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# novus

INTERNATIONAL FINANCIAL REPORTING (IFRS)

## Exposure Draft Published on Disclosures on Supplier Finance Arrangements (Draft Amendment to IAS 7 and IFRS 7)

# Editorial

Dear Reader,

Reverse factoring has received enormous attention from standard setters and supervisory authorities since the Wirecard scandal, so that this topic has once again found its way into currently published IFRS requirements. Since in practice many companies use reverse factoring agreements as a means of pre-financing in dealings with their suppliers, we explain the new requirements in this issue of novus IFRS.

In addition, we have compiled key disclosures that must be reported in the notes to EU-IFRS consolidated financial statements at December 31, 2021, in terms of standards and interpretations that have already been adopted. The amendments that are already mandatory for fiscal year 2021 year are manageable and relate to the extension of the accounting option under IFRS 16 „Leases" for tenant relief granted as a result of Covid-19.

As of January 1, 2022, BaFin will take over the previous tasks of the German Financial Reporting Enforcement Panel (FREP) in connection with the sovereign supervision of financial statements that it exercises in accordance with the Financial Market Integrity Strengthening Act (FISG). BaFin published the 2022 examination focus for the 2021 annual and consolidated financial statements in the fourth quarter of 2021. The focus of this year's balance sheet audit will again be on the effects of the COVID 19 pandemic on financial reporting, climate-related issues and, as a national focus, the topic of reverse factoring. BaFin will examine both the disclosure in the financial statements with regard to reverse factoring agreements and the related disclosures in the management report. In justified individual cases, it will also examine the existence of stated cash and assets. Another focus for credit institutions is on expected credit losses.

We wish you a Merry Christmas and a very Happy New Year in 2022! If you have any questions about any of the topics, we will be happy to assist you.

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CONTENT

# Exposure Draft Published on Disclosures on Supplier Finance Arrangements (Draft Amendment to IAS 7 and IFRS 7)

On November 26, 2021, the IASB published draft amendment ED/2021/10 „Supplier Finance Arrangements (proposed amendments to IAS 7 and IFRS 7)", which proposes additional disclosure requirements in connection with IAS 7 „Statements of Cash Flows" and IFRS 7 „Financial Instruments: Disclosures".

The additional disclosure requirements relate to the disclosure of supplier finance arrangements, which include reverse factoring arrangements. The draft does not define these arrangements; instead, it describes the characteristics of an arrangement for which an entity would be required to include the proposed disclosures. Examples of the various forms of such arrangements are also included.

The question arises in these arrangements whether the underlying obligations should be reported as financial liabilities or as trade payables. This also applies with regard to the associated cash flows, whether these should be reported in the cash flow statement as operating cash flows or as cash flows from financing activities. The draft amendment does not contain any specific requirements with regard to the appropriate presentation, but does impose additional quantitative and qualitative disclosure requirements on supplier finance arrangements. This is intended to enable users of financial statements to assess the effects of supplier finance arrangements on the company's liabilities and cash flows. In addition, they should also be able to better assess the risks associated with such arrangements. The disclosure requirements relate to the following:

- the terms and conditions of the individual supplier finance arrangements (including extended payment terms, security interests or guarantees),
- for each supplier finance arrangement at the beginning and end of the reporting period
  - the carrying amount of the financial liabilities that are part of the arrangement and
  - the carrying amount of the financial liabilities for which the suppliers have already received payments from the finance provider,
  - the range of due dates of financial liabilities (e.g. 30 to 40 days after the invoice date) that are part of the arrangement, and
- the range of due dates of trade payables that are not part of a supplier finance arrangement.

In addition, the IASB has included supplier finance arrangements in IFRS 7 as an example of the disclosure requirements for liquidity risk. As part of the disclosures on liquidity risk management, entities are required to disclose whether they have access to supplier finance arrangements and whether they have corresponding agreements that grant the entity extended payment terms.

The draft was developed by the IASB in response to the agenda decision of the IFRS IC from December 2020 on finance arrangements in the supply chain.

The comment period ends on March 28, 2022, and the effective date is to be determined after the close of the comment period.

**Note:** The draft can be accessed at the following link.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – DISCLOSURES REQUIRED BY IASB PUBLICATIONS

# Overview of Disclosure Requirements in EU-IFRS consolidated financial statements at December 31, 2021

When preparing and auditing consolidated financial statements, particular attention should be paid to the complete disclosures in the notes on new or amended standards. Disclosures must be made in the notes both for newly applied standards and interpretations (IAS 8.28) and for standards and interpretations that have been adopted but not yet applied (IAS 8.30).

The following provides an overview of the status of the standards and interpretations adopted by the IASB (as of December 10, 2021) that are required to be reported on in EU IFRS consolidated financial statements at December 31, 2021, in accordance with IAS 8.28 and IAS 8.30.

# Effects of New or Amended Standards or Interpretations (IAS 8.28)

IAS 8.28 requires the disclosure of new or amended standards and interpretations if their first-time application affects the reporting period or an earlier period. The scope of IAS 8.28 therefore includes all changes in accounting policies resulting from the initial application of a new or amended standard or interpretation. The disclosures in the notes must then include the following content in relation to the new standard or interpretation:

- Title of the standard or interpretation
- Description of the transitional provisions (if applicable)
- Nature of and change in accounting policy
- Amount of change in each affected financial statement line item (including earnings per share) for the beginning of the prior year, for the prior year, and for the current year, to the extent practicable.

It should also be noted that the disclosures required by IAS 8.28 are also required in the case of early voluntary adoption of a new standard or interpretation.

