September 2021

ERICA (EUROPEAN RECORDS OF IFRS CONSOLIDATED ACCOUNTS) WORKING GROUP

IFRS AND OTHER IMPACTS

European Committee of Central Balance Sheet Data Offices (ECCBSO)

Contents

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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 2021. 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.

2021 was particularly marked by the progressive economic re-opening with the worldwide vaccination process after the pandemic outbreak that took place in 2020.

II. RECENT AND FORESEEABLE CHANGES IN IFRS STANDARDS[1]

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

May 2017 – IFRS 17 Insurance Contracts including June 2020 - June 2020 - Amendments to IFRS 17 (issued on 25 June 2020) - Endorsement Expected Q4/2021

Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income;
- the amendments are aimed at helping companies implement the Standard and making it easier for them to explain their financial performance.

January 2020 – Amendments to IAS 1 *Presentation of Financial Statements:* Classification of Liabilities as Current and Non-current *or* July 2020 – Classification of Liabilities as Current or Non-current – Deferral of Efefective Date

The amendments clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments:

- specify that an entity's right to defer settlement must exist at the end of the reporting period;
- clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
- clarify how lending conditions affect classification; and
- clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

Even though the initial effective application was for periods beginning on or after 1 January 2022, due to the covid-19 pandemic, the Board has proposed to defer the effective date by one year to provide companies with more time to implement any classification changes resulting from the amendments.

[1] Situation at 31st August 2021.

February 2021 – Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2:* Disclosure of Accounting policies

The amendments will a) improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements; and b) distinguish changes in accounting estimates from changes in accounting policies.

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

February 2021 – Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*: Definition of Accounting policies

The Board issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarify how companies should distinguish changes in accounting policies (generally applied retrospectively to past transactions and other past events) from changes in accounting estimates (applied prospectively only to future transactions and other future events).

May 2021 – Amendments to IAS 12 *Income Taxes*: Deferred Tax related to Assets and liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Differing views resulted in entities accounting for deferred tax on some transactions, such as leases, leading to different ways in the recognition of an asset and liability, reducing comparability between their financial statements.

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:

Third Agenda Consultation

The International Accounting Standards Board (Board) has published a consultation document to seek views on what the Board's priorities should be over the next five years. The Board is asking for views on the strategic direction and balance of its activities and seeking views on which financial reporting issues it should prioritise and on the criteria for adding projects to its work plan.

The feedback received will help the Board determine its activities and work plan for 2022 to 2026. Some of the Board's capacity during the period from 2022 to 2026 will be devoted to completing projects already underway and to post-implementation reviews that assess whether recently issued IFRS Standards are working as intended. However, the Board also expects to have capacity to take on some new projects.

Initial Application of IFRS 17 and IFRS 9—Comparative Information

It consists of a narrow-scope amendment to the transition requirements in Appendix C of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time.
The proposed amendment relates to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. Applying the proposed amendment, a company would be permitted to present comparative information about such a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Exposure Draft proposes no change to the transition requirements in IFRS 9.

Management Commentary

It would consist of a comprehensive new framework that would enable companies to bring together in management commentary the information investors and creditors need to assess a company's long-term prospects. Such information would include information about the company's intangible resources and relationships and about sustainability matters affecting the company. That framework would replace IFRS Practice Statement 1 Management Commentary.

The Board is proposing an objectives-based approach centred on disclosure objectives for the six areas of content in management commentary: *the company's business model; management's strategy;*

resources and relationships; risks; external environment; and financial performance and financial position. The approach is designed to provide both, sufficient flexibility for a company to be able to tell its unique story, focusing on what is important to the company's long-term prospects; and an effective basis for regulators to enforce the revised Practice Statement and for auditors to assess compliance with it.

Companies could apply local laws or regulations, or requirements or guidelines issued by other organisations for specific industries, or on specific topics such as sustainability reporting, to help them identify material information for inclusion in management commentary.

Disclosure Requirements in IFRS Standards—A Pilot Approach

The International Accounting Standards Board (Board) is seeking public comments on a new approach to developing disclosure requirements in IFRS Standards and new disclosure requirements for the Standards on *fair value measurement* and *employee benefits*. These proposals would enable companies to enhance their judgement and reduce 'boilerplate' information, giving investors more useful information.
The notes in financial statements sometimes include too little relevant information, too much irrelevant information and information disclosed ineffectively. According to stakeholders this usually happens when the requirements in IFRS Standards are treated like a checklist without applying effective judgement.

