



Beyond the GAAP

Mazars' newsletter on accounting standards

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Editorial

In mid-July, the European adoption process for IFRS 17 – *Insurance Contracts* took a big step forward when the Accounting Regulatory Committee (ARC) voted to endorse the new standard. EU endorsement is now expected in the fourth quarter of 2021.

After a lot of debate across Europe, the ARC finally decided to permit exemptions to the annual cohorts' rule under certain circumstances. This option is temporary, as the European Commission is planning to re-examine the issue upon the IFRS 17 – *Insurance Contracts* post implementation review. It is likely to be well received, even though most companies have largely started their transition preparations given that the standard is mandatory from 1 January 2023.

It should also be noted that the EU has just adopted the IASB's second amendment to IFRS 16 – *Leases* on rent concessions beyond 30 June 2021. This is a bit late relative to when most listed companies publish their interim financial statements, but some may nonetheless be able to make use of the practical expedient permitted by the amendment.

IFRS Highlights

IASB work plan updated

Following the meeting of the International Accounting Standards Board (IASB) on 20 and 21 July, the IASB has updated its work plan (available [here](#)).

Aside from a few tweaks to the milestones for certain projects, the main change is the extension of the comment period for the exposure draft entitled 'Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)' (see Beyond the GAAP no. 153, March 2021). The comment period was originally scheduled to end on 21 October 2021 but has now been extended to 12 January 2022.

Readers will remember that the IASB's objective is for entities to provide more useful information to users of financial statements. The exposure draft sets out:

- firstly, a new approach to complying with disclosure requirements, which will

serve as guidance for the IASB when developing individual standards;

- and secondly, proposed amendments to IFRS 13 – *Fair Value Measurement* and IAS 19 – *Employee Benefits* resulting from the application of the new approach to these two standards, which were identified as priorities by the IASB.

As noted by the IASB, the unusual length of the comment period is fully justified by the unique and ground-breaking nature of the proposals, which require preparers to make use of judgement to determine what information is necessary to meet the overall disclosure objective and the specific objectives set out in a given standard. In particular, the IASB hopes that the extension to the comment period will allow preparers test out and comment on the practical application of the exposure draft.

Redeliberations continue on Primary Financial Statements project

At the IASB meeting in late July 2021, the board members continued their redeliberations on some of the proposals set out in the General Presentation and

Disclosures exposure draft, which was published in December 2019.

Readers will remember that the exposure draft proposed that profit or loss should be classified into the following categories (although redeliberations are ongoing as to whether these categories should be retained in the final standard, and how they should be defined if so):

- Operating
- Integral associates and joint ventures
- Investing
- Financing
- Income tax

Three topics were discussed in the light of comments received:

- classification of income and expenses in the 'Financing' category of the statement of profit or loss;
- classification of fair value gains or losses on derivatives and hedging instruments in the statement of profit or loss; and
- classification of foreign exchange differences in the statement of profit or loss.

[Classification of income and expenses in the 'Financing' category](#)

Following on from its initial redeliberations in May 2021, the IASB has now tentatively decided that the following items should be classified in the 'Financing' category of the statement of profit or loss:

- income and expenses from liabilities arising from 'transactions that involve only the raising of finance', a concept that will be clearly defined in the final standard; and
- interest expenses and the effect of changes in interest rates related to

liabilities arising from transactions that do not only involve the raising of finance.

This provisional decision by the IASB implies that income and expenses from cash and cash equivalents cannot be classified in the 'Financing' category of the statement of profit or loss (and should thus be presented in the 'Investing' category as provisionally decided last May). Thus, in practice, it will no longer be possible to include a 'Cost of net financial debt' subtotal in the statement of profit or loss, even though many entities have been using a 'carry cost' category that includes financial debt and investments.

Furthermore, regarding the specific case of hybrid contracts with host liabilities and embedded derivatives, the IASB has provisionally decided:

- to require entities to classify income and expenses related to separated host liabilities in the same way as income and expenses related to other liabilities;
- to require entities to classify income and expenses related to separated embedded derivatives in the same way as income and expenses related to stand-alone derivatives (see below); and
- to require entities to classify income and expenses related to contracts that are not separated in the same way as income and expenses related to other liabilities.