**Note:** The following table provides an overview of potentially disclosable requirements under IAS 8.28 in EU IFRS consolidated financial statements at December 31, 2021, and a general assessment of the impact on accounting practice. It is not necessary to list all new or amended requirements. If needed, after the explanation of the new standards and interpretations whose application will have an impact on the IFRS consolidated financial statements, a general formulation can be included to the effect that the other standards and interpretations whose application is mandatory in the EU for the first time as of January 1, 2021, will not have any material impact on the consolidated financial statements.

| Standard | Title | IASB Effective Date* | Expected Date of First Application in the EU* | Impact** |
|---|---|---|---|---|
| Amendments to IFRS 4 | Insurance Contracts – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 01.01.2021 | 01.01.2021 | Industry- or company-specific significance |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 | Interest Rate Benchmark Reform (Phase 2) | 01.01.2021 | 01.01.2021*** | Industry- or company-specific significance |
| Amendments to IFRS 16 | Leases: Covid 19-related rent concessions after 30.06.2021 | 04.01.2021 | 01.04.2021**** | Industry- or company-specific significance |

* For financial statements beginning on or after that date.
** The general assessment regarding the impact on accounting practice serves as a guide; the individual impact on the individual company must be explained independently of this.
*** The amendments to these standards were transposed into EU law during the year 2021; in accordance with the relevant EU Commission regulation, the amendments are already to be applied to financial statements for periods beginning on or after January 1, 2021.
**** The amendments to this standard were transposed into EU law on August 30, 2021; in accordance with the relevant EU Commission regulation, the amendments are to be applied as early as April 1, 2021, for fiscal years beginning on or after January 1, 2021.

### Amendments to IFRS 4 Insurance Contracts – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

On June 25, 2020, the IASB issued an amendment to IFRS 4 "Insurance Contracts", which is related to the amendments to IFRS 17 "Insurance Contracts" published at the same time. The amendment to IFRS 4 allows an extended temporary exemption from IFRS 9 until the date of first-time application of IFRS 17, allowing insurers that meet certain requirements to continue to apply IFRS 17 together with IFRS 9 for the first time from January 1, 2023. Until then, insurers are exempt from applying IFRS 9.

**Note:** The exemption was granted to prevent accounting mismatches between assets and liabilities on insurers' balance sheets.

### Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)

The IASB issued the amendment standard "Interest Rate Benchmark Reform – Phase 2" on August 27, 2020, making amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Phase 2 addresses simplifications in financial reporting following the reform of the interest rate benchmark, i.e. when an existing interest rate benchmark is actually replaced.

The amendments affect the following areas:

- **Modification of Financial Assets, Financial Liabilities and Lease Liabilities**

  Through amendments to IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement" the IASB has provided practical relief where contractual cash flows are modified as a direct result of the IBOR reform and these are on an economically equivalent basis. According to the clarification, this can be a modification even if no change in contractual terms has occurred. In order to reflect the transition to the new reference interest rates in the balance sheet, it is sufficient if the effective interest rate is updated. If further modifications are made, these must be accounted for using the existing IFRS rules. The amendments to IFRS 4 and IFRS 16 provide similar relief to insurers and lessees with respect to their financial instruments and leases, respectively.

- **Hedge Accounting**

  The amendments allow hedge accounting to continue after the transition to the new interest rate benchmarks. However, the hedging relationships and the related documentation must be changed to reflect the modification made by the transition. Furthermore, the modified hedging relationships must continue to meet all criteria for hedge accounting.

- **Disclosure Requirements under IFRS 7**

  In order for users of the financial statements to understand the nature and extent of the risks to which the entity is exposed as a result of the IBOR reform and how those risks are being managed or the transition to alternative reference rates, full disclosures about them must be made in the notes.

### Artikel I. Amendments to IFRS 16 – Rental concessions related to the coronavirus pandemic

In response to the Corona pandemic, some lessors have provided relief to lessees in the form of concessions, such as rent-free months, discounted lease payments, or deferral of lease payments for a specified period.

The IASB has extended for a further year the exemption for lease accounting under IFRS 16 introduced last year as a result of the Corona pandemic.

The amendment to IFRS 16 adopted on March 31, 2021, provides an optional exemption for lessees to make an assessment of whether a lease concession related to the coronavirus pandemic constitutes a lease modification as defined in IFRS 16.

Such a lease modification exists if an adjustment is made to the right to use the asset or to the amount of the lease payments over the remaining term of the contract, and thus deviates from the original lease agreement. The lease must then be remeasured, with the modified future lease payments discounted at the current discount rate. As a result, the measurement of the right-of-use asset and the lease liability recognized in the balance sheet must be adjusted. The resulting adjustment amounts must be recognized in profit or loss.

In order to avoid this effort of case-by-case examinations for each lease, the amendment in IFRS 16 opens up an option for lessees to simplify the accounting for lease concessions. Use of the option is possible provided that the following requirements are met:

- the leasing concessions are the direct result of the Corona pandemic
- the modified total lease payments are not higher than those before the modification
- the concessions only concern payments due up to and including June 30, 2022, and
- otherwise no material points of the leasing agreement have been changed.

If these conditions are cumulatively met, the lessee may choose not to test whether a lease modification exists and instead recognize the lease concession as a negative variable lease payment in profit or loss. In the case of (partial) waivers of lease payments, it must also be examined whether the lease liability is to be derecognized in accordance with IFRS 9 and a new liability recognized in a lower amount if the present value of the obligation has changed by more than 10 %.

**Note:** The lessee must disclose the exercise of the option and the amounts recognized in profit or loss in the notes. The simplification applies only to lessees, not to lessors.

# New or Amended Standards and Interpretations Not Yet Applied (IAS 8.30)

IAS 8.30 requires **reporting** on standards or interpretations of the IASB that have already been adopted, insofar as these are not **yet mandatory** in the reporting period and are not applied prematurely.

