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IDW publishes draft module IAS 1-M1 (Reverse Factoring) for IDW RS HFA 50

Editorial

Dear reader,

reverse factoring is an increasingly popular option for pre-financing a company's suppliers. In contrast to conventional factoring, the initiative comes from the customer rather than the supplier. The IFRS Interpretation Committee dealt with the accounting consequences of these transactions last year and reached an Agenda Decision. Now, with the draft module IAS 1-M1 (Reverse Factoring) on IDW RS HFA 50, the IDW (German Institute of Auditors) has put in concrete terms the issues of whether the previous trade payables should be derecognized or reported differently, how they should be presented in the cash flow statement, and which disclosures may be required in the notes as a result. The IDW has also invited the public to comment.

In the meantime, the IASB has issued a draft standard and a draft amendment for comment. The draft standard ED/2021/7 provides relief for subsidiaries not required to be publicly accountable that wish to prepare their separate financial statements in accordance with IFRS rules and are included in the consolidated financial statements of their parent company. The draft amendment ED/2021/8 creates an additional transitional rule for the initial application of IFRS 17. This is intended to avoid inconsistencies in the presentation of prior-year comparative figures that may arise if IFRS 9 is also applied for the first time at the same time as the initial application of IFRS 17.

In addition, we report on current developments in the endorsement process that the IFRSs must undergo in the EU and provide an overview of the current status of EU-Endorsement of current amendments to the IFRS framework.

We hope you enjoy reading this novus IFRS, which is rather short since it relates to events during the summer. Please do not hesitate to contact us if you have any questions on any of the topics presented.

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CONTENT

IDW publishes draft module IAS 1-M1 (Reverse Factoring) for IDW RS HFA 50

On 1 July 2021, in response to the related Agenda Decision of the IFRS Interpretation Committee from December 2020, the IDW (German Institute of Auditors) published the draft module IAS 1-M1, which addresses outstanding questions about the accounting treatment of reverse factoring transactions.

In a reverse factoring transaction, trade receivables or trade payables are sold to an independent third party, such as a bank or a factoring company. In contrast to conventional factoring, the initiative comes from the customer/debtor. Such transactions often serve to adjust the terms of the contract (e.g. extension of the payment period).

The draft module supplements IDW RS HFA 48 and IDW RS HFA 9 by addressing the questions of whether the previous trade payables should be derecognized or reported differently, how they should be presented in the cash flow statement and what disclosures may have to be made in the notes.

In this connection, the draft module (following IFRS 9) states that the previous liability must be derecognized in the event of legal extinguishment or substantial modification. In contrast, a mere change of creditor does not result in derecognition.

In accordance with the above Agenda Decision of the IFRS Interpretation Committee, the draft module also states that trade payables only exist if the following characteristics are cumulatively fulfilled:

- The liability is used to pay for goods or services.
- It was invoiced by suppliers or formally agreed with them.
- It is part of the working capital used in the normal business cycle.

As a rule, the presentation in the cash flow statement follows the assessment with regard to the presentation in the balance sheet. Accordingly, an allocation to operating cash flow is generally required if a trade payable continues to be recognized. Alternatively, there could be a cash flow from financing activities, in which case the payment should be allocated to operating activities in case of doubt.

The following might have to be disclosed in the notes: the evaluation of the characteristics of a trade payable, the evaluation of how to present trade payables and receivables in connection with reverse factoring agreements, and information on such reserve factoring agreements. In addition, the disclosure requirements under IFRS 7 must be observed.

Comments on the draft module can be submitted to IDW until 10 September 2021. The draft is available on the IDW website at this Link.

IASB publishes Exposure Draft ED/2021/7 "Subsidiaries without public accountability: Disclosures"

On 26 July 2021, the IASB published the draft standard ED/2021/7 on disclosure requirements for subsidiaries without public accountability and made it available for comment. The comment period runs until 31 January 2022.

The target group of the draft standard are subsidiaries that are included in the IFRS consolidated financial statements of their parent company and are themselves neither listed companies nor credit institutions, so that they have no independent public accountability. In addition to preparing their separate financial statements, these companies usually also prepare intragroup reporting packages for the parent company on the basis of IFRS, which are then included in the consolidated financial statements.

The newly proposed standard would allow subsidiaries to prepare their separate financial statements in accordance with IFRS as well, but to provide fewer disclosures in the notes. This would allow subsidiaries - depending on the legal situation in their home country - either to dispense with the additional preparation of separate financial statements in accordance with local accounting rules or to significantly reduce the effort required to prepare the notes.

In Germany, it should be noted that the preparation of IFRS separate financial statements currently only provides an exemption from disclosure, but not from the preparation of separate financial statements and the management report in accordance with the requirements of the German Commercial Code (Section 325 (2a) HGB). Under the current legal situation, therefore, the simplifying effect of the new standard would be limited for German subsidiaries to the disclosures in the notes to a voluntarily disclosed IFRS financial statement.

