

**ERICA (EUROPEAN RECORDS OF IFRS CONSOLIDATED ACCOUNTS)
WORKING GROUP**

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IFRS IMPACT

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I. INTRODUCTION AND SUMMARY

This document integrates all material available about the process of approval of the Standards by the IFRS Foundation and its adoption in the European Union, with information updated till beginning of 2019. Chapter II focuses on the recent and foreseeable changes in IFRS Standards considering the IASB legislation, Exposure Drafts and other documents to become IFRS Standards and more recent development in the EU. Chapter III offers the situation of each European country related to the implementation of IFRS Standards for non-listed groups and individual companies, showing that only Greece, Portugal, Italy and Turkey accept the use of IFRS Standards for certain individual corporations (e.g. belonging to consolidated listed groups or consolidated non-listed groups if they consolidate according with IFRS Standards). The document ends up with an annex disclosing a timetable of the projects the IASB is involved in.

II. RECENT AND FORESEEABLE CHANGES IN IFRS STANDARDS¹

II.1. IASB LEGISLATION (TO BE ENDORSED BY THE EU)

October 2018 – Amendment to IFRS 3 Business Combinations

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

October 2018 – Amendments to IAS 1 and IAS 8: Definition of Material

The amendments clarify the definition of material and its application by:

- a. aligning the wording of the definition of material across all IFRS Standards and other publications and making minor improvements to that wording;
- b. including some of the supporting requirements in IAS 1 *Presentation of Financial Statements* in the definition to give them more prominence; and
- c. clarifying the explanation accompanying the definition of material.

It is expected that the definition helps companies make better materiality judgements without substantively changing existing requirements.

II.2. EXPOSURE DRAFTS AND OTHER DOCUMENTS TO BECOME IFRS STANDARDS

The IASB has worked during the last year on different projects, preparing new documents (exposure drafts or discussion papers) that could become new IFRS Standards in the short/medium-term:

Annual Improvements to IFRS Standards 2018-2020 (IAS 41 and IFRS 1)

Regarding the IFRS 1, the objective is to simplify the application of IFRS 1 by a subsidiary that becomes a first-time adopter of IFRS Standards after its parent company has already adopted them. The proposed amendment relates to the measurement of cumulative translation differences.

Regarding IAS 41, the objective is to align the fair value measurement requirements in IAS 41 with those in other IFRS Standard

¹ Situation at 1st August 2019.

Deferred Tax related to Assets and liabilities arising from a single transaction (Amendments to IAS 12)

In July 2019, the International Accounting Standards Board published the Exposure Draft “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 Income Taxes)”.

The proposed amendments would require an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments would apply to particular transactions for which an entity recognises both an asset and a liability, such as leases and decommissioning obligations. The exposure draft is open for comment until 14/11/2019

Classification of liabilities as Current and Non-Current (amendment to IAS 1)

IASB carried out a project to clarify the paragraphs in IAS 1 that discuss the requirement for an unconditional right to defer settlement. In February 2015, it published proposed clarifications in an Exposure Draft Classification of Liabilities.

In December 2015, the Board started discussing the comments it received on the proposed clarifications. In 2016, it paused discussions while it completed revisions to the Conceptual Framework for Financial Reporting, which include revisions to the definition of a liability. The Board has now resumed discussions and expects to issue amendments to IAS 1 during last Quarter of 2019.

To obtain more information of all the IASB projects, Annex 2 discloses information of the IASB work plan with its foreseeable deadlines.

II.3. MORE RECENT DEVELOPMENTS IN THE EUROPEAN UNION, PROCESS OF IMPLEMENTATION OF IFRS STANDARDS²

MAIN EVENTS IN EUROPEAN UNION: RECORD OF LEGISLATION PROCESS³

In **March 2018** the European Commission (EC) formally adopts the “IFRIC 22 Foreign Currency Transactions and Advance Consideration”.

In **October 2018** the European Commission (EC) formally adopts the “IFRIC 23 Uncertainty over Income Tax Treatments”.

In **February 2019** the EC endorsed the “Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)”.