[Classification of fair value gains or losses on derivatives and hedging instruments in the statement of profit or loss](#)

On this topic, the IASB has provisionally decided:

- to classify gains or losses on derivatives designated as hedging instruments

under IFRSs in the category of the statement of profit or loss affected by the hedged risk (with some exceptions);

- to classify gains or losses on derivatives used as hedging instruments but that are not designated as such under IFRSs in the category of the statement of profit or loss affected by the hedged risk. However, if this classification would require undue cost or effort, the entity shall classify all fair value gains or losses on the derivative in the 'Operating' category;
- to classify gains or losses on derivatives not designated as hedging instruments either by the entity or under IFRSs in the 'Operating' category of the statement of profit or loss. However, if the derivative relates to financing activities and is not used in the course of the entity's main business activities, the entity shall classify all gains or losses on the derivative in the 'Financing' category.

These tentative decisions are much more prescriptive than the current requirements of IAS 39 or IFRS 9 on the classification of the impacts of derivatives in the statement of profit or loss. It is thus possible that some entities may have to reclassify some of the impacts of hedging from the financial result to the 'Operating' category (particularly for operating derivatives that are not designated as hedging instruments under IFRSs).

Classification of foreign exchange differences in the statement of profit or loss

On this last topic, the IASB has tentatively decided that entities should classify foreign exchange gains and losses (transaction risk) in the same category of the profit or loss statement as the income and expenses relating to the items that gave rise to the foreign exchange differences. However, if

this would require undue cost or effort, an entity may classify the foreign exchange differences in the 'Operating' category.

Here again, the decisions arising from the redeliberations are more prescriptive than the current standards on the classification of foreign exchange differences in the statement of profit or loss. Some entities, which currently recognise foreign exchange gains or losses on operating receivables or liabilities within the financial result, may henceforth need to classify them in the 'Operating' category. Entities may thus need to review their automated recognition and/or remeasurement processes in order to identify the foreign exchange differences that relate to financing transactions and that should therefore remain in the 'Financing' (rather than 'Operating') category.

PiR of IFRS 9 – *Financial Instruments*: IASB clarifies scope of next phase

The IASB met on 20 July to decide on the next steps of its Post-implementation Review (PiR) of IFRS 9 – *Financial Instruments*.

Readers will remember that the IASB decided that the PiR would initially focus solely on the Classification and Measurement section of the standard. As regards the Impairment section of the standard, the IASB felt that the pandemic and the accompanying economic challenges constituted a good test of IFRS 9 and that it would be better to wait until lessons could be learned from this before starting the PiR for this section.

At the IASB meeting, the IASB staff presented the feedback from the outreach activities that were carried out to identify the topics that should be addressed in the next phase of the Classification and Measurement PiR.

The IASB has decided to focus on the following topics:

- the business model assessment for financial assets; more specifically:
 - the use of judgement in this assessment; and
 - the reclassification of financial assets following a change in business model;
- the contractual cash flow characteristics assessment (SPPI test) for financial assets; more specifically:
 - applying the assessment in the light of market developments (including new product features such as financial assets with sustainability-linked features); and
 - the IFRS 9 requirements for investments in contractually linked instruments;
- the option for equity instruments to present fair value changes in other comprehensive income; more specifically:
 - how widely the presentation option is used and the types of instruments for which it is used; and
 - the effect of the option on entities' investment decisions and on the usefulness of information to users of financial statements;
- the presentation in other comprehensive income of changes in fair value resulting from changes in own credit risk for financial liabilities designated at fair value through profit or loss;
- the accounting treatment of modifications to contractual cash flows; more specifically:
 - the differences in the IFRS 9 drafting between the requirements for modifications for financial assets and financial liabilities; and
 - the analysis used to determine when a modification should result in derecognition of an instrument;
- the transition to IFRS 9; more specifically:
 - the effects of the transition reliefs provided; and
 - the balance found between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

The next step will be for the IASB to approve the publication of a Request for Information on the above topics, to be prepared by the staff. It is expected to be published around the end of September.

