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INTERNATIONAL ACCOUNTING (IFRS)

Impact of current macroeconomic developments on IFRS financial statements

Editorial

Dear Reader,

the social, political and economic situation in Germany and the rest of the world is tense and is getting worse due to the effects of the ongoing Corona pandemic and the war in Ukraine. Companies are confronted with a variety of challenges, such as high inflation rates, labor shortages in many industries, and the recession that is expected in Germany and the rest of Europe. These challenges lead to great uncertainties and risks, which also have an impact on IFRS reporting. In this edition of novus IFRS, we present the professional guidance published by IDW and ESMA to assist companies with specific accounting and reporting issues in this uncertain environment.

In addition, we have provided you with a list of key disclosures to be reported in the notes to EU-IFRS consolidated financial statements as of December 31, 2022 with regard to standards and interpretations that have already been adopted. The amendments whose application is already mandatory for the 2022 financial year are manageable and relate to the assessment of contract performance costs for onerous contracts in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets".

In addition, you will find an overview of the results of the post-implementation review of IFRS 10, IFRS 11 and IFRS 12, and the watch list on highly inflationary jurisdictions updated by the International Practices Task Force (IPTF).

ESMA has published the common European enforcement priorities for 2023. The focus in financial reporting is on consistency between financial and non-financial information, the impact of the Ukraine war and consideration of the current macroeconomic environment. The audit of non-financial reporting focuses in particular on taxonomy-related disclosures and the transparency and scope of non-financial reporting. In addition, the focus is on alternative performance measures and the European standardized electronic format (ESEF).

We hope you have a wonderful holiday season. If you have any questions about any of the topics in this newsletter, please feel free to contact us.

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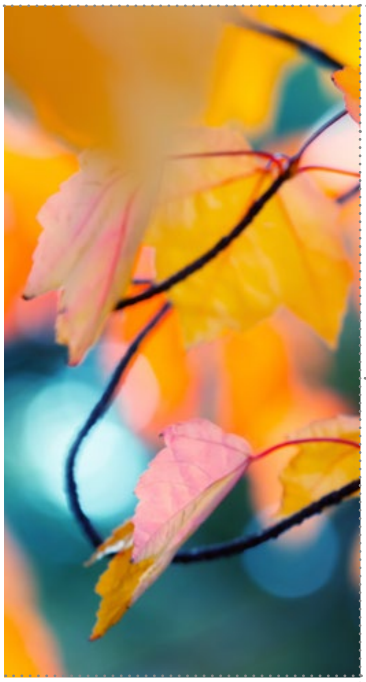

Impact of current macroeconomic developments on IFRS financial statements

The social, political and economic situation in Germany and the rest of the world is tense and is getting worse. Companies are confronted with a wide range of challenges, resulting in major uncertainties and risks. This also has an impact on corporate reporting.

The Corona pandemic is not yet over and continues to cause strain. Russia's war of aggression on Ukraine has exacerbated the supply chain disruptions already caused by the Corona pandemic and led to huge increases in energy costs, which are placing a heavy burden on companies. High inflation rates, the labor shortage prevailing in many industries and the expected recession in Germany and the rest of Europe are additional challenges currently facing companies.

Against this background, the **IDW** published **Technical Guidance** on September 30, 2022, which provides companies with specific guidance on accounting and reporting under both IFRS and HGB as of the reporting date of September 30, 2022, and for subsequent reporting dates (in particular December 31, 2022). 1.12.2022).

Impact of uncertainties on forecasts

Companies require reliable forecasts for the proper measurement of assets and liabilities. The forecasts must be based on reasonable assumptions by management. External evidence is of particular importance in this respect. Against the background of increasing uncertainties, it will often not be possible to continue past-based assumptions unchanged. Companies preparing financial statements must ensure that forecasts and estimates are plausible, coherent and comprehensible to third parties across all items and components of the financial statements. Increasing uncertainties make corporate planning, which forms the basis for forecasting cash flows and determining input factors for accounting and measurement matters, all the more difficult. In this context, it is advisable to create various scenarios and to provide transparent and comprehensive information to the users of financial statements, such as in the form of sensitivity analyses.

