



Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

While February 2022 has seen very little drama on the corporate reporting front, the current situation in Ukraine provides a stark and appalling contrast. Although the situation is changing rapidly, companies that close their accounts after 24 February must start thinking now about the impacts of these events and of the first sanctions imposed on Russia. For those whose reporting period ended before 24 February but that have not yet authorised their financial statements for issue, a non-adjusting post-balance sheet event may need to be disclosed in some cases.

As regards regulatory news for the month, progress continues to be made towards the development of sustainability reporting standards. The IFRS Foundation announced that it would make use of the possibilities offered by its Constitution to enable the ISSB to publish its first two standards by the end of the year. EFRAG is continuing with its transformation, while the PTF-ESRS has shared four new working papers relating to the future European Sustainability Reporting Standards. Further working papers are to be released as soon as they are ready, with a public consultation to be launched at the end of April or beginning of May 2022, once the official Exposure Drafts are available.

IFRS Highlights

PIR of IFRS 10, 11 and 12 now complete

At its February 2022 meeting, the International Accounting Standards Board (IASB) concluded its Post-implementation Review (PIR) of IFRS 10, IFRS 11 and IFRS 12, known as the 'consolidation package' (see Beyond the GAAP no. 150, December 2020). The IASB decided that none of the topics identified in the review were of a sufficiently high priority to be added to its work plan for the next five years. If necessary, some topics could be reconsidered when the IASB consults on its work plan for the period after 2026. Stakeholders are encouraged to contact the IFRS Interpretations Committee (IFRS IC) in the event that they have more immediate questions about the practical application of the standards.

A report and feedback statement will be published in the near future, covering the

work carried out in the review and the decisions taken by the IASB.

Redeliberations continue on Primary Financial Statements project

The topic discussed by the IASB this month did not in fact relate to any specific question put to stakeholders in the December 2019 Exposure Draft, which is ultimately intended to replace IAS 1 – *Presentation of Financial Statements*.

Commenters had actually volunteered their opinions on the proposal in paragraph 42 of the Exposure Draft to retain the existing rules set out in IAS 1 (cf. IAS 1 paragraph 85 for the income statement and paragraph 55 for the statement of financial position). Under these provisions, an entity is required to present additional line items, headings and subtotals (on top of the minimum line items and subtotals) when such presentation is 'relevant' to an understanding of the entity's financial performance/position.

The comments received on this topic notably focused on the need to clarify that the required line items will only have to be presented in the primary financial statements if they are material. The IASB thus decided to review some of the presentation principles and the line items required in the primary financial statements, focusing on the following topics with reference to the income statement:

- the definitions of the three new categories for classifying income and expenses: operating, investing and financing;
- the presentation of the required line items: the Exposure Draft (paragraph 65) listed essentially the same line items as IAS 1.82, albeit in a more structured format;
- the addition of new required subtotals, i.e. operating profit (see Beyond the GAAP no. 153, March 2021) and profit or loss before financing and income tax (see Beyond the GAAP no. 155, May 2021); and
- the new principles for disaggregation of information (see Beyond the GAAP no. 158, September 2021).

The IASB made the following decisions (though they are still tentative, as redeliberations are ongoing):

- the general principle in paragraph 42 will be revised: the term 'relevant' will be removed, and replaced with a reference to an 'understandable overview' of an entity's income and expenses (or assets, liabilities and equity);
- all the presentation requirements, including the list of line items required in the income statement by paragraph 65, will only apply if the resulting presentation does not prevent the primary financial statement from providing an understandable overview;

- it will be clarified in the application guidance that, in the operating category, it is unlikely that the presentation of items required by paragraph 65 would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses;
- the term 'minimum' will be removed from paragraph 42 and replaced with the term 'specified';
- the list of line items required by paragraph 65, brought forward from IAS 1, will not be discussed any further by the IASB;
- there will be no requirement in the final standard to present impairment of non-financial assets as a separate line item;
- the final standard will retain paragraph B44 of the Exposure Draft, which states that to comply with paragraph 65, an entity may need to present a required line item in more than one of the three categories of the income statement (e.g. to break down impairment losses recognised in accordance with section 5.5 of IFRS 9); and
- it will not specify how the financing category should be broken down (whereas the Exposure Draft specified that income and expenses from financing activities should be presented separately, for continuity with the requirement in IAS 1 to present finance costs separately).