IPTF publishes document for discussion on hyperinflationary economies

Following a meeting on 18 May 2021, the International Practices Task Force (IPTF) of the Center for Audit Quality (CAQ), an independent body based in the United States, has recently published a new document identifying countries that are considered to have hyperinflationary economies.

It should be noted that the document has not been approved or ratified by any official accountancy or regulatory bodies (such as the FASB or SEC).

However, it is often considered to be a useful reference source for identifying hyperinflationary economies, particularly when applying IAS 29 – *Financial Reporting in Hyperinflationary Economies*, which 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%).

In this paper, the IPTF identifies the following countries as having a three-year cumulative inflation rate exceeding 100%: Argentina, Iran, Lebanon, South Sudan, Sudan, Venezuela and Zimbabwe.

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

For more details, the IPTF document is available [here](#).

New appointments to IFRS Interpretations Committee

On 17 August, the IFRS Foundation announced the appointment of André Besson (Switzerland), Karen Higgins (Canada) and M. P. Vijay Kumar (India) to the IFRS IC. They replace the outgoing members Jongsoo Han, Robert Uhl and Bertrand Perrin (who has joined the IASB).

Their term begins immediately and ends on 30 June 2024.

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

European Highlights

EU adoption of IFRS 17 – *Insurance Contracts*: a light at the end of the tunnel

IFRS 17 – *Insurance Contracts*, the 'first' international standard on insurance contracts, was published by the IFRS Foundation in April 2020 after around 20 years in the making. It comes 10 years after

the publication of IFRS 4 (which was merely grandfathering local standards in the IFRS financial statements) and contains substantial changes from the draft standard published in 2017.

Over the past year or more, the standard has provoked a lot of discussions in Europe. In particular, there continued to be differences of opinion regarding the relevance of 'annual cohorts'. This issue was both:

- specific to the insurance industry: is it useful to subdivide intergenerationally-mutualised groups of policyholders for accounting purposes only?
- and of broader relevance to the European endorsement as a whole: can the European Union make amendments to a standard, or must it adopt or reject the standard in its entirety?

As regards the latter question, the EU has already demonstrated twice that it is able to make minor amendments to accounting standards: on adoption of IFRS 9 – *Financial Instruments*, when it permitted a particular accounting treatment for macro hedging of financial risks by financial institutions, and, more recently, when it extended some of the transition provision of IFRS 9 to banking and insurance groups (financial conglomerates).

The former question was, technically, resolved by the European Commission on 16 July, on the advice of EFRAG, which has examined this subject (and many others) in depth over the last four years, at the cost of much internal strife. The matter was eventually settled by the Accounting Regulatory Committee (ARC), which finally voted almost unanimously (26 out of 27 countries) in favour of permitting an exemption to the annual cohorts rule under certain circumstances.

The exception to the IASB's original requirements is not mandatory but is rather an option available to issuers. However, intergenerationally-mutualised contracts are sufficiently widespread across Europe (€5,900bn according to the Commission) that the exemption could prove very popular with insurers provided they are able to adapt their accounting procedures in time.

Most insurance companies have already largely started their transition preparations: the new standard becomes mandatory for financial periods commencing on or after 1 January 2023.

Moreover, the exemption is temporary, as the European Commission is planning to re-examine the issue by 31 December 2027 at the latest, taking account of the IASB's Post-implementation Review of IFRS 17.

However, the ARC's vote has opened up the way for EU adoption of IFRS 17. Unless there is an objection from the European Council or Parliament (and the latter has rather criticised the annual cohorts' rule in the past), final endorsement of the standard is expected within the next three months.

Adoption of IFRS 16 amendment on COVID-19-related rent concessions beyond 30 June 2021

On 30 August, the European Commission adopted the amendment to IFRS 16 – *Leases* on rent concessions beyond 30 June 2021.