For example, the following **disclosures** are required in the **notes**:

- Title of the new standard or interpretation
- The nature of the impending change in accounting policy
- The date from which application of the standard or interpretation is mandatory
- The date from which the entity intends to apply the standard or interpretation
- expected effects on the financial statements, or if those effects are unknown or cannot be estimated reliably, a statement to that effect.

**Note:** The following table provides an overview of the potentially disclosable requirements under IAS 8.30 in EU-IFRS consolidated financial statements at December 31, 2021. A date indicated for the standards or interpretations presented in the table if they have already been transposed into EU law (EU endorsement), so that their application is mandatory in the EU as of the date indicated (if applicable, early voluntary application). The other standards and interpretations presented in the table have not yet been endorsed by the EU. In the case of the regulations presented that are potentially subject to disclosure requirements, a general assessment is made with regard to the impact on accounting practice. Standards and interpretations of fundamental importance and those expected to have an impact should be discussed in the notes. A complete presentation of the new or amended standards and interpretations that have not been applied is not required.

If several new standards or interpretations do not have a material impact on the entity, wording can be used that neither describes

nor lists the standards and interpretations in question that do not have a material impact. This could take the form of a collective statement that, apart from the standards and interpretations described in detail, the other standards and interpretations adopted by the IASB are not expected to have a material impact on the consolidated financial statements. Furthermore, a collective statement can also be made at the time of application of the standards or interpretations by the company that early application of the new standards or interpretations is not planned.

| Standard | Title | IASB Effective Date* | Expected Date of First Application in the EU* | Impact** |
|---|---|---|---|---|
| **EU endorsement has taken place (as of 12.10.2021)** | | | | |
| IFRS 17, Amendments to IFRS 17 | Insurance Contracts | 01.01.2023 | 01.01.2023 | Industry- or company-specific significance |
| Amendments to IFRS 3 | Business Combinations – Reference to the Conceptual Framework | 01.01.2022 | 01.01.2022 | Industry- or company-specific significance |
| Amendments to IAS 16 | Property, Plant and Equipment – Proceeds before Intended Use | 01.01.2022 | 01.01.2022 | Industry- or company-specific significance |
| Amendments to IAS 37 | Provisions, Contingent liabilities and Contingent Assets -Onerous Contracts -Costs of Fulfilling a Contract | 01.01.2022 | 01.01.2022 | Industry- or company-specific significance |
| Annual Improvement Process (2018-2020 cycle) | Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 | 01.01.2022 | 01.01.2022 | Industry- or company-specific significance |

* For financial statements beginning on or after that date.
** The general assessment regarding the impact on accounting practice serves as a guide; the individual impact on the individual company must be explained independently of this.

| Standard | Title | IASB Effective Date* | Expected Date of First Application in the EU* | Impact** |
|---|---|---|---|---|
| **EU endorsement still pending (as of 10.12.2021)** | | | | |
| Amend. IAS 1 | Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and IFRS Practice Statement 2: Disclosure of Accounting Policies | 01.01.2023 | Outstanding | Fundamental importance |
| Amend. IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates | 01.01.2023 | Outstanding | Fundamental importance |
| Amend. IAS 12 | Income Taxes – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction | 01.01.2023 | Outstanding | Fundamental importance |
| Amend. IFRS 17 | Insurance Contracts – Presentation of Comparative Information on First-Time Adoption of IFRS 17 and IFRS 9 | 01.01.2023 | Outstanding | Industry- or company-specific significance |

* For financial statements beginning on or after that date.
** The general assessment regarding the impact on accounting practice serves as a guide; the individual impact on the individual company must be explained independently of this.

**IFRS 17 „Insurance Contracts“ and Amendments to IFRS 17**

On May 18, 2017, the IASB published **IFRS 17 „Insurance Contracts“**, which is to replace IFRS 4 „Insurance Contracts“. The objective of the new standard is to disclose relevant information for users through consistent and principles-based accounting and to ensure uniform presentation and measurement of insurance contracts. The new recognition, measurement and disclosure requirements are to be applied by companies with:

- insurance contracts and reinsurance contracts held,
- reinsurance contracts issued, and
- investment contracts with discretionary participation features that an entity holds in its portfolio, provided that the entity also issues insurance contracts.

If the primary purpose of a contract that is an insurance contract under IFRS 17 is to provide services for a fixed fee, it may be accounted for in accordance with IFRS 15 Revenue from Contracts with Customers rather than IFRS 17.

Limited **amendments and clarifications to IFRS 17** were published by the IASB on June 25, 2020 along with an amendment to IFRS 4. This allows insurers that meet certain requirements to continue to apply IFRS 17 together with IFRS 9 for the first time from 01.01.2023. Until then, insurers are exempt from applying IFRS 9. The amendments and clarifications affect eight areas of IFRS 17 and are aimed at facilitating the implementation of the standard. This is to be made possible by the following amendments:

- additional exemptions from the scope of IFRS 17 for certain contracts
- additional facilitation in the application of the risk mitigation option
- changes in recognition, measurement and simplifications with regard to the reporting of insurance contracts, and
- additional transitional relief, including in the case of business combinations

The basic principles of the standard have not been changed.

On November 19, 2021, the European Union transposed IFRS 17, including the June 2020 amendments, into European law. IFRS 17 is applicable as of January 1, 2023 and will then replace IFRS 4 "Insurance Contracts".

**Note:** For the further amendment to IFRS 17 published in December 2021, please refer to our comments under "Amendments to IFRS 17 "Insurance Contracts" – Presentation of Comparative Information on First-Time Adoption of IFRS 17 and IFRS 9".

**Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework**

The IASB issued amendments to IFRS 3 on May 14, 2020, which updated the reference to the Framework. The revised Framework was published in March 2018 with amended definitions of assets and liabilities. At the same time, the references were changed for a large number of standards and other pronouncements – but not for IFRS 3 – as this could have led to conflicts for IFRS 3 users due to the different definitions.

In addition to the reference, the amendments to IFRS 3 also include the following requirements:

- An acquirer must apply the requirements of IAS 37 or IFRIC 21, rather than the Framework, in identifying obligations assumed that are within the scope of IAS 37 or IFRIC 21.

- An explicit prohibition on the recognition of acquired contingent assets has been included.

**Amendments to IAS 16 "Property, Plant and Equipment" – Proceeds before Intended Use**

Furthermore, the IASB adopted amendments to IAS 16 "Proceeds before Intended Use" on May 14, 2020. The amendments clarify that proceeds generated from the sale of items produced while bringing an asset into the location and condition necessary for it to be capable of operation (e.g., product samples) must be recognized in profit or loss. Therefore, such amounts cannot be included in determining the cost of an item of property, plant and equipment. This also applies to the costs associated with the production of the item. The cost of the sample is measured in accordance with IAS 2 "Inventories".

A clarification was also made as to when an asset is deemed "operationally capable". Operational capability is decisive in determining the commencement of depreciation. In order to be considered operationally capable, it is not necessary that a financial performance target sought by management is achieved (e.g., desired operating profit margin).

According to the amendments to IAS 16, proceeds and costs relating to manufactured items that do not originate from ordinary business activities must be separately itemized.

**Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – Onerous Contracts – Costs of Fulfilling a Contract**

Likewise on May 14, 2020, the IASB published amendments to IAS 37 on onerous contracts. The amendments clarify which costs an entity should include when assessing whether a contract will be loss-making. Accordingly, the costs of fulfilling the contract include those costs that relate directly to the contract. This includes costs that would not be incurred in the absence of the contract, such as direct material or labor costs ("incremental costs"), as well as other costs directly attributable to the contract. These may include, for example, depreciation of property, plant and equipment used in fulfilling the contract.

**Annual Improvements (2018 – 2020 cycle): Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41**

The IASB published the Annual Improvements to IFRS (2018 – 2020) on May 14, 2020. The amendments relate to the following standards:

- **IFRS 1 "First-Time Adoption of International Financial Reporting Standards" – Subsidiaries as First-time Adopters**

  Subsidiaries that become first-time adopters of IFRS after their parent companies have the option to measure assets and liabilities at the carrying amounts previously recognized for them in the parent's consolidated financial statements (with no consolidation adjustments, among other things). The amendment made as part of the annual improvement extends this rule to include the subsidiary's cumulative currency translation differences, which means that they can also be continued at the values previously recognized in the parent company's consolidated financial statements.

- **IFRS 9 "Financial Instruments" – Fees in the "10% Test" for Derecognition of Financial Liabilities**

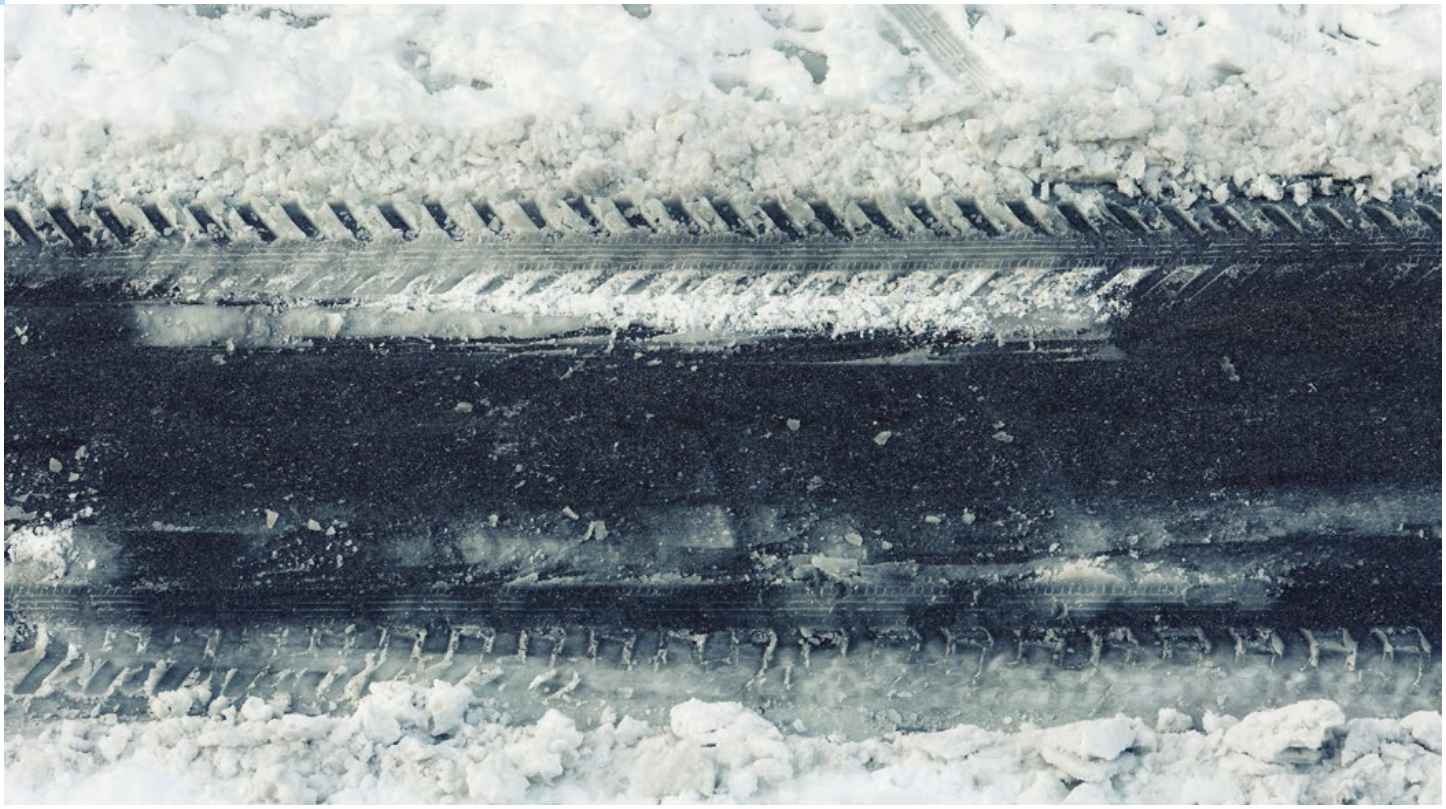
  In the event of substantial changes to contract components that result in the present value of a financial liability changing by more than 10 % ("10 % Test"), the liability must generally be derecognized and a new liability recognized. The amendment to IFRS 9 clarifies which fees must be included in the 10% Test for derecognition of financial liabilities. Only fees and costs that are paid or received between the entity and the creditor (including those paid on behalf of the entity or creditor) must be included. Fees and costs that are paid to or received from third parties should not be included.