In **February 2019** the European Securities and Markets Authority (ESMA) published the final regulatory technical standards (RTS) on the ESEF together with some other helpful guidance to be applied by issuers listed on regulated markets in the EU in the preparation of their annual financial reports (mandatory in the European Single Electronic Format (ESEF), from 1 January 2020). EC endorsed IAS 28 *Investments in Associates and Joint Ventures* in order to clarify the impairment requirements of IFRS 9 apply to Long Term Interests in Associates and Joint Ventures.

In **March 2019** the EC endorsed “Plan Amendment, Curtailment or Settlement: *Amendments to IAS 19*”.

In **March 2019** the EC endorsed the “*Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)*”.

In **June and July 2019**, ESMA updated the ESEF Reporting Manual to provide better guidance and updated the RTS in order to amend or to substitute the relevant Annexes of the RTS on ESEF to reflect updates of the IFRS Taxonomy, most notably its 2019 update which was published by the IFRS Foundation on 27 March 2019.

² Situation at 1st August 2019

³ Personal compilation from: <https://www.iasplus.com/en>, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting_en and <http://www.efrag.org/>.

III. SUMMARY TABLE OF ACCOUNTING LEGAL FRAMEWORK TO USE IFRS STANDARDS

CURRENT DEVELOPMENTS IN THE COUNTRY ⁴									
CONCEPT	AUSTRIA	BELGIUM	FRANCE	GERMANY	GREECE	ITALY	PORTUGAL	SPAIN	TURKEY
1. Accounting legal framework, based on:	Ministry of Justice: Commercial Code	Ministry of Justice: Commercial Code	Ministry of Economy: Commercial Code	Ministry of Justice: Commercial Code	Ministry of Finance	Ministry of Justice: Civil Code	Ministry of Finance	Ministry of Justice: Commercial Code Regulation changed in line with IFRS Standards	Ministry of Trade: Commercial Code
2. Accounting bodies (public / private)	Semi-public: Austrian Financial Reporting and Auditing Committee	Public: Accounting Standard Commission (ASC)	Public: the Authority of Accounting standards (ANC)	Semi-public: German Accounting Standards Committee (DRSC)	Public: Accounting Standards and Auditing Committee (ELTE)	Private: Italian Accounting Body (OIC)	Semi-public: Portuguese Accounting Standards Board (CNC)	Public: Institute of Accounting and Auditing (ICAC)	Public: Public Oversight, Accounting and Auditing Standards Authority (POA)
3. Legal authorisation to use IFRS Standards instead of National GAAP									
a) Consolidated Accounts of unlisted corporations	Voluntary since 1999	Option to follow either IFRS Standards or Belgian GAAP (2005). IFRS Standards are mandatory for all banks, insurance companies and real estate investment funds	Option to follow on a voluntary basis either IFRS Standards or French GAAP	Voluntary	Voluntary for companies which are audited by certified auditors	2005 on a voluntary basis (mandatory for financial institutions)	Voluntary in the first year of adoption, but compulsory afterwards (at least 3 years)	Option to follow either IFRS Standards (since 2005) or Spanish GAAPs (since 2010 adapted to IAS/IFRS Standards)	Voluntary since 2013 (IFRS Standards are mandatory for Public Interest Entities as defined in EU Accounting Directive)
b) Individual Accounts	NO	NO (Exception: real estate investment funds ⇒ IFRS Standards obliged as from 2007)	NO	Voluntary, but only for information purpose (publication in the federal gazette)	Compulsory from 2005 for listed companies Voluntary for non-listed companies which are audited by certified auditors	2005 on a voluntary basis (2006 mandatory for financial institutions and listed companies)	Voluntary in the first adoption, but compulsory afterwards (at least 3 years) (just for companies belonging to the scope of consolidation of a group that adopts IFRS Standards)	NO (although indirectly by applying the revised national accounting standards)	Voluntary

⁴ Situation at August 2019.