Readers will remember that the new amendment to IFRS 16 extends the practical expedient set out in paragraph 46A (which permits a lessee to account for any change in lease payments resulting from COVID-19-related rent concessions as if the change were not a lease modification) to concessions on lease payments due up to 30 June 2022, instead of 30 June 2021

as currently. For more details see Beyond the GAAP no. 153, March 2021.

Commission Regulation (EU) 2021/1421 was published in the OJEU on 31 August 2021 and came into effect on the following day. It is available [here](#).

Adoption of other amendments

On 29 June, the European Commission adopted amendments to the following standards:

- IFRS 3 – *Business Combinations*: amendments to the reference to the conceptual framework;
- IAS 16 – *Property, Plant and Equipment*: amendments relating to proceeds before intended use;
- IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*: amendments relating to onerous contracts; and
- the Annual Improvements to IFRSs – 2018-2020 Cycle.

For more details of the amendments and Annual Improvements, see Beyond the GAAP no. 144, May 2020.

Commission Regulation (EU) 2021/1080, which officially adopts the amendments, was published in the OJEU on 2 July 2021 and is available [here](#). It is mandatory for financial periods commencing on or after 1 January 2022.

ESMA publishes 25th extract from IFRS enforcement decisions database

On 15 July 2021, ESMA (the European Securities and Markets Authority) published the 25th extract from its confidential database of IFRS enforcement decisions taken by enforcers in the European Economic Area (EEA) (available [here](#)).

Although there is no official schedule for the publication of this information, it has become a regular occurrence, with the dual aim of:

- strengthening supervisory convergence between the 38 national enforcers and supervisory authorities in the EEA that participate in the European Enforcers Coordination Sessions (EECS); and
- providing issuers and users of financial statements with relevant information on the appropriate application of IFRSs from the perspective of the EECS. However, ESMA emphasises that these decisions are not interpretations of IFRSs, as this remains the prerogative of the IFRS Interpretations Committee.

The ten decisions published in this extract were taken by national enforcers between November 2019 and July 2020.

They relate to the following topics:

- measurement of expected credit losses on trade receivables more than 90 days past due (IFRS 9);
- recognition of lease on the first application of IFRS 16: the right to obtain substantially all the economic benefits and direct the use of the asset (IFRS 16);
- depreciation of leased assets and dismantling costs: recognition of costs for asset retirement obligations and the period over which they should be depreciated (IFRS 16);
- impairment of finance lease receivables: the general approach vs. the simplified approach, and consistency with credit risk exposure disclosures in the notes (IFRS 9, IFRS 7);
- presentation of expenses relating to Covid-19: presentation of non-recurring

expenses in the interim financial statements (IAS 1);

- presentation in the balance sheet: classification of an issued debt as a non-current liability (IAS 1, IAS 34);
- presentation of changes in liabilities arising from financial activities (IAS 7);
- presentation of negative interest in the statement of profit or loss, and disclosures required in the notes on financial risks, including forward-looking information used to determine expected credit losses (IAS 1, IFRS 7);
- re-estimation of expected cash flows on purchased or originated credit-impaired assets (POCI): whether or not to adjust the original effective interest rate (IFRS 9), and disclosures required in the notes on changes in the issuer's own credit risk related to financial liabilities that the issuer has elected to designate as at fair value through profit or loss (IFRS 9, IFRS 7).

ESMA has also updated the document that shows all the decisions it has published as extracts from the EECS enforcement decisions database. This document is available [here](#).

ESMA publishes update to ESEF Reporting Manual

On 12 July 2021, ESMA published an update to its European Single Electronic Format (ESEF) Reporting Manual. The online version, which is available [here](#), shows the changes from the previous version.

EFRAG extends field testing on pilot approach exposure draft

As noted in the 'IFRS Highlights' section above, the IASB has extended the comment period for the exposure draft 'Disclosure Requirements in IFRS

Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)’. In the wake of this, EFRAG has decided to extend the period within which preparers of financial statements can volunteer to participate in its field testing of the proposals in the exposure draft. Preparers now have until 10 September to register.

Similarly, EFRAG has extended the comment period for its Draft Comment Letter (available [here](#)) until 4 January 2022.