- **IFRS 16 "Leases" – Lease Incentives**

  Among the illustrative examples for IFRS 16 (Illustrative Example 13), one example also included statements about payments made by the lessor to the lessee for the financial reimbursement of leasehold improvements that were explicitly not classified as lease incentives within the meaning of IFRS 16. As these statements led to misunderstandings in practice, the IASB deleted this passage from the example.

- **IAS 41 "Agriculture" – Taxation in fair value measurements**

  The amendment removes a requirement in IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset (using a present value technique). It is now not mandatory to use a pre-tax discount rate when measuring fair value. The amendment will ensure that the requirements of IAS 41 will be aligned with the provisions of IFRS 13.



**Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and IFRS Practice Statement 2: Disclosure of Accounting Policies**

On January 23, 2020, the IASB published **amendments to IAS 1** "Classification of Liabilities as Current or Non-current". These are clarifications regarding the classification of liabilities, which have an uncertain maturity date, as current or non-current. The classification is supposed to be derived from the entity's existing rights as of the end of the reporting period. If a right to extend a liability is linked to loan conditions (e.g., covenants) and a breach of contract occurs after the balance sheet date, then the dispositive factor is ultimately whether these loan conditions were met as of the end of the reporting period. Management's expectations about whether a right will actually be exercised should not be taken into account.

**Note:** The effective date of the amendments was intended to be January 1, 2022, but it was postponed to January 1, 2023 pursuant to a further amendment to IAS 1 ("Classification of Liabilities as Current or Non-Current – Deferral of Effective Date") published on July 15, 2020.

Furthermore, the IASB issued IAS 1 – Presentation of Financial Statements including amendments to the accompanying **IFRS Practice Statement 2** "Making Materiality Judgements" on February 12, 2021. The amendments to IAS 1 specify the extent to which accounting policies must be disclosed in IFRS notes. Whereas the disclosure requirement previously covered all significant methods, only material methods should be disclosed in the future (IAS 1.117). To qualify as significant, the accounting method must be related to material transactions or other events. On the other hand, there needs to be a reason for the disclosure, such as a change in an accounting method resulting from the exercise of an option or the existence of a complex or highly discretionary method. Furthermore, the disclosure requirement may also include methods developed by the entity in accordance with IAS 8.10-11 based on a loophole within IFRS. This means that the focus in the future should be on company-specific disclosures instead of standardized disclosures. The guidelines in Practice Statement 2 have been adjusted accordingly.

**Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates**

Also on February 12, 2021, the IASB published amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments to IAS 8 introduce a definition of the term "accounting estimate" for the first time in order to better distinguish changes in accounting policies from changes in estimates. IAS 8 clarifies that an accounting estimate always relates to a measurement uncertainty of a financial figure in the financial statements. In addition to input parameters, an entity also uses valuation methods to determine an estimate. Valuation methods can be estimation techniques or valuation techniques.

A differentiation from accounting policies is crucial, inasmuch as IAS 8 provides for different consequences for changes in estimates and accounting policies. While changes in accounting policies must be accounted for retrospectively, changes in estimates must be accounted for prospectively.

**Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The IASB published specific amendments to IAS 12 on May 7, 2021. The amendments concern the accounting treatment of deferred taxes that relate to assets and liabilities arising from a single transaction, such as the recognition of leases or the inclusion of decommissioning obligations in the initial measurement of an asset.

A new exemption to the exemptions defined in IAS 12.15 b) and IAS 12.24 was introduced. These provide that no deferred tax liability will be recognized if it arises from the initial recognition of an asset or liability that is not a business combination, and, at the time of the transaction, it affects neither the accounting pre-tax result nor the taxable result.

These exemptions now no longer apply to transactions that give rise to both deductible and taxable temporary differences for the reporting entity. IAS 12.22A was newly introduced and contains an explicit reference to leases as the main application case of the revised rule.

**Amendments to IFRS 17 "Insurance Contracts" – Initial Application of IFRS 17 and IFRS 9 – Comparative Information**

The IASB published limited amendments to IFRS 17 on December 9, 2021. They allow for the classification of financial assets as of the transition date to IFRS 17 "Insurance Contracts" (disclosure of comparative figures as of January 1, 2022) in line with the expected classification under IFRS 9 "Financial Instruments" (as of January 1, 2023), although IAS 39 "Financial Instruments: Classification and Measurement" is still applied for these financial assets.

