



Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

Happy New Year from everyone at *Beyond the GAAP*! The IASB work plan alone suggests that this new year will be a busy one on the accounting front. But the biggest new development in 2024 will be initial application of the European Sustainability Reporting Standards (ESRS), for the first companies falling within the scope of the Corporate Sustainability Reporting Directive (CSRD) – i.e. large undertakings that are public-interest entities and that have more than 500 employees, as per the Accounting Directive.

Last year also saw the publication of two important pieces of legislation in the Official Journal of the European Union (OJEU). The first was the Delegated Directive amending the company size criteria in the Accounting Directive (referenced in the CSRD) to increase the size thresholds for net turnover and balance sheet total by 25%. The second was the Delegated Regulation on the 12 sector-agnostic ESRS adopted in late July by the European Commission.

IFRS Highlights

Power Purchase Agreements: upcoming amendments to IFRS 9

At its December 2023 meeting, the International Accounting Standards Board (IASB) confirmed that it would be undertaking a project to amend IFRS 9 – *Financial Instruments*, to clarify the accounting treatment of Power Purchase Agreements (PPAs).

The IASB reached this decision after considering the findings of the research project that the IASB staff has been working on since July 2023 (see *Beyond the GAAP* no. 179 – 2023).

The research project confirmed the increasingly widespread use of PPAs across many jurisdictions, as well as significant diversity in practice in applying the requirements of IFRS 9 to these contracts.

The research also made recommendations on the approach to be taken to the amendments. They are likely to focus on two areas: the scope exclusion of own-use contracts from the requirements set out in

IFRS 9 for contracts to buy or sell a non-financial item; and the application of hedge accounting requirements to PPAs.

As regards the scope exclusion of own-use contracts, the amendments could take the form of additional application guidance to clarify how to assess the expected usage when the non-financial item purchased has certain characteristics that are specific to the electricity market (lack of control over the timing and volumes of production or delivery of the item; relatively high degree of certainty as to the usage or sales of electricity; and a market structure that requires any unused power to be put back into the network at the current market rate). These clarifications would mean that some physical PPAs could be classified as ‘own-use’.

As regards hedge accounting, the amendments could take the form of additional requirements on how to assess whether a future transaction is highly probable, when the non-financial item purchased has the specific characteristics described above. These clarifications could also permit virtual PPAs to be designated

as hedging instruments in cash flow hedging relationships.

The next stage of the project will be the publication of an exposure draft, which is scheduled for the second quarter of 2024.

IPTF publishes document for discussion on hyperinflationary economies

On 22 December 2023 – a little later than usual – the International Practices Task Force (IPTF) of the Center for Audit Quality (CAQ) SEC Regulations Committee updated its document for discussion identifying countries that are considered to have hyperinflationary economies.

The list of countries with a three-year cumulative inflation rate exceeding 100% now comprises Argentina, Ethiopia, Ghana, Iran, Lebanon, Sierra Leone, Sudan, Suriname, Turkey, Venezuela, Yemen and Zimbabwe.

Haiti is not on the list as its three-year cumulative inflation rate is below 100%; however, its projected three-year cumulative inflation rate is now over 100%. The IPTF also notes that South Sudan has been taken off the list as its three-year cumulative inflation rate is now between 70% and 100%, although it was higher than 100% until recently.

As for previous updates, the IPTF emphasises that the list is based on available data and does not claim to be exhaustive (for example, Eritrea, Syria and Afghanistan are not included in the analysis).

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

IFRS Foundation announces that Emmanuel Faber will serve another term as ISSB Chair

On 4 December 2023, at COP28, the Trustees of the IFRS Foundation announced the early reappointment of Emmanuel Faber as Chair of the International Sustainability Standards Board (ISSB).

His second three-year term will begin when the first one ends in December 2024, and will run until end-2027. The IFRS Foundation press release is available [here](#).

Around 400 organisations commit to advancing use of ISSB climate global baseline

On 4 December 2023, the ISSB issued a press release (available [here](#)) reporting the announcement made at COP28 that around 400 organisations, from 64 jurisdictions, had committed to advancing the adoption or use of the ISSB Sustainability Disclosure Standards at a global level, with regard to climate-related reporting.