For the statement of financial position, the Exposure Draft specified that an entity must present goodwill separately from intangible assets. The IASB confirmed this at the February 2022 meeting.

ASAF membership for 2022-2024

On 15 February 2022, the Trustees of the IFRS Foundation announced the membership of the Accounting Standards Advisory Forum (ASAF) for the next three

years (2022-2024) (press release available [here](#)).

Readers will be aware that ASAF is an advisory board whose remit is to improve communication between the IASB and the major national and regional standard-setters.

ASAF holds public meetings four times a year, which can be watched live on the IFRS Foundation website. The first ASAF meeting with the new membership structure will take place on 31 March and 1 April 2022.

The 12 members of the group represent different geographical areas, as follows:

- **Africa:** one representative (the Pan African Federation of Accountants (PAFA));
- **Asia-Oceania:** four representatives (the Asian-Oceanian Standard-Setters Group (AOSSG), the Accounting Standards Board of Japan (ASBJ), the Accounting Regulatory Department of the Chinese Ministry of Finance (ARD), and the Korea Accounting Standards Board (KASB));
- **Europe:** four representatives (the European Financial Reporting Advisory Group (EFRAG), the Autorité des Normes Comptables (ANC) representing France, the UK Endorsement Board (UKEB) and the Accounting Standards Committee of Germany (ASCG or DRSC));
- **The Americas:** three representatives (the Group of Latin American Accounting Standard Setters (GLASS), the Canadian Accounting Standards Board (AcSB) and the Financial Accounting Standards Board (FASB) representing the US).

Two-stage appointment process for ISSB membership

The creation of the International Sustainability Standards Board (ISSB) was announced last November at COP26, and since then a Chair and Vice-Chair have been appointed: Emmanuel Faber and Sue Lloyd respectively. The IFRS Foundation now needs to appoint a further 12 board members, eventually bringing the total to 14.

Given the tight deadline to publish the first two IFRS Sustainability Disclosure Standards (one on climate-related disclosures and one on general disclosure requirements) by the end of the year (see Beyond the GAAP no. 160, November 2021), the IFRS Foundation has announced that it will initially appoint just six additional board members. This will bring the number of members to the minimum of eight required by the Constitution, allowing it to discuss the comments received in response to the two Exposure Drafts, which are scheduled for publication in the near future. The publication of the Exposure Drafts will be approved by the Chair and Vice-Chair of the ISSB, subject to oversight by the Due Process Oversight Committee. Under the terms of the Constitution, this does not require the quorum of eight board members. The remaining six board members will be appointed at a later date, by the third quarter of 2022 at the latest.

By staggering the process in this way, the IFRS Foundation hopes to attain its challenging targets for publication of the standards, while also giving itself enough time to appoint a board that is made up of recognised experts with a balanced and diverse profile of skills.

The IFRS Foundation press release on the appointment of ISSB members is available [here](#).

European Highlights

EFRAG completes appointments to Administrative Board

Following the decisions reached in January 2022 (see Beyond the GAAP no. 162, January 2022), the EFRAG General Meeting on 18 February 2022 has finalised the membership of the new EFRAG Administrative Board (cf. press release available [here](#)). Jean-Paul Gauzès, who was previously president of the former EFRAG Board, had already been appointed as president of the new EFRAG Administrative Board. However, his term will come to an end in June 2022, at which point he will be succeeded by Hans Buysse. Mr Buysse is currently chair of the Association Belge des Analystes Financiers (the Belgian association of financial analysts, or ABAF) and was a member of the former EFRAG Board for several years. Georg Lanfermann, who is currently chair of the Accounting Standards Committee of Germany (ASCG or DRSC), has been appointed as vice-president of the new EFRAG Administrative Board from 15 February 2022.