**Note:** This so-called optional overlay approach is intended to avoid mismatches at the transition date for the accounting of insurance contracts under IFRS 17 due to the conflicting transition rules between IFRS 17 and IFRS 9.

The scope of application opens itself up specifically in those cases where IFRS 9 was not applied to the presentation of comparative figures for a financial asset. This concerns the following cases:

- the comparative figures were voluntarily adjusted on the basis of IFRS 9, but the financial asset was derecognized in the comparative period, or
- a voluntary adjustment of the comparative figures on the basis of IFRS 9 has not been made.

Entities can decide separately for each financial asset whether they wish to apply the overlay approach. In addition, a showcase application of the impairment model according to IFRS 9 can be made.

Qualitative information must be provided about the extent to which the optional overlay approach is applied.

PUBLISHED EXPOSURE DRAFTS

# IASB publishes draft ED/2021/9 on the Classification of Non-Current Liabilities with Covenants (proposed amendments to IAS 1)

On November 19, 2021, the IASB issued exposure draft ED/2021/9 "Non-Current Liabilities with Covenants (proposed amendments to IAS 1)", which provides clarifications on the classification of liabilities and specific disclosure requirements if non-current classified liabilities could become repayable within twelve months of the reporting date due to the failure to meet ancillary conditions (often referred to as "covenants").

The narrowly-worded clarifications flesh out the amendments to IAS 1 „Classification of Liabilities as Current or Non-Current" published in January 2020, which are to be applied beginning January 1, 2023. The amendments in 2020 clarified how an entity assesses whether it has the right to defer settlement of a liability if that right depends on certain conditions being met within twelve months of the reporting period.

The key element of the amendments proposed in ED/2021/9 is that any conditions that an entity must satisfy within twelve months of the reporting date will not affect the classification of liabilities as either current or non-current. Instead, entities would separately identify non-current liabilities, which are subject to such conditions, and would disclose that the liabilities could become due within twelve months.

In addition, the draft provides that the effective date of the amendments to IAS 1, which were published in January 2020, will be postponed by one year to January 1, 2024.

The written comment period deadline is May 21, 2022. The effective date should be determined after the end of the comment period, at the earliest on January 1, 2024.

**Note:** The draft is available at the following link.

IFRS INTERPRETATIONS COMMITTEE

# Agenda Decisions of the IFRS Interpretations Committee

If the Committee is of the opinion that an issue addressed to the IFRS IC is not suitable as a basis for an interpretation, then the decision on non-inclusion in the work plan will be published in the IFRIC Update. This so-called „Tentative Agenda Decision" contains a description of the issue as well as a reason for the rejection.

Once a minimum 30-day comment period has expired, the IFRS IC adopts the final text of the decision, including the explanatory memorandum.

In some cases, the IFRS IC's rejection decisions also contain material statements on IFRS accounting (non-interpretations, non-IFRICs). The agenda decisions are expressly published by the IASB for information purposes only. Nevertheless, in the view of the IASB, users may also not ignore these statements of the IFRS IC and may deviate from them only if there are strong reasons.

Note: The following table provides an overview of the topics of the agenda decisions of the IFRS Interpretations Committee in the period from June 24, 2021 to December 10, 2021. The detailed description of the facts as well as the decision are published as IFRS IC Agenda Decision in the IFRIC Update.

**IFRIC Update December 2021**

| Standard/Topic | Excerpts from Agenda Decisions |
|---|---|
| IFRS 15: Principal versus Agent: Software Resellers | The IFRS IC received a request asking whether in applying IFRS 15 – taking into account the guidance in IFRS 15.B34-B38 – a reseller of software licenses is a principal or an agent. In doing so, the Committee assessed whether the reseller makes a contractual promise to the customer to provide the goods or services (software licenses including consulting) itself (entity is a principal) or a contractual promise to arrange for the goods or services to be provided by the software vendor (entity is an agent). The IFRS IC noted that the assessment depends on the specific facts and circumstances and that in its judgment, the reseller must consider the extent to which it can demonstrate control over the standard software licenses before transferring them to the customer. The reseller is required to disclose material information about the accounting policies in IAS 1 and IFRS 15 in connection with the discretionary decision that influences the amount and timing of revenue. |

**IFRIC Update September 2021**

| Standard/Topic | Excerpts from Agenda Decisions |
|---|---|
| IAS 7: Demand deposits with restrictions on use | From the perspective of the IFRS IC, an entity shall include a demand deposit as a component of „cash and cash equivalents" in its statement of cash flows even if the demand deposit is subject to contractual restrictions on its use that were agreed to with a third party (use of cash for specified purposes only). This also applies accordingly to the presentation in the balance sheet. Insofar as the demand deposit is significant for understanding the financial position, the entity should break down the item „cash and cash equivalents" and present the demand deposit as a separate line item. In addition, significant cash and cash equivalents, which are not at the group's disposal, must be disclosed (IAS 7.48). |
| IFRS 9: Cash received via electronic transfer as Settlement for a Financial Assets (Trade Receivables) | The IFRS IC addressed the question about when a trade receivable should be derecognized or the cash received should be recognized, if the debtor has made the corresponding cash transfer on the balance sheet date to settle the claim, but this is not credited to the recipient's bank account (entity) until two working days later due to the electronic transfer system. The IFRS IC emphasizes that receivables should be derecognized on the date that the contractual rights to the cash flows expire. The timing of the expiration depends, among other things, on the applicable rules and characteristics of the electronic funds transfer system. Cash is recognized on the date the funds are credited to the recipient's bank account. To the extent that the contractual rights to the receivables expire before the settlement date of the credit, the entity would recognize each financial asset received as settlement of the receivable on the same date (for example, a right to receive cash from the debtor's bank). |

IASB: CURRENT STANDARD-SETTING PROJECTS

# Post-Implementation Review of IFRS 9 (Classification & Measurement)

The IASB regularly reviews a new standard two to three years after its effective date to determine whether the standard has been implemented in practice as intended by the IASB or whether changes to the new requirements should be considered.