A new approach is set out to developing the disclosure requirements in IFRS Standards. Disclosure requirements developed using this approach are intended to better enable companies, auditors and others to make more effective materiality judgements and thus provide disclosures that are more useful to investors.

The new approach is written as draft guidance for use by the Board when developing disclosure requirements in individual Standards. In applying this guidance, the Board aims to: 1. enhance investor engagement to ensure the Board has an in-depth understanding of investors' information needs and clearly explains those needs in the Standards; 2. give greater prominence to the objective of disclosure requirements, requiring companies to apply judgement and provide information to meet the described investor needs; and 3. minimise requirements to disclose particular items of information, and instead to help companies focus on disclosing material information only.

The Board has tested this new approach using two IFRS Standards—IFRS 13 Fair Value Measurement and IAS 19 Employee Benefits—and has proposed amendments to the disclosure requirements in those Standards in the Exposure Draft.

Subsidiaries without Public Accountability: Disclosures

The International Accounting Standards Board (Board) has proposed a new IFRS Standard that would permit eligible subsidiaries to apply IFRS Standards with a reduced set of disclosure requirements.
The proposals respond to feedback from stakeholders and are designed to ease financial reporting for eligible subsidiaries while meeting the needs of the users of their financial statements.
The proposed Standard would be available to subsidiaries without public accountability—*companies that are not financial institutions or listed on a stock exchange—whose parent company prepares consolidated financial statements applying IFRS Standards.*

These subsidiaries report to their parent company for consolidation purposes applying IFRS Standards. Electing to apply the proposed Standard would enable them to also use IFRS Standards when preparing their own financial statements but with reduced disclosures.
The proposals would save subsidiaries time and money by: eliminating the need to maintain an additional set of accounting records for reporting purposes—if the subsidiary currently does not apply IFRS Standards in its own financial statements; and reducing the disclosures required to comply with IFRS Standards.
The Board has tailored the disclosure requirements in the proposed Standard to meet the needs of financial statement users of subsidiaries without public accountability.

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 STANDARDS[2]

MAIN EVENTS IN EUROPEAN UNION: RECORD OF LEGISLATION PROCESS[3]
In **January 2020** the EC endorsed *"Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform"* (issued on 26 September 2019).
In **April 2020** the EC endorsed *"Amendments to IFRS 3 Business Combinations"* (issued on 22 October 2018).
In **October 2020** the EC endorsed "Amendment to IFRS 16 *Leases Covid-19-Related Rent Concessions*" (issued on 28 May 2020)
In **December 2020** the EC endorsed "Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9" (issued on 25 June 2020).
In **January 2021** the EC endorsed the *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2"* (issued on 27 August 2020).
In **July 2021** the EC endorsed the *"Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020"* (issued on 14 May 2020).
In **August 2021** the EC endorsed the *"Amendments to IFRS 16 Leases: Covid-19 –Related Rent Concessions beyond 30 June 2021"* issued on 31 March 2021
In **June 2021**, ESMA updated the RTS (Delegated Regulation (EU) 2019/815) on ESEF in order to amend the relevant Annexes of the RTS on ESEF to be aligned with the IFRS Taxonomy.

2 Situation at 31st August 2021.

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: Hellenic Accounting and Auditing Standards Oversight Board (HAASOB)	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	Option to follow either IFRS Standards or Austrian GAAP (2005).	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 after their Board's decision (Obligation to use IFRS Standards for the next 5 years since the first year of adoption)	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 aligned with IAS/IFRS Standards updated in 2021)	Voluntary since 2013 (IFRS Standards are mandatory for Public Interest Entities as defined in EU Accounting Directive)

4 Situation at August 2021.

CURRENT DEVELOPMENTS IN THE COUNTRY[4]									
Concept	**Austria**	**Belgium**	**France**	**Germany**	**Greece**	**Italy**	**Portugal**	**Spain**	**Turkey**
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. It is also mandatory for companies of public interest, financial services, investment services, real estate services, capital funds services, portfolio entities, subsidiaries of listed companies in any European market that represent more than 5% of Sales, Total Assets, Average of employees of the parent company Voluntary for companies after their Board's decision (Obligation to use IFRS Standards for the next 5 years since the first year of adoption)	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 they are aligned to IFRS)	Voluntary