In its Technical Guidance, the IDW emphasizes the following aspects in particular:

- Current developments affect the capitalized goodwill. The comparative value to be compared with the last carrying amount comes under pressure: in the numerator, the earnings or cash flow expectations are reduced due to the overall economic development; in the denominator, the capitalization interest rate increases. As a result, the present value decreases.

- In the impairment test pursuant to IAS 36, the cash flows must be forecast when determining the value in use. The calculation of the present value of the terminal value is of particular importance here, as it is based on a long-term extrapolation of trend developments. This also applies to the determination of a lower fair value based on future earnings (for example, in the case of investments) in financial statements prepared in accordance with the German Commercial Code.

- In accounting for deferred tax assets arising from deductible temporary differences and for the carryforward of unused tax losses, companies must also make use of forecasts. The recognition of deferred tax assets requires that it is probable that future taxable profit will be available.

- Under IAS 37, the amount recognized as a provision must represent the best estimate of the expenditure required to settle the present obligation at the reporting date. The estimate is dependent on management's judgment and must be reviewed at each reporting date and adjusted if necessary (e.g., for changes in interest rates). In forecasting expenses, management must take into account future price and cost increases.

- The war in Ukraine is causing enormous price increases for energy, raw materials and other input factors. For sales transactions with agreed fixed prices that are pending at the balance sheet date, this may result in the need to recognize a provision for anticipated losses. A provision for onerous contracts must be recognized if the value of the consideration receivable by the reporting entity is less than the value of the goods or services to be provided by the reporting entity after the reporting date. If the anticipated loss from the pending transaction relates to an asset that has already been capitalized as of the reporting date, the asset must first be written down and a provision for anticipated losses must be recognized for any loss exceeding this amount.

Recognition and measurement of financial instruments

The current political and economic environment raises the question of whether and how the accounting and measurement of financial instruments will have to be adjusted for reporting dates on or after September 30, 2022.

The following aspects must be given particular consideration when assessing impairment/risk provisioning under IFRS:

- Under IFRS 9, particular importance is attached to the assessment of a significant increase in credit default risk and thus to any stage transfer that may be required when accounting for financial instruments.

- The current crisis situation leads to major estimation uncertainties and discretionary powers that must be exercised appropriately. Companies must make estimates of expected cash flows in order to calculate expected credit losses. The IDW recommends presenting various scenarios, with the probability of occurrence of the scenarios playing a decisive role.

- Expected credit losses for trade receivables are to be calculated using the simplified approach. If the reporting entity uses provision matrices, it must critically assess the provision rates and adjust them if necessary.

- However, if the existing uncertainties and risks at the reporting date are so serious that the valuation models under IFRS 9 do not adequately take them into account, post-model adjustments/overlays must be recognized.

Note: The reporting entity should assess whether a reclassification of financial assets is necessary. A reclassification of financial assets under IFRS is only possible if the business model is changed for the management of the financial assets. The Ukraine and Corona crises as such do not justify a reclassification, but they can bring about a change in the existing business model.

Need for transparent reporting in the notes

- **Creating transparency**

  In IFRS financial statements, in the case of all uncertainties, a report must be made in the (consolidated) notes on the possible, company-specific consequences of the occurrence of war, including the existence of risks to the company's ability to continue as a going concern, and a description of the main assumptions made for accounting and reporting purposes. Users of financial statements must be able to understand management's assessments. IFRS preparers of financial statements are required to disclose information on estimation uncertainties and to perform sensitivity analyses.

- **Supplementary report in the notes**

  For material non-adjusting events, IFRS preparers must report the nature of the event (IAS 10.21 (a)). In addition, IAS 10.21 (b) requires an estimate of the financial effects in the notes or a disclosure that such an estimate is not possible.