EFRAG calls for candidates for TEG

Seven of the fifteen members of the Technical Expert Group (TEG) will reach the end of their term on 31 March 2022.

On 27 July 2021, EFRAG launched a call for candidates (available [here](#)), specifying that it is particularly looking for candidates with a banking background and candidates with a user background.

Nominations should ideally be submitted by 11 October 2021.

EFRAG publishes Discussion Paper on intangibles

EFRAG has just published a Discussion Paper on information on intangibles (a category that is broader than just intangible assets, including sources of possible economic benefits that are not controlled by the entity). The DP is entitled ‘Better information on intangibles – which is the best way to go?’ and is available [here](#).

In this document, EFRAG argues that financial statements are becoming less relevant because they do not sufficiently reflect intangibles, which are becoming more important to an increasing number of entities.

EFRAG also notes that it is difficult for users of financial statements to make comparisons between entities that generate intangibles internally and entities that

acquire them, particularly through external growth operations. This is because the current IFRS standards require acquired intangibles to be recognised, while those generated internally are only recognised under specific circumstances.

EFRAG believes that in many situations, insufficient information on intangibles can affect a company’s market value, result in an inefficient allocation of capital, and make the assessment of the management’s stewardship difficult.

The discussion document sets out three possible approaches for improving information on intangibles:

- approach 1: recognition and measurement in the primary financial statements;
- approach 2: information on specific intangibles in the notes to the financial statements or the management report;
- approach 3: information in the notes to the financial statements or the management report on future-oriented expenses and risk/opportunity factors that may have an impact on future performance.

The comment period for the Discussion Paper closes on 30 June 2022.

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European Commission adopts Delegated Act specifying disclosure obligations under the Taxonomy Regulation

On 6 July, the European Commission published the final version of the Delegated Act (available [here](#)) that specifies the disclosure obligations under Article 8 of Regulation (EU) 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment.

Readers will remember that this Regulation establishes a standardised classification system for assessing the sustainability of around 80 economic activities across a dozen broad sectors, representing 80% of the European Union's greenhouse gas emissions. The scope of the activities covered by the European 'green taxonomy' is to be gradually extended to include more activities, as noted in an accompanying Communication from the Commission, which provides an update on the EU's sustainable finance strategy.

In practical terms, the 'green taxonomy' provides technical criteria, based on scientific evidence, for evaluating the sustainability of an economic activity with regard to six environmental objectives. Currently, only two of the objectives (climate change mitigation and climate change adaptation) are enshrined in law (the relevant Delegated Act was published in April 2021 and is available [here](#)). Another Delegated Act specifying the technical screening criteria for the four other environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems) is scheduled for adoption

in the second quarter of 2022, although the date by which they must be taken into account in entities' non-financial reporting has yet to be determined (it will probably be 2024, based on the data for the 2023 financial period). A draft report on preliminary recommendations for technical screening criteria for these four objectives was published online at the start of August by the Platform on Sustainable Finance and is available [here](#).

Article 8 of Regulation 2020/852 specifies that any undertaking that is subject to the obligation to publish non-financial information as defined in the 2014 Directive (the so-called 'Non-Financial Reporting Directive' or NFRD) must include in its non-financial statement information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable.

In particular, non-financial undertakings must disclose:

- the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable; and
- the proportion of their capital expenditure (CapEx) and the proportion of their operating expenditure (OpEx) related to assets or processes associated with economic activities that qualify as environmentally sustainable.

The Delegated Act published at the start of July (including Annexes I and II) specifies the following information that is relevant to non-financial undertakings:

- the schedule for publication of the relevant information;
- how the key performance indicators (turnover, CapEx and OpEx) should be calculated and presented; and

- additional qualitative and quantitative information to be disclosed to contextualise those KPIs.