This commitment comes from a diverse range of organisations including companies, investors, stock exchanges, the accountancy profession and NGOs.

Support for the ISSB's work was also expressed or reiterated by:

- regulators and standard setters, including the European Financial Reporting Advisory Group (EFRAG) and the UK's Financial Conduct Authority;
- international organizations such as the International Organization of Securities Commissions (IOSCO), the Financial Stability Board of G20, the IMF and the OECD; and
- other big names in the sustainability disclosure landscape, with whom the ISSB continues to work closely, such as the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP) and

the Taskforce on Nature-related Financial Disclosures (TNFD).

IFRS Foundation and ISO commit to cooperating to advance sustainability reporting

On 3 December 2023, also at COP28, the IFRS Foundation and the International Organization for Standardization (ISO) confirmed their commitment to supporting companies in preparing their sustainability reporting by pooling their respective expertise (press release available [here](#)).

They also noted that companies can rely on ISO 14000 – *Environmental management and greenhouse gas emission standards* to help them (i) implement their sustainability and climate-related commitments and (ii) support the disclosures required under IFRS S2 – *Climate-related Disclosures*.

IFRS Foundation launches knowledge hub to support implementation of ISSB standards

On 1 December 2023, the IFRS Foundation announced the creation of a knowledge hub dedicated to IFRS Sustainability Disclosure Standards (see ISSB press release [here](#)).

The knowledge hub (available [here](#)) was launched at COP28 and will bring together resources developed by both the IFRS Foundation and third parties. Key resources include:

- a mapping tool, which maps the requirements of the Integrated Reporting Framework to IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 – *Climate-related Disclosures*;
- guidance on transitioning from the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to ISSB standards; and

- FAQs.

The knowledge hub is intended to help companies, auditors, investors, regulators and other stakeholders with understanding and implementing the IFRS Sustainability Disclosure Standards. Content will be added over time, based on market needs and practices.

ISSB publishes new resources on IFRS S1 and IFRS S2

On 14 December 2023, the ISSB announced the publication of new resources to help companies apply the first two IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) from 2024 (the effective date set out in the standards). These include:

- targeted updates to the Sustainability Accounting Standards Board (SASB) standards (see Beyond the GAAP no. 177 – 2023) to enhance their international applicability and assist companies with the implementation of IFRS S1, as the SASB standards are an important source of guidance for reporting on sustainability-related risks and opportunities beyond climate (NB IFRS S2 already incorporates an enhanced version of the SASB climate-related metrics). These targeted amendments to the SASB standards were published on 20 December 2023 (and are available [here](#));
- publication of educational materials, including illustrative examples, related to the application of IFRS S2, to help companies consider the nature and social aspects of climate-related risks and opportunities (available [here](#)); and
- a draft digital Taxonomy, which was open to public consultation from end-July to end-September 2023, and was discussed by the ISSB in December

2023 with a view to publishing the final version in the first half of 2024.

The ISSB also said that it will continue to study the feedback it received from the public consultation on its two-year workplan (see Beyond the GAAP no. 177 – 2023) and the final version will be published in the first half of 2024. The ISSB will also continue with its work on promoting interoperability between (i) the IFRS Sustainability Disclosure Standards and (ii) other jurisdictional and voluntary initiatives over sustainability reporting focusing on the needs of other stakeholders beyond investors. Finally, the ISSB and the IASB are to discuss a potential research project on integration in reporting early 2024.

European Highlights

EU endorses series of amendments to IAS 1 on classification of liabilities as current or non-current

Readers will remember that on 23 January 2020, the IASB published amendments to IAS 1 – *Presentation of Financial Statements* that clarified how companies should determine the classification of liabilities with an uncertain settlement date in the statement of financial position. Under these amendments, these liabilities should be classified as either current (due to be settled within a year) or non-current. For more details, see Beyond the GAAP no. 140 – 2020.

On 15 July 2020, due to the COVID-19 pandemic, the IASB published a narrow scope amendment deferring the effective date of the amendments to IAS 1 by one year.

