.

The IASB also proposes in the exposure draft that:

- a lessee that has already applied the practical expedient in paragraph 46A to concessions on lease payments due up to 30 June 2021 (the original end date) must also apply it to concessions on lease payments due up to 30 June 2022;
- a lessee that has previously elected not to apply the practical expedient to concessions on lease payments due up to 30 June 2021 is not permitted to apply it to concessions granted after this date on lease payments due up to 30 June 2022; and
- a lessee that has not yet decided on whether or not to apply the practical expedient may decide to apply the amended version retrospectively to all contracts with similar characteristics and circumstances.

The IASB proposes that the amendment should be applicable for financial periods commencing on or after 1 April 2021 and that early application should be permitted, including for financial statements not yet authorised for issue at the publication date of the amendment.

The comment period for the amendment was shorter than usual and ended on 25 February 2021. The final version of the amendment is expected to be published by the end of March 2021.

IFRS Foundation continues work on sustainability reporting standards

Last September, the Trustees of the IFRS Foundation launched a consultation to assess whether there is a need for global sustainability reporting standards, and the role that the Foundation could play in developing such standards (cf. Beyond the GAAP no. 147, September 2020). Following the consultation period, the Trustees have analysed the 576 comment letters received.

The results show growing and urgent demand for improved consistency and comparability in sustainability reporting at an international level. Stakeholders also agreed that urgent steps need to be taken and that the IFRS Foundation should play a role in this.

IOSCO, the International Organization of Securities Commissions, has also reiterated its support for this initiative.

In the light of this strong consensus, the Trustees have decided to analyse stakeholder responses in more depth to identify key success factors and other conditions to be satisfied, before considering whether to create a new Board (to sit alongside the International Accounting Standards Board, which publishes IFRSs).

If the Trustees conclude that the requirements for success can be met, a proposed amendment to the IFRS Foundation Constitution would be published (with a 90-day comment period), with a view to establishing a Sustainability Standards Board (SSB).

The Foundation is expected to refine its proposals (including a roadmap and schedule) by the end of September 2021. If the plan goes ahead, the formation of the SSB could be announced at the next United Nations Climate Change Conference (COP26) in November 2021.

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