Entry into force

Given the complexity of implementing the green taxonomy and the fact that the Delegated Act permitting the application of the Regulation for the first two environmental objectives has only recently been published, the new Delegated Act sets out an application process in stages:

- from 1 January 2022 (i.e. for 2021 data), entities shall disclose:
 - the proportion of 'Taxonomy-eligible' and 'Taxonomy non-eligible' economic activities relative to the entity's total activities, for turnover, CapEx and OpEx;
 - relevant information to accompany the quantitative data, to be selected as appropriate from the list provided in paragraph 1.2 of Annex I of the Delegated Act (which includes all the information to be provided once the initial transition has been achieved);

As a reminder, 'Taxonomy-eligible' activities are those that meet the definition of sustainable activities, regardless of whether they comply with the technical screening criteria that specify the environmental thresholds to be met in order for the activities to be classified as 'Taxonomy-aligned'.

- from 1 January 2023, entities shall disclose the three financial performance indicators and all the necessary accompanying information, for the 2022 financial period only; and
- from 1 January 2024, entities shall disclose all the required information for financial periods N (2023) and N-1

(2022). The European Commission has dropped the idea of requiring information for the past five reporting periods, as proposed in the draft Delegated Act.

Calculating the three financial performance indicators

Annex I of the Delegated Act sets out how to calculate the numerator and denominator for each key performance indicator (thus, each KPI is a ratio). An entity that prepares its consolidated financial statements in accordance with IFRSs shall calculate the denominator for each indicator as follows:

- turnover: equates to 'revenue' as in IAS 1.82(a), which includes revenue recognised under IFRS 15, revenue recognised under IFRS 16 (for lessors) and all other sources of revenue as defined in IAS 1;
- CapEx: covers all additions to tangible and intangible assets over the period (including those from business combinations) before depreciation, amortisation and remeasurements. In practice, CapEx shall be calculated in accordance with IAS 16, IAS 38, IAS 40, IAS 41 and IFRS 16, and shall thus include additions over the period relating to right-of-use assets arising from leases. Given the IFRS standards referenced in the Delegated Act, it is apparent that CapEx is used here to mean changes in the gross value of capitalised costs calculated in accordance with IFRSs, thus accounting for the difference between the opening and closing balances recorded in the statement of financial position. In other words, the Delegated Act does not define CapEx with relation to cash flows;
- OpEx: covers direct non-capitalised costs relating to research and

development, building renovation, short-term leases, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of property, plant and equipment that are necessary to ensure the continued and effective functioning of these assets.

Thus, if an undertaking draws up its consolidated financial statements in accordance with IFRSs, the disclosures required by the Taxonomy Regulation can be extracted directly from these financial statements.

It should be noted that an undertaking has the option of presenting additional KPIs to show the proportion of turnover / CapEx / OpEx arising from joint ventures as defined in IFRS 11 and accounted for using the equity method as defined in IAS 28.

The Delegated Act also specifies the items that should be included in the numerator. In particular, for CapEx, it specifies that capital expenditure is deemed to be sustainable if the investment:

- immediately qualifies the activity as Taxonomy-aligned; or
 - is part of an investment plan to expand Taxonomy-aligned activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned.
- However, two conditions must be met:
- the activity will become Taxonomy-aligned within five years (or a maximum of 10 years if a longer period is justified by the specific features of the economic activity); and
 - the plan shall be disclosed at the level of the economic activity and approved by the relevant management body; or

- can be classified as 'green' on its own account. This applies if it relates to the acquisition of an output from a Taxonomy-aligned activity or to individual measures enabling an activity to become low-carbon or to reduce CO₂ emissions (provided that the measures are implemented and operational within 18 months).

A similar approach is used for OpEx. It should also be noted that the Delegated Act states that OpEx does not need to be disclosed if it is not material for the undertaking's business model. This is the only topic for which the Delegated Act states that materiality should be taken into account.

The KPIs shall be calculated for each Taxonomy-aligned economic activity and for each environmental objective, disaggregating the portion that relates to enabling activities (i.e. activities that directly contribute to improving the environmental performance of another activity, such as the manufacture of wind turbines for electricity production) and the portion that relates to transitional activities (i.e. activities that support the transition to a climate-neutral economy, but for which there is no technologically and economically feasible low-carbon alternative).