On September 30, 2021, the IASB published a consultation document (so-called "Request for Information") as part of the Post-Implementation Review of IFRS 9 „Financial Instruments". The review is initially limited to the classification and measurement requirements.

**Note:** The review with regard to the impairment model (as well as hedge accounting) should be pushed off in order to be able to observe how the standard has responded to the challenges of the COVID-19 pandemic.

A total of nine topics were put forward for discussion, including inter alia the classification and measurement rules as an overall concept, the determination of the business model, the examination of the cash flow criterion for new products (e.g., with cash flows that are influenced by sustainability criteria), financial assets that constitute equity instruments, as well as modification of contractual cash flows.

**Note:** The consultation document is available at the following link.

# IFRS Taxonomy Update – 2021 General Improvements and Common Practice

The IFRS Taxonomy Update 2021 project is expected to use empirical evidence to assess whether improvements to the IFRS taxonomy are needed to support high-quality tagging of information presented in financial statements. To this end, feedback was obtained from stakeholders, and the taxonomy elements („extensions"), which were created by entities in financial statements prepared in accordance with IFRS standards, were examined in accordance with SEC filing requirements.

In December 2021, the IFRS Foundation published a proposed update to the IFRS Taxonomy (IFRS Taxonomy 2021 – Proposed Update 2 Technology Update) based on the results of the project.

**Note:** The document is available at the following link.

IDW

# Institut der Wirtschaftsprüfer (IDW) publishes further module on IDW RS HFA 50 to clarify application issues in connection with IAS 1

In order to be able to comment more flexibly on practical issues and to present the comments in a combined format, the IDW (German Institute of Auditors) transitioned a few years ago to handling comments on a select group of IFRS accounting issues uniformly by issuing modular guidance statements (Modulverlautbarungen). Each of the modules contained in the guidance statement is independent and adopted separately by the main technical committee. In the modular guidance statement IDW RS HFA 50, the individual modules are then summarized and sorted in a sequence that tracks the order of IFRS.

In December 2021, the IDW published „IDW RS HFA 50: Module IAS 1-M1" (Reverse Factoring) in IDW Life 12/2021.

The module deals with concerns about the accounting treatment of reverse factoring transactions, taking into account the corresponding agenda decision of the IFRS IC in December 2020. At the same time, the new module supersedes the previous explanations on the accounting treatment of such transactions as set forth in IDW RS HFA 48 (section 3.2.3.) and in IDW RS HFA 9 (section 5.3.).

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

The module fleshes out the presentation of liabilities related to these transactions in the balance sheet and cash flow statement as well as the required disclosures in the customer/debtor's financial statements.

Compared to the corresponding module draft dated July 1, 2021, there have been no material changes in the version that was finally adopted. We therefore refer to our comments in the 3rd edition 2021 of our novus IFRS from August 2021.

BAFIN

# BaFin's 2022 Audit Priorities in Connection with Balance Sheet Audits

Under the Act to Strengthen Financial Market Integrity (abbreviated in Germany as "FISG"), the German Federal Financial Supervisory Authority (BaFin) will be solely responsible for balance sheet audits in a single-tier sovereign system beginning on January 1, 2022 and will thereupon assume the tasks previously discharged by the German Financial Reporting Enforcement Panel (FREP).

On November 29, 2021, BaFin published the following audit (i.e., enforcement) priorities for 2022 (related to 2021 annual and consolidated financial statements):

1. 1. impact of the COVID 19 pandemic
2. climate-related matters
3. expected credit losses at credit institutions
4. supply chain financing (reverse factoring)

The first three audit / enforcement priorities represent the "European Common Enforcement Priorities" that were identified by the national enforcement institutions together with European Securities and Markets Authority (ESMA). Explanations regarding these enforcement priorities are presented in this edition of novus IFRS under "European Common Enforcement Priorities" below. The last enforcement priority constitutes a national priority for BaFin.

The national priority focuses on supply chain financing (reverse factoring), in particular with regard to its disclosure in the balance sheet and cash flow statement as well as the corresponding disclosures in the notes and management report. In justified individual cases, BaFin will also examine and verify the existence of disclosed cash and assets. Furthermore, BaFin emphasizes that it will devote more attention to the availability of comprehensible and verifiable accounting documentation.

The IFRS IC already issued specific guidance on reverse factoring in December 2020. The IDW has also dealt with questions and concerns regarding the accounting treatment of these transactions in connection with modular guidance statement "IDW RS HFA 50: IAS 1-M1 (Reverse Factoring)" (see section "IDW" above in this edition of the novus IFRS).

**Note:** BaFin has published a detailed description of the national audit/enforcement priorities in a press release that may be retrieved on its website.

ESMA

# ESMA Enforcement Priorities for 2022

The European Securities and Markets Authority (ESMA) has published the following **enforcement priorities** („European Common Enforcement Priorities") for 2022 (related to IFRS consolidated financial statements for 2021):

**1. Impact of the COVID 19 pandemic**

The enforcement priority is focused on the careful assessment and transparency in accounting for longer-term impacts of the COVID 19 pandemic and the recovery phase.

**2. Climate-related matters**

Issuers should ensure consistency between the information disclosed in the IFRS financial statements and the non-financial information with respect to the following topics:

- climate-related issues
- consideration of climate risks
- disclosure of any significant judgements and estimation of uncertainty regarding climate risks while assessing materiality.

**3. Expected credit losses at credit institutions**

The enforcement priority relates to improved transparency in the measurement of expected credit losses, in particular with respect to:

- management overlays
- material changes in credit risk
- forward-looking information
- changes in valuation allowances, credit risks and collateral, and
- the impact of climate risk on the ECL assessment.