Further technical guidance from the IDW on the impact of the Ukraine war on accounting and auditing

The Technical Guidance published by the IDW on September 30, 2022 refers in part to Technical Guidance previously published by the IDW on March 8, 2022 (last supplemented on August 9, 2022) and on July 18, 2022 on the effects of the war in Ukraine on accounting and the auditing of financial reports. In the Technical Guidance of July 18, 2022, the IDW emphasizes that uncertainties, which are primarily associated with supply bottlenecks and high inflation rates, are to be taken into account when preparing financial statements in accordance with the German Commercial Code (HGB) and IFRS and when preparing management reports. The uncertainties existing at the reporting date should be appropriately reflected in the course of scenario analyses (e.g. gas supply stoppage by Russia). Companies should report transparently on the main assumptions they have made and the possible consequences of the war.

The IDW has also addressed industry-specific issues for banks. If the risks resulting from the uncertainties have not already been taken into account as of the reporting date in the application of the established measurement model in accordance with IFRS 9, this must be done by means of post-model adjustments/overlays.

In the third update to the Technical Guidance of March 8, 2022, which was last published on August 9, 2022, the IDW added explanations on the relationship between reporting obligations under sanctions law and the duty of confidentiality under professional law, and updated the questions on the reporting of sanctions violations by the auditor.

Note: We reported on the IDW's Technical Guidance dated March 8, 2022 including the two updates on April 8, 2022 and April 14, 2022, in the 1st edition of novus IFRS in 2022.

The Technical Guidance can be found in German on the IDW website.

ESMA Guidance on the Accounting Implications of the Ukraine War

In its Public Statement of May 13, 2022, ESMA addressed the impact of the Ukraine war on half-yearly financial reporting. In ESMA's view, the Ukraine war constitutes a significant event under IAS 34.15 for all entities with significant operations in the affected regions as well as for entities in severely affected sectors such as agriculture and energy.

ESMA reminds affected companies to report transparently on the following topics:

- the main IFRS requirements that may be applicable in the context of Russia's invasion of Ukraine, e.g. impairment of non-financial and financial assets and loss of control;
- ESMA's expectations regarding disclosures in the notes, e.g. judgements made, material uncertainties and going concern risks;
- ESMA's expectations regarding management disclosures in interim reports, e.g. direct and indirect impact of the war and imposed sanctions on the companies' strategic orientation and targets, operations, financial performance, financial position, cash flows, and measures taken to mitigate cybersecurity impacts and risks.

From ESMA's point of view, key assumptions made by management must increasingly be reviewed and changes explained in half-yearly financial reporting. ESMA places a particular focus on sensitivity analyses, especially in connection with the impairment testing of assets. The impairment testing of assets in this uncertain and complex situation is a key focus for ESMA in the preparation of half-yearly financial reporting. The expected cash flows must be assessed prudently; depending on the risk level of the asset, multiple scenarios must be considered. The weighting of the different scenarios needs to be based on reasonable and realistic expectations of management. Companies should pay attention to the consistency of cash flow projections and expectations in the impairment tests with changes to the strategic direction of the company due to the consequences of the Ukraine war.

Due to the impact of the Ukraine war on interest rates and inflation trends, ESMA expects discount rates to be adjusted when assessing cash flow projections.

In ESMA's view, the complexity of the situation also requires greater involvement of the audit committee of the Supervisory Board, which in its role as supervisory and control body is to ensure the preparation of high-quality half-yearly financial reporting.

Note: ESMA's guidance is available on its website.

DISCLOSURES REQUIRED BY IASB PUBLICATIONS

Overview of disclosure requirements in EU-IFRS consolidated financial statements as of December 31, 2022

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

The following is an overview of the status of the standards and interpretations adopted by the IASB (as of November 17, 2022) that are required to be reported on in EU IFRS consolidated financial statements as of December 31, 2022 under IAS 8.28 and IAS 8.30.

Impact of new or amended standards or interpretations (IAS 8.28)

IAS 8.28 requires disclosure of new or amended standards and interpretations if their initial 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,
- If applicable, a description of the transitional provisions,
- Type and change in accounting method,
- 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 as of December 31, 2022, as well as a general assessment regarding the impact on accounting practice.