Readers will remember that the EFRAG Administrative Board will be responsible for EFRAG's organisation, administration, financing and due process, but will not be involved in the work or decisions of the two technical boards (the Financial Reporting Board and the Sustainability Reporting Board; the members of the latter are currently being appointed). The appointments mark a further step forward in EFRAG's governance reform, to meet the new objectives set by the European Commission under the proposed Corporate Sustainability Reporting Directive (CSRD). The new structure should be in place by 1 April 2022.

At the EFRAG General Meeting, EFRAG also welcomed a new member organisation, Eurosif (the European Sustainable Investment Forum), that will contribute to the new sustainability reporting pillar.

Future European sustainability reporting standards: PTF-ESRS publishes new working papers

When the EFRAG Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) published its first batch of working papers at the end of January 2022 (see Beyond the GAAP no. 162, January 2022), it announced that the next batch would follow in February 2022. Four new documents have now been published, on 18 and 25 February 2022.

Readers will remember that these documents are not Exposure Drafts for consultation, but are simply working papers shared by the PTF-ESRS clusters responsible for developing the future standards, to support discussions in plenary meetings with other PTF-ESRS members.

The first batch, published in January 2022 and highlighted in blue in Figure 1 below, included two conceptual guidelines, four (out of an eventual five) cross-cutting standards, and the first of 15 topical standards specified in the PTF-ESRS work plan (see the issue of Beyond the GAAP linked above for more on these). The second batch includes four new working papers (highlighted in green in Figure 1):

- Three topical standards covering three out of the four remaining environmental topics (in addition to the climate working paper, which was already published). These are: pollution (ESRS E2, available [here](#)), water and marine resources (ESRS E3, available [here](#)) and the circular economy (ESRS E5, available [here](#)). Readers will remember

that these standards will specify disclosures that are required for all undertakings on these three environmental topics (sector-agnostic standards). The European Commission is expected to adopt these standards in the second half of 2022, according to the schedule set out in the draft Corporate Sustainability Reporting Directive (CSRD). Sector-specific standards on the same topics, specifying disclosures that are required only from undertakings in certain sectors, will also be published, and are scheduled for adoption in the second half of 2023, according to the proposed CSRD.

- A sector classification standard (ESRS SEC 1, available [here](#)), which sets out a proposed classification of economic activity into 14 sector groups and 40 sectors. This standard will not itself impose sector reporting requirements, but represents a preliminary step to be carried out by an entity before it prepares the information to be disclosed in accordance with one (or more) of the 40 sector-specific standards. The proposed classification is based on the EU Taxonomy and the classification used by the Sustainability Accounting Standards Board (SASB).

The public consultation required by EFRAG’s due process is scheduled to launch at the end of April or very beginning of May 2022, so further working papers are now to be released over the coming weeks as soon as they are ready (rather than in batches, as announced at the end of January 2022). The priorities are expected to be the remaining topical standards, on biodiversity as well as all the social and governance topics, and the eagerly-anticipated ESRS 1 *General Provisions*,

which will cover the broad principles of sustainability disclosures.

				SECTOR-SPECIFIC STANDARDS		PRESENTATION
Strategy, governance, impacts, risks, opportunities	Environment	Social	Governance	Classification	ESG sector-specific disclosures	
ESRS 1 General provisions	ESRS E1 Climate change (mitigation and adaptation)	ESRS S1 Own workforce – general	ESRS G1 Governance, risk management and internal control	ESRS SEC1 Sector classification		ESRS P1 Sustainability statements
ESRS 2 Strategy and business model	ESRS E2 Pollution	ESRS S2 Own workforce – working conditions	ESRS G2 Products and services, management and quality of relationships with business partners			
ESRS 3 Sustainability governance and organisation	ESRS E3 Water & marine resources	ESRS S3 Own workforce – equal opportunities	ESRS G3 Responsible business practices			
ESRS 4 Sustainability impacts, risks and opportunities	ESRS E4 Biodiversity & ecosystems	ESRS S4 Own workforce – other work-related rights				
ESRS 5 Definitions for policies, targets, action plans and resources	ESRS E5 Circular economy	ESRS S5 Workers in the value chain				
		ESRS S6 Affected communities				
		ESRS S7 Consumers/ End-users				
CONCEPTUAL GUIDELINES						
ESRG 1 Double materiality	ESRG 2 Characteristics of information quality	ESRG 3 Time horizons	ESRG 4 Boundaries and levels of reporting	ESRG 5 EU and international alignment	ESRG 6 Connectivity	