The focus and priority this year is on the impact of the COVID 19 pandemic and climate-related matters. According to ESMA, the priorities reflect the continued volatility and uncertainty surrounding the COVID 19 pandemic and the need for transparent reporting concerning its impact, which is critical to ensuring the stability of EU financial markets. They also highlight the importance of including all material financial and non-financial information on climate-related matters, given the growing importance of climate change for investors.

ESMA's **recommendations** concerning non-financial information refer to the following topics:

1. Impacts of the COVID 19 pandemic on sustainability-related goals and non-financial key performance indicators, as well as information on any structural changes in the business model; and

2. Impact of climate change: climate-related measures, underlying policies and their outcomes.

Furthermore, ESMA mentions again certain disclosures in the notes in connection with Article 8 of the EU Taxonomy Regulation: According to that provision, all annual financial reports beginning January 1, 2022 must be prepared in conformity with the new European Single Electronic Format (ESEF) and all necessary preparatory steps must be taken to meet the disclosure requirements.

**Note:** A detailed presentation of the enforcement priorities and the recommendations can be found on ESMA's homepage. ESMA's enforcement priorities are available at the following link.

# Enforcement Decisions Published

European national enforcement bodies audit the financial statements of companies whose securities are traded or admitted to trading on a regulated market in Europe. The financial statements are prepared in accordance with IFRS and thereupon examined for their compliance with IFRS and other applicable reporting requirements, including relevant national legislation.

ESMA has developed an anonymized database of the enforcement decisions made by each European enforcement body as a source of information to promote the appropriate application of IFRS and to thereby provide IFRS-reporting entities and their auditors insight into the European enforcement body's decision-making.

Due to the legal requirements in Germany, the published excerpts do not contain any cases of the German Financial Reporting Enforcement Panel (FREP) that have been heretofore handled in connection with a balance sheet audit. Nevertheless, due to the uniform application of IFRS, it may be assumed that these decisions will likewise be taken into account by BaFin, which will have sovereign regulatory authority beginning on January 1, 2022 in connection with balance sheet audit and that these decisions will therefore also be relevant for companies in Germany.

The following overview shows the most recent publications that are available on ESMA's website.

| Affected standard | Overview of the facts | Source |
|---|---|---|
| IFRS 9 | Measurement of the expected credit losses | Decision ref EECS/0121-01 |
| IFRS 16 | Recognition of leases on the first application of IFRS 16 | Decision ref EECS/0121-02 |
| IFRS 16 | Depreciation of leased assets and dismantling costs | Decision ref EECS/0121-03 |
| IFRS 9, IFRS 7 | Impairment of finance lease receivables | Decision ref EECS/0121-04 |
| IAS 1 | Presentation of expenses related to COVID-19 | Decision ref EECS/0121-05 |
| IAS 1, IAS 34 | Presentation of current and non-current liabilities in the balance sheet | Decision ref EECS/0121-06 |
| IFRS 7 | Reconciliation of net-debt | Decision ref EECS/0121-07 |
| IAS 1, IFRS 7 | Disclosure of financial risk | Decision ref EECS/0121-08 |
| IFRS 9 | Measurement of purchased credit impaired assets (POCI) | Decision ref EECS/0121-09 |
| IFRS 9 | Disclosure of the effects of changes in credit risk related to financial liabilities designated at fair value through profit and loss | Decision ref EECS/0121-10 |

# Error Findings by the FREP

The following is a list of the error findings made by the German Financial Reporting Enforcement Panel (FREP) and published between April 17, 2021 and December 10, 2021. The goal here is to avoid errors in these areas.

**Note:** The FREP's publications on error findings are available online at www.bundesanzeiger.de (section "Accounting/Financial Reporting" – "Error Announcements").

| Publication | Subject Area |
|---|---|
| Publications dated May 3, 2021 | ▶ Missing interim management report<br>▶ Intangible assets are overstated |
| Publications dated June 22, 2021 | ▶ Net assets, financial position, results of operations and cash flows do not correspond to the actual situation, inasmuch as the input from several subsidiaries offer no guarantees here<br>▶ (Interim) management report does not correspond to the actual situation<br>▶ Group accounting does not provide an overview of business transactions or the position of the Group |
| Publication dated June 28, 2021 | ▶ Contractual liabilities and deferred income are understated<br>▶ Incorrect allocation of transaction prices in connection with revenue recognition in multiple-component arrangements<br>▶ Intangible assets are overstated |
| Publication dated July 27, 2021 | ▶ Missing inclusion of subsidiaries (franchise companies)<br>▶ Flawed accounting for several business combinations / goodwill is overstated (control existed prior to acquisition of the companies)<br>▶ Lease receivables are overstated because risk provisioning was too low |
| Publication dated August 17, 2021 | ▶ Measurement of equity instruments through profit or loss instead of directly in equity<br>▶ Liabilities from debtor warrant obligations are not recognized at fair value. |
| Publication dated October 1, 2021 | ▶ Inadmissible recognition of a deferred tax asset surplus (material uncertainties with regard to a going concern) |
| Publication dated November 23, 2021 | ▶ Failure to report an acquisition as a related-party transaction |
| Publication dated November 26, 2021 | ▶ Rights of use according to IFRS 16 are overstated<br>▶ Erroneous disclosure of related-party transactions (arm's length)<br>▶ Financial liabilities are understated (Schuldschein loans)<br>▶ Incorrect presentation in segment reporting |
| Publication dated November 29, 2021 | ▶ Going concern assumption is not comprehensible (lack of liquidity planning for subsidiary despite existential risks)<br>▶ Flawed accounting for a loan waiver |

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