It is not necessary to list all new or amended requirements. If necessary, after the explanation of the new standards and interpretations whose application has an impact on the IFRS consolidated financial statements, a general indication 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, 2022 have no material impact on the consolidated financial statements.

Standard	Title	IASB Effective date*	Date of first application in the EU*	Impact**
Amend. IFRS 3	Business combinations – reference to the Conceptual Framework	01.01.2022	01.01.2022	Industry- or company-specific significance
Amend. IAS 16	Property, plant and equipment – proceeds before intended use	01.01.2022	01.01.2022	Industry- or company-specific significance
Amend. 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 guidance – the individual impact on the individual company is to be explained independently of this.

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

The IASB issued amendments to IFRS 3 on May 14, 2020, in which an update of the reference to the Conceptual Framework was made. The revised Conceptual 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 should apply the requirements of IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the obligations it has 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** arising from the sale of items produced while bringing that asset to the location and condition necessary for it to be available for use (e.g. product samples) are to be recognized in **profit or loss**. It is therefore not possible to take such amounts into account when 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".

In addition, a clarification has been made as to when an asset is "available for use". Depreciation of an asset begins when it is **available for use**. In order to be considered available for use, it is not necessary that a financial performance target set by management is achieved (e.g. desired operating profit margin).

According to the amendments to IAS 16, revenue and costs relating to manufactured items that do not arise from ordinary activities must be reported separately.

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

Also on May 14, 2020, the IASB issued amendments to IAS 37 on onerous contracts. The amendments relate to clarification of 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 without 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 Improvement Process (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 IFRSs 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 (including without consolidation adjustments). The amendment extends this requirement to include the subsidiary's **cumulative currency translation differences**, so that these can also continue to be measured at the values previously recognized in the parent's consolidated financial statements.

- IFRS 9 "Financial Instruments" – Fees to be included in the "10% test" for derecognition of financial liabilities

  In the event of substantial changes to contractual 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 clarifies that only fees paid or received between the entity and the creditor are to be included in the 10% test. Fees or costs paid to or received from third parties are not to be included.

- IFRS 16 "Leases" – Leasing Incentives

  In the illustrative examples accompanying IFRS 16 (Illustrative Example 13), one example also included statements on payments by the lessor to the lessee for the financial reimbursement of leasehold improvements, which were explicitly not classified as lease incentives within the meaning of IFRS 16. This passage has been deleted as it led to misunderstandings in practice.

- IAS 41 "Agriculture" – Recognition of Tax Effects in Fair Value Measurement

  The amendment removes a requirement in IAS 41 that entities should not take into account tax cash flows when measuring the fair value (present value method) of a biological asset. It is no longer mandatory to use a pre-tax discount rate when measuring fair value. The amendment aligns the requirements of IAS 41 with the requirements of IFRS 13.

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, **provided that** their application is not yet mandatory in the reporting period and they are not applied early.

The following **disclosures in the notes** are required, for example:

- Title of the new standard or interpretation,
- Nature of the impending change in accounting policy,
- Date from which application of the standard or interpretation is mandatory,
- Date from which the entity intends to apply the standard or interpretation,
- Expected effects on the financial statements or if these effects are unknown or cannot be reliably estimated, a statement with this content.

Note: The following table provides an overview of the potentially disclosable requirements under IAS 8.30 in EU-IFRS consolidated financial statements as of December 31, 2022.

The standards and interpretations presented in the table with an IASB effective date of January 1, 2023 have already been endorsed by the EU, so that their application is mandatory in the EU as of January 1, 2023 (voluntary application if applicable). The other standards and interpretations presented in the table have not yet been endorsed by the EU.

For the potentially disclosable regulations presented, 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 company, a formulation can be used in which the relevant standards and interpretations without a material impact are neither described nor listed. For example, 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, at the time of application of the standards or interpretations by the company, a **collective statement** can also be made that early application of the new standards or interpretations is not planned.