Figure 1: Sustainability reporting architecture

Sustainable finance: ESMA publishes roadmap for 2022-2024

On 10 February 2022, the European Securities and Markets Authority (ESMA) published its Sustainable Finance Roadmap for 2022-2024 (available [here](#)). The document lists priority areas and supervisory actions to be carried out in sustainable finance.

The purpose of the roadmap is twofold:

- to enable ESMA to fulfil its mandate in a rapidly-evolving area by ensuring its actions are timely, coordinated and based on clear priorities; and
- to provide a tool that will allow ESMA to regularly take stock of its progress towards addressing the priorities identified and, where necessary, to reassess or adjust the planned actions or the priorities themselves, in the light

of developments at the European or international levels.

ESMA has thus identified the following priority areas:

- **tackling greenwashing and promoting transparency:** in practice, this will primarily involve discussions with national enforcers about specific cases, to identify the key characteristics of greenwashing practices. ESMA also hopes to develop a shared understanding of the role of national enforcers in the areas of sustainable finance and greenwashing;
- **building the capacities of ESMA and national enforcers in sustainable finance:** in practice, this will involve better information- and knowledge-sharing between national enforcers. A sustainable finance training plan will be set up to improve competencies in environmental, social and governance (ESG) topics and their intersection with financial markets;
- **monitoring, assessing and analysing markets, taking account of ESG factors and the associated risks:** in practice, ESMA will focus on leveraging its data analysis capabilities to support its supervisory work and that of national enforcers. For example, in the asset management sector, ESMA is carrying out a study on disclosure requirements under articles 8 and 9 of Regulation (EU) 2019/2088, known as the Sustainable Finance Disclosure Regulation, which came into effect on 10 March 2021.

An annex to the ESMA Sustainable Finance Roadmap provides a detailed list of planned actions and deliverables to address the priorities identified above. These include both horizontal activities and activities specific to the most impacted sectors (i.e.

those where ESG-related risks and problems are currently perceived to have the biggest potential impact on investor protection, orderly markets and financial stability). These sectors are as follows: investment management, investment services, issuers' disclosure and governance, benchmarks, ratings (both credit ratings and ESG ratings), trading and post-trading, and financial innovation.

European Commission produces second FAQ on first-time application of green taxonomy regulation

On 2 February 2022, the European Commission published a second FAQ (available [here](#)) as a follow-up to the one published last December (see Beyond the GAAP no. 161, December 2021), which itself has been updated (available [here](#)).

The new FAQ includes 33 questions covering both general issues and topics specific to the different types of undertakings that are subject to the disclosure requirements set out in the Delegated Act on Article 8 of the Taxonomy Regulation, which came into force on 1 January 2022.

The FAQ focuses heavily on the disclosure requirements for non-financial undertakings (see Beyond the GAAP no. 157, July-August 2021) and provides clarification on the following topics:

- the scope of the reporting obligation under the Delegated Act (i.e. the undertakings to which it applies);
- identifying enabling activities and transitional activities in the context of 2021 eligibility reporting;
- identifying eligible economic activities:
 - using NACE codes;
 - within the value chain (i.e. what should be included/excluded?);

- if the activity description in the Climate Delegated Act includes a qualifier such as 'low carbon';
- disclosures relating to the 2021 financial period (in particular, should an entity provide a breakdown by environmental objective – climate change adaptation and climate change mitigation?); and
- definitions of the KPIs *turnover*, *CapEx* and *OpEx* (what is meant by “any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment [...] that are necessary to ensure the continued and effective functioning of such assets”?).