On 31 October 2022, in response to questions raised by stakeholders regarding the implementation of these amendments,

the IASB published yet more amendments to IAS 1:

- clarifying how companies should classify liabilities with covenants (i.e. as current or non-current);
- enhancing the disclosures required when a company's right to defer settlement of a liability for at least 12 months is subject to compliance with covenants; and
- deferring the effective date of the January 2020 amendments to IAS 1 by a further year.

For further details, see Beyond the GAAP no.170 – 2022

All these amendments to IAS 1 have now been published in the Official Journal of the European Union (OJEU) on 20 December 2023 as Commission Regulation (EU) 2023/2822 (available [here](#)). They are mandatory for financial periods commencing on or after 1 January 2024.

Delegated Directive amending company size criteria in Accounting Directive published in OJEU

[Delegated Directive 2023/2775](#) was published in the OJEU on 21 December 2023, as no objections were raised by the European Parliament or the Council within the scrutiny period. The directive, which was adopted by the European Commission (EC) on 17 October 2023, amends the so-called Accounting Directive ([2013/34/EU](#)) by increasing the size thresholds (balance sheet total and net turnover) for micro, small, medium-sized and large companies by 25%, to take account of inflation (see Beyond the GAAP no. 181 – 2023 for more details of the revised thresholds and the timetable for application).

Delegated Regulation on Set 1 of ESRS published in OJEU

As expected, [Delegated Regulation \(EU\) 2023/2772](#) on the Set 1 of European Sustainability Reporting Standards (ESRS) was published in the OJEU on 22 December 2023, as no objections were raised by the European Parliament or the Council within the scrutiny period.

This regulation covers the first 12 sector-agnostic standards and was adopted by the EC on 31 July 2023 (see Beyond the GAAP no.179 – 2023). It comes into effect for financial periods commencing on or after 1 January 2024 for the first companies falling within the scope of the Corporate Sustainability Reporting Directive (CSRD), i.e. large undertakings that are public-interest entities and that have more than 500 employees, as per the Accounting Directive.

An amended version of the regulation is to be published in 2024, to correct a number of linguistic errors in the translation from English into other languages.

EFRAG publishes draft educational materials on Set 1 of ESRS

On 22 December 2023, EFRAG, the technical advisor to the EC, published three draft implementation guidance on the Set 1 of ESRS. Specifically, these guidance cover:

- the [materiality assessment](#): this document describes the requirements on the materiality assessment and illustrates the various possible steps of the process. It also includes FAQs to provide practical guidance on carrying out this assessment;
- the [value chain](#): this document describes the reporting requirements on the value chain in the context of (i) the materiality assessment, (ii) the

management of impacts, risks and opportunities identified and (iii) the reporting of metrics and targets. It also discusses the scope of the consolidated sustainability statement in the case of a group, including how to apply the principle of operational control. Finally, it includes FAQs and a value chain map showing the implications of the value chain for each Disclosure Requirement (DR) in the Set 1 of ESRS; and

- the [detailed list of datapoints](#) included in the Set 1 of ESRS and the corresponding Application Requirements (ARs) in an Excel format, accompanied by an [explanatory note](#): this document contains additional information in columns (such as, for example, the link with the transitional provisions set out in Appendix C of ESRS 1) which is helpful for navigating the Set 1 and filtering the content. This tool can also help preparers performing their gap analysis, i.e. the assessment of discrepancies between (i) information that is already published and/or available, and (ii) the disclosures required by the standards.

EFRAG's Sustainability Reporting Board (SRB) chose to prioritise these three topics in order to address the most difficult aspects of ESRS implementation. It is important to note that these documents are intended to provide support with implementation of the standards but are not authoritative: the standards themselves are the only legally binding documents.

The draft guidance is open to public consultation until 2 February 2024 (surveys available [here](#)). Publication of the final versions is expected by the end of the first quarter of 2024, once the feedback has been considered.

EFrag and TNFD sign cooperation agreement

On 21 December 2023, EFRAG announced that it had signed a cooperation agreement with the Taskforce on Nature-related Financial Disclosures (TNFD) to support companies and financial institutions with disclosure and management of issues related to biodiversity and ecosystems (press release available [here](#)).