Standard	Title	IASB Effective date*	Expected date of first-time application in the EU*.	Impact**
EU endorsement still pending (as of November 17, 2022)				
Amendment to IAS 1	Presentation of financial statements – classification of liabilities as current or non-current	01.01.2024	Outstanding	Industry- or company-specific significance
Amendment to IFRS 16 (September 2022)	Lease liability in sale-and-leaseback transactions	01.01.2024	Outstanding	Industry- or company-specific significance
IFRS 17, Amendment to IFRS 17 (June 2020)	Insurance contracts	01.01.2023	01.01.2023	Industry- or company-specific significance
IFRS 17, Amendment to IFRS 17 (December 2021)	Insurance contracts: First-time Adoption of IFRS 17 and IFRS 9 – Comparative Information	01.01.2023	01.01.2023	Industry- or company-specific significance
Amendment to IAS 1, IFRS Practice Statement 2	Disclosure of accounting policies	01.01.2023	01.01.2023	Fundamental importance
Amendment to IAS 8	Accounting policies, changes in accounting estimates and errors – Definition of accounting estimates	01.01.2023	01.01.2023	Fundamental importance
Amendment to IAS 12	Income taxes – Deferred taxes relating to assets and liabilities arising from a single transaction	01.01.2023	01.01.2023	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 guidance – the individual impact on the individual company is to be explained independently of this.

Amendments to IAS 1 „Presentation of Financial Statements" – Classification of Liabilities as Current or Non-Current

On October 31, 2022, the IASB published amendments to IAS 1 on the classification of liabilities with covenants in connection with long-term loan relationships as current or non-current. The amendment clarifies that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current.

A liability is classified as non-current if the reporting entity has a substantial right at the reporting date to defer settlement for at least twelve months. For these liabilities classified as non-current, it is mandatory to disclose certain information to enable users of the financial statements to understand the risk that the liability could become repayable within twelve months. The disclosure requirement includes the following information:

- the carrying amount of the liability
- Information about the covenants with which the company must comply (e.g., the nature of the covenants and the date by which the company must comply with them).
- Facts and circumstances that indicate that the company may have difficulties in complying with the covenants.

If the right to defer settlement of the liability for at least twelve months is dependent on conditions (covenants) being met within twelve months of the reporting date, these conditions do not affect the presentation as current or non-current.

Separate disclosure of liabilities classified as non-current that are subject to conditions within twelve months of the reporting date is no longer required.

The above amendment to IAS 1 amends the two (not yet mandatory) amendments to IAS 1 on the same subject from January 2020 and July 2020.

Note: The effective date of the amendments was postponed to January 1, 2024. The amendments are to be applied retrospectively in accordance with IAS 8.

Amendments to IFRS 16 "Leases": Lease Liability in a Sale-and-Leaseback

On September 22, 2022, the IASB issued amendments to IFRS 16 "Leases" that address the requirements for accounting for lease liabilities arising from sale and leaseback transactions. The amendment is intended to clarify that, following a sale, a lessee must measure the lease liability in such a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendment also explains different possible approaches, in particular for variable lease payments, including by means of examples.

Note: This does not change the accounting for leases that do not arise in a sale and leaseback transaction.

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 active reinsurance contracts,
- ceded reinsurance contracts and
- investment contracts with discretionary participation features that a company holds in its portfolio, provided that the company 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 under IFRS 15 Revenue from Contracts with Customers instead of IFRS 17.

Targeted **amendments and clarifications to IFRS 17** were published by the IASB on June 25, 2020 together 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 January 1, 2023. Until then, insurers are exempt from applying IFRS 9. Amendments or clarifications affect eight areas of IFRS 17 and are aimed overall at facilitating the implementation of the standard. This is to be made possible by the following amendments, among others:

- Additional exemptions from the scope of IFRS 17 for certain contracts,
- Additional facilitation in the application of the risk mitigation option,
- Changes in the framework of recognition, measurement and simplifications with regard to the reporting of insurance contracts as well as
- Additional transitional relief, including for business combinations.