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Redeliberations begin on Rate-regulated Activities project

On 28 January 2021, the IASB published an Exposure Draft entitled *Regulatory Assets and Regulatory Liabilities*. The comment period ended on 31 July 2021 and redeliberations began properly at the start of this year. At the IASB meeting on 22 February, the IASB discussed the scope of the new document, a topic which had attracted a lot of comments from stakeholders.

How was the scope defined in the Exposure Draft?

According to the Exposure Draft, the proposals apply to any entity that has 'regulatory assets' and 'regulatory liabilities'. The IASB defines regulatory assets and liabilities as follows:

- A **regulatory asset** is an enforceable present right to increase the regulated rate to be charged to customers in future periods because part of the total allowed compensation for goods or services already supplied will not be recognised in revenue until a later date.
- A **regulatory liability** is an enforceable present obligation to reduce the regulated rate to be charged to customers in future periods because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied to customers in the future.

The IASB specifies that regulatory assets and liabilities can only exist if:

- the entity is party to a regulatory agreement;

- the regulatory agreement determines the regulated rate the entity charges for the goods or services it supplies to customers; and
- part of the total allowed compensation for goods or services supplied in a given period is charged to customers through a regulated rate for goods or services supplied in a different period (differences in timing).

The IASB has thus proposed an innovative approach which does not attempt to delimit the types of regulation to which the proposals would apply, or to define the characteristics of a regulator. The terms 'regulator' and 'regulated activity' are not defined in the Exposure Draft. Therefore, the scope of the future standard would be determined by the rights and obligations created by the regulatory agreement. This approach would automatically include all regulatory agreements that give rise to regulatory assets and liabilities.

The proposed approach attracted a lot of comments. Some stakeholders were afraid that the scope could prove much wider than intended. Other stakeholders wanted clarifications that would help entities to determine whether a particular agreement or activity fell within the scope.

In the February 2022 redeliberations, the IASB discussed how to determine whether a regulatory agreement falls within the scope of the proposed standard, as well as the definition of a 'regulator'.

Determining whether a regulatory agreement falls within the scope of the proposed standard

The IASB reached the following tentative decisions:

- it will reconfirm the approach set out in the Exposure Draft, based on the rights

and obligations created by the regulatory agreement:

- an entity shall apply the standard to all its regulatory assets and regulatory liabilities;
- the standard will apply to all regulatory agreements, regardless of their legal form;
- the IASB will reconfirm the proposals in the Exposure Draft regarding the conditions necessary for a regulatory asset or liability to exist.
- it will not explicitly specify which types of regulation fall within the scope of the standard; and
- it will clarify the following aspects:
 - a regulatory agreement may include enforceable rights and obligations to adjust the regulated rate charged to customers beyond the current regulatory period;
 - regulatory agreements that create either regulatory assets or regulatory liabilities, but not both, are within the scope of the standard;
 - a regulatory agreement that causes differences in timing when a specified 'regulatory' threshold is met, creates regulatory assets or regulatory liabilities (our understanding is that this applies to regulations that allow entities a certain amount of latitude when setting tariffs; however, the tariffs are subject to caps and/or floors, and if one of these 'regulatory' thresholds is met, the entity has

an obligation to increase or decrease the tariff);

- a regulatory agreement can give rise to regulatory assets or liabilities even if the regulated rate is not determined on the basis of the entity's costs.

Definition of a 'regulator'

The IASB tentatively decided to add the concept of a 'regulator' to the future standard. Thus:

- the existence of a regulator will be included among the conditions necessary for a regulatory asset or a regulatory liability to exist;
- the term 'regulator' will be defined as "a body that is empowered by law or regulation to determine the regulated rate or a range of regulated rates"; and it will be clarified that self-regulation does not fall within the scope of the future standard.

However, if an entity (or a related party) determines the rates, but does so in accordance with a framework that is overseen by a body empowered by law or regulation, this is not self-regulation. The standard will therefore apply.

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