This agreement demonstrates the two organisations' commitment to ensuring consistency between their respective frameworks, with a view to supporting transparent, relevant and comparable reporting on nature-related risks and impacts.

The two frameworks are already closely aligned in some respects, notably:

- a four-pillar structure (based on the TCFD recommendations);
- the requirement to disclose nature-related impacts, risks and opportunities, as well as dependencies;
- inclusion of all 14 TNFD disclosure recommendations in ESRS; and
- reference in ESRS to the LEAP¹ approach developed by the TNFD for carrying out the materiality assessment on non-climate-related issues.

EFrag and the TNFD are now working on finalising a detailed mapping showing the interoperability of their respective frameworks, expected to be published early 2024.

¹ *Locate, Evaluate, Assess, Prepare* (most recent version: [October 2023](#)).

² I.e. full reporting covering both Taxonomy-eligible and Taxonomy-aligned economic activities for the first two climate change objectives (mitigation and

EC adopts FAQs on disclosures to be provided by financial undertakings under the Taxonomy Regulation

On 21 December 2023, the European Commission (EC) published a set of FAQs (available [here](#)) on the interpretation and implementation of the Article 8 Delegated Act, which covers disclosures to be provided by financial undertakings under the Taxonomy Regulation. The document is intended to help financial market participants to prepare their first year's mandatory reporting², i.e. reporting on the 2023 financial year, published in 2024.

The document provides general clarifications (part 1) on the following topics:

- section A (question 1): the scope of the Article 8 Delegated Act (i.e. which undertakings are concerned);
- section B (question 2): the scope of consolidation to apply for a group's Taxonomy reporting;
- section C (questions 3 to 6): applying Taxonomy criteria to exposures to individual companies, and handling the information (or lack of information) published by these companies;
- section D (questions 7 to 12): preparing consolidated Taxonomy reporting;
- section E (questions 13 to 31): applying Taxonomy criteria to specific exposures (securitisation vehicles³, public authorities, financial instruments, etc.);
- section F (questions 32 to 36): verification and proof of compliance with the Technical Screening Criteria; and

adaptation), as the Taxonomy Regulation is being phased in gradually, with reporting for the 2022 financial period covering Taxonomy-eligible activities only.

³ I.e. SPV-type structures (Special Purpose Vehicles)

- section G (questions 37 and 38): compliance with minimum safeguards.

The document also includes targeted questions (part 2) that apply specifically to credit institutions (questions 39 to 66), insurance companies (questions 67 to 71) and asset managers (question 71).

This document supplements existing FAQs already published by the EC, some of which apply to both financial and non-financial undertakings (an overview of all FAQs on the Taxonomy Regulation and the associated delegated acts is available [here](#)).

EU legislation on European Single Access Point (ESAP) published in OJEU

EU legislative acts on the European Single Access Point (ESAP) were published in the OJEU on 20 December 2023. They include:

- the [Regulation \(EU\) 2023/2859](#) which establishes ESAP, with a view to providing centralised access to information of relevance to financial services, capital markets and sustainability, whether already published or arising from future EU legislation, such as the Corporate Sustainability Due Diligence Directive (CSDDD); and
- the [Directive \(EU\) 2023/2864](#) and the [Regulation \(EU\) 2023/2869](#), both of which amend other EU directives and regulations to permit information to be made accessible via ESAP.

It should be noted that ESAP does not create any new disclosure requirements, but builds on existing requirements set out in EU legislation. ESAP will be established and operated by the European Securities and Markets Authority (ESMA) and will be in place by 10 July 2027 at the latest.

ESMA publishes draft guidelines on enforcement of sustainability reporting

On 15 December 2023, ESMA published draft guidelines to promote consistent supervision of sustainability reporting by national competent authorities ([Guidelines on Enforcement of Sustainability Information](#)).

This draft is open to public consultation (response form available [here](#)) for three months, with a closing date of 15 March 2024.

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The drafting of the present issue was completed on 8 January 2024.

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[1] Where permitted under applicable country laws

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