CURRENT DEVELOPMENTS IN THE COUNTRY⁴

CONCEPT	AUSTRIA	BELGIUM	FRANCE	GERMANY	GREECE	ITALY	PORTUGAL	SPAIN	TURKEY
4. Possibility of using IFRS Standards									
a) Consolidated accounts of unlisted corporations	YES (without authorisation on a voluntary basis)	From 2005 on a voluntary basis	From 2005, on a voluntary basis	From 2005, without authorisation on a voluntary basis	On a voluntary basis	From 2005 on a voluntary basis	On a voluntary basis	YES Option to use IAS / IFRS Standards or Spanish GAAP	YES Option to use Turkish Financial Reporting Standards (100% IFRS compliant) or BOBI FRS (100% IFRS for SMEs compliant)
b) Individual accounts	YES (without authorisation on a voluntary basis)	Indirectly through the revision of Belgian accounting law (Exception: real estate investment funds (IFRS Standards obliged as from 2007))	Selective convergence of French GAAP: new rules applicable from 2005	See above	Compulsory from 2005 for listed companies	Yes in the individual accounts of listed companies; for the rest, very infrequent; forbidden for SME	Selective convergence of Portuguese GAAP: new rules compliant with IFRS Standards are being published. There is an exception regarding goodwill. Portuguese GAAP followed IFRS on this matter until 2015. According to Portuguese GAAP, from 2016 on, companies are required to define the goodwill's operating life and apply consistent amortizations, instead of applying impairment tests.	Indirectly, through the revised Accounting Plan (since 2008). Several National GAAPs do not fully align with latest IFRS Standards: Goodwill Amortization, Financial Assets Classification / measurement with its corresponding impairment policy (IFRS 9) and finally, leases (IFRS 16),	YES Option to use Turkish Financial Reporting Standards (100% IFRS compliant) or BOBI FRS (100% IFRS for SMEs compliant)

ANNEX - IASB PROJECTS (WORK PLAN UPDATED 01/10/19)⁵

RESEARCH PROJECT		
PROJECT	NEXT MILESTONE	EXPECTED DATE
2019 SME Implementation Group Draft Q&A Section 35, Issue 1	Draft SMEIG Q&A Feedback	Q4 2019
Business Combinations under Common Control	Discussion Paper	H1 2020
Dynamic Risk Management	Core Model	Q4 2019
Extractive Activities	Review Research	H1 2020
Financial Instruments with Characteristics of Equity	Decide Project Direction	Q4 2019
Goodwill and Impairment	Discussion Paper	H1 2020
Pension Benefits that Depend on Asset Returns	Review Research	Q4 2019
Provisions	Review Research	Q4 2019
Subsidiaries that are SMEs	Review Research	Q4 2019
STANDARD SETTING PROJECTS		
PROJECT	NEXT MILESTONE	EXPECTED DATE
Management Commentary	Exposure Draft	H2 2020
Primary Financial Statements	Exposure Draft	Q4 2019
Rate-regulated Activities	Exposure Draft	H1 2020
MAINTENANCE PROJECT		
PROJECT	NEXT MILESTONE	EXPECTED DATE

⁵ The information in this table is based on <http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx> at 1st October 2019.

2019 Comprehensive Review of the IFRS for SMEs Standard	Request for Information	Q4 2019
Accounting Policies and Accounting Estimates (Amendments to IAS 8)	Decide Project Direction	Q4 2019
Accounting Policy Changes (Amendments to IAS 8)	Decide Project Direction	
Amendments to IFRS 17 Insurance Contracts	Exposure Draft Feedback	November 2019
Availability of a Refund (Amendments to IFRIC 14)	IFRS Amendment	
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	IFRS Amendment	Q1 2020
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)	Exposure Draft Feedback	
Disclosure Initiative—Accounting Policies	Exposure Draft Feedback	November 2019
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft	
Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)	Exposure Draft Feedback	November 2019
IBOR Reform and its Effects on Financial Reporting—Phase 2	Exposure Draft	
Lease Incentives (Amendment to Illustrative Example 13 accompanying IFRS 16)	Exposure Draft Feedback	November 2019
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	IFRS Amendment	
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	IFRS Amendment	Q1 2020
Post Implementation Review of IFRS 10, IFRS 11 and IFRS 12	Review Research	Q1 2020
Subsidiary as a First-time Adopter (Amendments to IFRS 1)	Exposure Draft Feedback	November 2019
Taxation in Fair Value Measurements (Amendments to IAS 41)	Exposure Draft Feedback	November 2019

Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)	Exposure Draft Feedback	
OTHER PROJECTS		
PROJECT	NEXT MILESTONE	EXPECTED DATE
Due Process Handbook Review	Exposure Draft Feedback	October 2019
2020 Agenda Consultation	Request for Information	H2 2020
IFRS Taxonomy Update - Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)	Proposed IFRS Taxonomy Update	October 2019