All these data shall be presented in tables in a specified format as illustrated in Annex II of the Delegated Act. It should be noted that, in contrast to the draft Delegated Act published in May, undertakings are no longer required to provide details at the level of each activity that is Taxonomy-eligible but not Taxonomy-aligned.

Additional disclosures required

A lot of additional, primarily qualitative, disclosures are required, to help readers

understand the approach used by the undertaking to calculate the KPIs:

- a description of the accounting policies, and in particular, an explanation of the methods used to calculate the three KPIs and any changes over the period;
- an assessment of compliance with the Taxonomy Regulation, and in particular, a list and description of the Taxonomy-eligible and Taxonomy-aligned activities, and a description of the methodology used to identify Taxonomy-aligned activities; and
- contextual information to explain the figures presented for each KPI and any changes over the year. For example: disaggregation of turnover by nature (i.e. IFRS 15, IFRS 16, etc.), key information on each investment plan, etc.

In practice, the additional disclosures accompanying the KPIs shall be presented in the same sections of the non-financial report as the KPIs themselves. However, cross-referencing within the non-financial report will also be possible.

Finally, it should be noted that the Delegated Act no longer requires disclosure of forward-looking information, in contrast to what was proposed in the draft version.

In conclusion, the Delegated Act has cleared up some of the questions raised when the draft version was published last May, but there are still some issues relating to practical application, notably the following:

- the schedule for first-time application for undertakings whose reporting period is not aligned with the calendar year (for example, a reporting period ending on 30 September 2021, with the non-financial statement not published until after 1 January 2022);
- the disclosures that should be presented under the simplified reporting framework for 2022: it would appear that an aggregate figure for all Taxonomy-eligible activities is acceptable, although figures for each individual activity would be preferable;
- the “relevant” information to be disclosed in 2022 (there is no list of the minimum disclosures required); and
- the definitions of the KPIs, particularly OpEx.

The coming weeks will see discussions continue across Europe, which we hope will serve to clarify the key issues facing companies as soon as possible.

Key points to remember

- On 6 July, the European Commission published the final version of the Delegated Act that specifies the disclosure obligations under Article 8 of Regulation (EU) 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (the so-called 'Green Taxonomy' regulation).
- As a reminder, Article 8 specifies that any undertaking that is subject to the obligation to publish non-financial information must include in its non-financial statement information on how and to what extent its activities are associated with economic activities that qualify as environmentally sustainable.
- The Delegated Act published at the start of July (including Annexes I and II) specifies the following information that is relevant to non-financial undertakings:
 - the schedule for publication of the relevant information;
 - how the key performance indicators (turnover, CapEx and OpEx) should be calculated and presented;
 - the (substantial amount of) additional qualitative and quantitative information to be presented to contextualise the KPIs.
- The requirements are to be introduced gradually:
 - from 1 January 2022 (i.e. for 2021 data), entities shall disclose:
 - the proportion of 'Taxonomy-eligible' and 'Taxonomy non-eligible' economic activities relative to the entity's total activities, for turnover, CapEx and OpEx;
 - relevant information to accompany the quantitative data, to be selected as appropriate from the list provided in paragraph 1.2 of Annex I of the Delegated Act (which includes all the information to be provided once the initial transition has been achieved);
 - from 1 January 2023, entities shall disclose, for the 2022 financial period only, the three financial performance indicators (turnover, CapEx and OpEx) for each Taxonomy-aligned activity and each environmental objective, disaggregating the portions that relate to enabling activities and transitional activities, along with all the necessary accompanying information;
 - from 1 January 2024, entities shall disclose all the required information for financial periods N (2023) and N-1 (2022).
- The Delegated Act sets out how to calculate the denominator and numerator for each KPI, particularly for entities that publish IFRS financial statements.
- There are still many outstanding issues relating to practical application, and discussions are ongoing across Europe.

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Mazars is an international, integrated and independent firm, specialising in audit, advisory, accountancy, tax and legal services [1]. With a presence in 91 countries and territories across the world, Mazars brings together the expertise of 40,400 professionals – 24,400 in our integrated partnership and 16,000 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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