CURRENT DEVELOPMENTS IN THE COUNTRY[5]									
Concept	**Austria**	**Belgium**	**France**	**Germany**	**Greece**	**Italy**	**Portugal**	**Spain**	**Turkey**
4. Possibility of using IFRS Standards									
a) Consolidated accounts of unlisted corporations	YES Option to use IAS/IFRS Standards or Austrian GAAP	From 2005 on a voluntary basis	From 2005, on a voluntary basis	From 2005, without authorisation on a voluntary basis	Voluntary for companies after their Board's decision (Obligation to use IFRS Standards for the next 5 years since the first year of adoption)	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. It is also mandatory for companies of public interest, financial services, investment services, real estate services, capital funds services, portfolio entities, subsidiaries of listed companies in any European market that represent more than 5% of Sales, Total Assets, Average of employees of the parent company	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 2021 Accounting Plan (since 2008). Several National GAAPs do not fully align with latest IFRS Standards: Goodwill Amortization, and finally, leases (IFRS 16))	YES Option to use Turkish Financial Reporting Standards (100% IFRS compliant) or BOBI FRS (100% IFRS for SMEs compliant)

[5] Situation at September 2021.

ANNEX - IASB PROJECTS (WORK PLAN UPDATED 03/09/21)[6]

RESEARCH PROJECT		
PROJECT	**NEXT MILESTONE**	**EXPECTED DATE**
Dynamic Risk Management	Decide Project Direction	H1 2022
Extractive Activities	Decide Project Direction	September 2021
Goodwill and Impairment	Decide Project Direction	September 2021
Pension Benefits that Depend on Asset Returns	Review Research	October 2021
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Feedback Statement	Q1 2022
Equity Method	Decide Project Direction	Non Available
Post-implementation Review of IFRS 9	Request for Information	September 2021
Business Combinations under Common Control	Discussion Paper Feedback	Q4 2021
STANDARD-SETTING PROJECTS		
PROJECT	**NEXT MILESTONE**	**EXPECTED DATE**
Management Commentary	Exposure Draft Feedback	Q1 2022
Financial Instruments with Characteristics of Equity	Exposure Draft	Non Available
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures	Exposure Draft Feedback	H1 2022
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft Feedback	Q1 2022
Primary Financial Statements	IFRS Standard	Non Available
Second Comprehensive Review of the IFRS for SMEs Standard	Exposure Draft	Non Available
Rate-regulated Activities	Exposure Draft Feedback	October 2021
MAINTENANCE PROJECTS		
PROJECT	**NEXT MILESTONE**	**EXPECTED DATE**
Supplier Finance Arrangement	Exposure Draft	November 2021
Classification of Debt with Covenants as Current or Non Current	Exposure Draft	November 2021
Initial Application of IFRS 17 and IFRS 9 – Comparative Information (amendments to IFRS 17)	Exposure Draft Feedback	November 2021
Availability of a Refund (Amendments to IFRIC 14)	Decide Project Direction	
Lack of Exchangeability (Amendments to IAS 21)	Exposure Draft Feedback	Q4 2021
Lease Liability in a Sale and Leaseback	Decide Project Direction	November 2021
Provisions—Targeted Improvements	Decide Project Direction	
OTHER PROJECTS		
PROJECT	**NEXT MILESTONE**	**EXPECTED DATE**
Economic Benefits from Use of a Windfarm	Tentative Agenda Decision Feedback	November 2021
IFRS Taxonomy Update—Amendments to IAS 1, IAS 8 and Practice Statement 2	Proposed Update Feedback	November 2021
Sustainability – related Reporting	Exposure Draft Feedback	October 2021
TLTRO III Transactions (IFRS 9 and IAS 20)	Request for Information Feedback	November 2021
Third Agenda Consultation	Request for Information Feedback	November 2021

[6] The information in this table is based on http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx at 3rd September 2021.

Accounting for Warrants that are classified as Financial Liabilities on Initial Recognition (IAS 32)	Tentative Agenda Decision Feedback	September 2021
Non-Refundable Value Added Tax on Lease Payments (IFRS 16)	Tentative Decision Agenda Feedback	September 2021