Note: The basic principles of the standard have not been changed.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosures about Accounting Policies

On February 12, 2021, the IASB issued IAS 1 – Presentation of Financial Statements including amendments to the accompanying **IFRS Practice Statement 2** "Making Materiality Judgements". The amendments to IAS 1 specify the extent to which accounting policies must be disclosed in an IFRS note. Whereas the disclosure requirement previously covered all significant methods, in the future only material methods are to be disclosed (IAS 1.117). To be significant, the accounting method must be related to material transactions or other events. Secondly, there must be a reason for the disclosure, such as a change in an accounting method as a result of 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 due to a regulatory gap within the IFRSs. In future, the focus will therefore 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 for the first time a definition of an accounting estimate in order to better distinguish changes in accounting policies from changes in accounting 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 techniques to determine an estimate. Valuation techniques can be estimation techniques or valuation techniques.

A distinction from accounting policies is crucial, 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.

IAS 12: Income Taxes – Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction

The IASB published targeted amendments to IAS 12 on May 7, 2021, which were endorsed by the EU in the Official Journal on August 12, 2022 [link: https://eur-lex.europa.eu/eli/reg/2022/1392/oj]. The amendments concern the accounting treatment of deferred taxes relating to assets and liabilities arising from a single transaction, e.g., the recognition of leases or the inclusion of decommissioning obligations in the initial measurement of an asset.

A new **exception** to the exceptions defined in IAS 12.15 b) and IAS 12.24 was introduced. These provide that no deferred tax liability is 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, affects neither accounting profit nor taxable profit or loss.

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

IASB: ONGOING STANDARD-SETTING PROJECTS

Post-Implementation Review of IFRS 10, IFRS 11 and IFRS 12

With the publication of the project report on June 20, 2022, the IASB concluded its review of the standards IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities following their adoption. According to the outcome of the review, the requirements of IFRS 10, IFRS 11 and IFRS 12 meet their accounting objectives.

The review identified five low-priority issues that do not require direct adjustment to the standards, but could be explored further as part of an upcoming agenda consultation. These primarily relate to the following areas:

- Subsidiaries that are investment companies;
- Transactions that change the relationship between an investor and an investee;
- Transactions involving shell companies;
- Joint arrangements outside the scope of IFRS 11; and
- Additional disclosures on investments in other companies
  - Management assumptions and decisions
  - Subsidiaries with material non-controlling interests
  - Non-consolidated subsidiaries
  - Segment reporting for joint ventures.

Medium or high priority issues were not identified.

Note: The IASB's final report 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, the decision not to include it in the work program is published in the IFRIC Update. This so-called „Tentative Agenda Decision" contains a description of the issue and the reasons for the rejection. After a comment period of at least 30 days, the IFRS IC adopts the final wording of the decision, including the reasons.

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 not ignore these statements of the IFRS IC either and may only deviate from them if there are weighty reasons.

Note: The following table provides a brief overview of the topics of the preliminary agenda decisions of the IFRS Interpretations Committee in the period from April 7, 2022 to November 17, 2022. The detailed description of the facts as well as the decision are published as a so-called IFRS IC agenda decision in the IFRIC Update.

IFRIC Update June 2022

Standard/Topic	Excerpts from the main agenda decisions
IFRS 17 and IAS 21: Groups of insurance contracts in multiple currencies ▶ Creation of portfolios of insurance contracts ▶ Valuation of a portfolio of insurance contracts in different currencies	With regard to the question of whether exchange rate risks should be taken into account when forming portfolios of insurance contracts, the Committee concluded that similar risks should be taken into account when forming portfolios. „Similar risks" are not specified in more detail under IFRS 17.14, so that in principle currency risk should also be taken into account. However, the Committee emphasizes that „similar risks" do not mean „identical" risks, so that a portfolio may well consist of contracts with different currencies. Portfolios in different currencies are to be treated as monetary items according to IFRS 17.30. As neither IFRS 17 nor IAS 21 contain regulations on the translation of portfolios with cash flows in multiple currencies, the valuation procedure should be regulated in an accounting guideline, taking into account the existing regulations of IFRS 17 and IAS 21.