The draft standard is available on the IASB website at this Link.

IASB publishes Exposure Draft ED/2021/8 "Initial Application of IFRS 17 and IFRS 9 - Comparative Information"

On 28 July 2021, the IASB published a draft standard to amend IFRS 17 again. The comment period runs until 27 September 2021. The draft standard is intended to provide a solution to a problem that may arise when IFRS 17 and IFRS 9 are applied simultaneously for the first time.

In this case, the presentation of the prior-year comparative figures results in inconsistencies between the new standard IFRS 17, which requires a fully retrospective restatement, and IFRS 9, according to which the comparative figures may not be restated in some cases, e.g. if a financial instrument was derecognized in the reporting year.

The draft now provides for an additional transitional regulation in Appendix C to IFRS 17, which allows an adjustment of the comparative figures in the first reporting year in the event of simultaneous first-time application of both standards. Specifically, an option is provided whereby a different classification under IFRS 9 is made for the comparative period. This is known as classification overlay. As a result, financial assets for which no retrospective adjustment of the comparative figures was made on transition to IFRS 9 are to be presented as if the classification and measurement requirements of IFRS 9 had been observed. This option should only apply to financial assets related to insurance contracts and not to comparative periods prior to the date of transition to IFRS 17.

The draft is available on the IASB website at this Link.

EU-Endorsement of several amendments to IFRS standards

On 2 July 2021, the EU endorsed the standards IAS 16, IAS 37, IAS 41, IFRS 1, IFRS 3 and IFRS 9, which thus became part of European law. The amendments are applicable as of 1 January 2022.

The amendment to IAS 16 concerns the treatment of proceeds realized before the asset is available for use. It is now clarified that such proceeds are to be recognized in profit or loss. At the same time, the term "available for use" was defined more precisely.

The endorsed amendment to IAS 37 specifies that, when assessing whether a contract is onerous, the costs that relate directly to the contract or that would not be incurred in the absence of the contract are to be taken into account. This also includes directly attributable (overhead) costs.

As a result of the amendment to IFRS 3 that has now been endorsed, the references to the conceptual framework have been updated. In addition, a prohibition on the recognition of contingent assets has been included, and it is clarified that IAS 37 and IFRIC 21 are to be applied instead of the conceptual framework for the identification of obligations.

IFRS 1, IFRS 9 and IFRS 16 were amended as part of the annual improvement process (2018 - 2020 cycle). The amendments relate to subsidiaries as first-time adopters, fees to be included in the "10 % test" for derecognition of financial liabilities and the definition of lease incentives.

Note: We reported in detail on the amendments now adopted in novus International Accounting 2nd Edition 2020.

In addition, the EU endorsed amendments to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)" on 30 August 2021. The amendments are to be applied for reporting periods beginning on or after 1 April 2021; earlier application is permitted.

The amendments to IFRS 16, which have now been adopted into EU law, extend by one year the application period of the May 2020 amendment granting lessees an exemption from assessing whether a Covid 19-related rent concession is a lease modification.

Note: We had already reported on the newly endorsed amendment in novus International Accounting 1st Edition 2021.

EU-Endorsement Status Report

The following table contains standards and interpretations not yet endorsed, or endorsed by the EU as of 1 January 2021. The basis is the latest EU-Endorsement Status Report published by EFRAG dated 31 August 2021 (and last updated on 31 August 2021).

Standards	IASB Effective Date	EU-Endorsement
IFRS 17: Insurance Contracts (18.05.2017), including Amendments to IFRS 17 (25.06.2020)	01.01.2023	outstanding
Amendments to Standards		
IAS 1: Classification of Liabilities as Current or Non-current (23.01.2020) and IAS 1: Classification of Liabilities as Current or Non-current - Deferral of the Effective Date (15.07.2020)	01.01.2023	outstanding
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies	01.01.2023	outstanding
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (12.02.2021)	01.01.2023	outstanding
Amendments to IAS 12 Income Taxes: Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction	01.01.2023	outstanding
Amendments to IFRS 16 Leases: Covid 19-Related Rent Concessions Beyond 30 June 2021 (31.03.2021)	01.04.2021	30.08.2021
IFRS 4: Insurance Contracts - Deferral of IFRS 9 (25.06.2020)	01.01.2021	15.12.2020
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16: Interest Rate Benchmark Reform - Phase 2 (27.08.2020)	01.01.2021	13.01.2021
IFRS 3: Business Combinations; IAS 16: Property, Plant and Equipment; IAS 37: Provisions, Contingent Liabilities and Contingent Assets; Annual Improvement Process Cycle 2018-2020 (all 14.05.2020).	01.01.2022	02.07.2021

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