INTERNATIONAL PRACTICES TASK FORCE (IPTF)

Watch List on Highly Inflationary Jurisdictions Updated

The International Practices Task Force (IPTF) included Turkey on the list for the first time with the publication of the updated watch list on highly inflationary jurisdictions on May 25, 2022, due to its cumulative inflation rate of more than 100% over the past three years.

The watch list currently includes the following eleven countries where cumulative inflation has exceeded 100% over the past three years:

- Argentina
- Ethiopia
- Iran
- Lebanon
- South Sudan
- Sudan
- Suriname
- Turkey
- Venezuela
- Yemen
- Zimbabwe.

In addition, the following two countries are on the watch list (reason: (predicted) cumulative inflation between 70% and 100% or significant increase (more than 25%) in inflation (expected)):

- Angola
- Haiti.

The IPTF is a task force of the U.S. Center for Audit Quality and prepares the watch list of hyperinflationary economies primarily for purposes of applying U.S. GAAP. As the criteria for identifying such countries under U.S. GAAP are similar to the criteria for identifying "hyperinflationary economies" under IAS 29, IFRS users should also consider this classification accordingly.

Note: The watch list with detailed explanations of the calculation can be found at the following link: https://www.thecaq.org/collections/iptf-inflation-discussion-documents/.

ESMA

ESMA: European Common Enforcement Priorities 2023

The European Securities and Markets Authority (ESMA) published the 2022 European Common Enforcement Priorities (ECEP) for corporate reporting on October 28, 2022.

Enforcement Priorities in Financial Reporting

The following priorities should be taken into account by publicly traded companies when preparing IFRS consolidated financial statements and voluntarily disclosed IFRS separate financial statements. BaFin will take these priorities into account in the risk-oriented selection of companies to be audited and, in the case of the companies drawn in the sample, will increasingly select them as audit areas in the financial reporting enforcement procedures:

- **Financial and non-financial information**
  - Consistency between the information disclosed in the IFRS financial statements and the non-financial information on climate-related topics
  - Transparent presentation of the impact of climate risks in the impairment tests of non-financial assets and in the recognition and measurement of provisions
  - Disclosure of accounting treatment when entering into power purchase agreements;
- **Impact of the Russian invasion of Ukraine** on the net assets, financial position and results of operations
- **Consideration of the current macroeconomic environment** in the
  - Measurement of employee benefits,
  - Impairment of non-financial assets,
  - Recognition of income and expected credit losses on financial instruments.

Note: With regard to the enforcement priorities, **complete and comprehensible accounting documents** should be prepared, as these are requested in a **financial reporting enforcement procedure with a short deadline** of usually two weeks. This also includes the documentation of management decisions in the case of unclear accounting issues, but in particular the documentation of management's discretionary decisions in the case of estimation uncertainties due to the Ukraine war and the macroeconomic environment. The most important forward-looking assumptions and key sources of estimation uncertainties must also be disclosed in the (consolidated) notes in accordance with IAS 1.125 ff.

Enforcement priorities in non-financial reporting

The focus of the European enforcers and ESMA, in addition to the disclosures in the Taxonomy Regulation, is on the transparency and scope of non-financial reporting (possible coverage of value chains) and the robustness of the data used for this purpose.

Note: In contrast to most other European countries, the financial reporting enforcement procedure in Germany will, as things stand at present, continue to be limited to a formal audit only. Here, the financial reporting enforcement follows the audit of the financial statements, for which likewise only a formal and no substantive audit is prescribed by law. This follows from the explanatory memorandum to the German Financial Reporting Enforcement Act (BilKoG, Printed Matter 15/3421), according to which the BaFin's audit must be based on the audit standard to be applied to the audit of financial statements pursuant to Section 317 (2) of the German Commercial Code (HGB) (see also Resolution Recommendation and Report on the CSR Directive Implementation Act, BT-Drs. 18/11450, 46). For the same reason, the reporting obligations of companies under the Taxonomy Regulation within the non-financial report are not, in principle, subject to a substantive audit as part of a financial reporting enforcement procedure by BaFin.

Other focus topics of ESMA

- **Alternative Performance Measures (APM)**

  ESMA expects issuers to comply with the Guidelines on Alternative Performance Measures of June 30, 2015 when using alternative performance measures in the (consolidated) management report, taking into account the Questions & Answers report on these guidelines of April 1, 2022. This particularly affects management reporting based on subtotals (e.g. EBITDA) of the consolidated financial statements that are not defined in IFRS.

  Note: Even though the APM guidelines are not legally binding, BaFin will enforce the comprehensible and appropriate use and transparent definition of alternative performance measures in the (group) management report in the context of financial reporting enforcement procedures already on the basis of national regulations (§ 315 (1) sentence 3 HGB in conjunction with DRS 20.101-20.113).

- **European Single Electronic Format (ESEF)**

  When reviewing the ESEF format, the European enforcers and also BaFin will pay particular attention to the block tagging of the notes required for the first time.

Enforcement Decisions Published

The 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 will be examined to determine the extent to which they comply with IFRS and other applicable reporting requirements, including relevant national legislation.

ESMA has developed an anonymized database of enforcement decisions made by each European enforcement body as a source of information to promote the appropriate application of IFRS and to provide IFRS reporting entities and their auditors with insight into European enforcement body 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), which has so far been active in the context of financial reporting enforcement. However, due to the uniform application of IFRS, it can be assumed that these decisions will also be taken into account by BaFin, which will have sovereign authority from January 1, 2022, in the context of financial reporting enforcement and that they will therefore also be relevant for companies in Germany.

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

Affected standard	Overview facts	Source
IFRS 9	Measurement of expected credit losses	Decision ref EECS/0122-01
IAS 2	Measurement of net realizable value	Decision ref EECS/0122-02
IAS 2	Measurement of net realizable value	Decision ref EECS/0122-03
IFRS 15	Recognition of revenue over time	Decision ref EECS/0122-04
IFRS 15	Significant financing component	Decision ref EECS/0122-05
IFRS 15	Presentation of litigation proceeds as revenue	Decision ref EECS/0122-06
IFRS 16, IAS 36	Impairment test of cash-generating unit comprising right of use assets	Decision ref EECS/0122-07
IAS 36	Covid-19 impairment indicators	Decision ref EECS/0122-08
IAS 36	Identifying cash-generating units	Decision ref EECS/0122-09
IFRS 8	Identification of multiple business units as operating segments	Decision ref EECS/0122-10
IAS 7, IAS 8	Changes in the composition of cash and cash equivalents	Decision ref EECS/0122-11

FEDERAL FINANCIAL SUPERVISORY AUTHORITY – BAFIN

Error findings by BaFin

The following is a list of BaFin's error findings published from April 7, 2022 to November 17, 2022. The aim is to avoid errors in these areas.

Note: BaFin's publications on the error findings are available online at www.bundesanzeiger.de (section "Accounting/ Financial Reports" – "Error Announcements".

Publication	Subject area
Publication dated November 9, 2022	▶ Violation of IFRS 10.6f., IFRS 10.8, IFRS 10.B24 in conjunction with IFRS 10.B65 due to accounting according to the equity method instead of consolidating the subsidiary ▶ Violation of IFRS 10.6 ff. due to deconsolidation of a project company despite continued control
Publication dated August 25, 2022	▶ Violation of IFRS 5.6, 5.5(d) in conjunction with IAS 40.33 in conjunction with IFRS 13.9, 13.15, 13.22, 13.27 by measuring „Non-current assets held for sale too high
Publication dated April 14, 2022	▶ Violation of IAS 36.8 in conjunction with IAS 36.12 ff. by failing to perform an impairment test despite indications of impairment
Publication dated April 14, 2022	▶ Violation of IAS 36.8 in conjunction with IAS 36.12 ff. by failing to perform impairment test despite indications of impairment ▶ Incorrect presentation of cash flows from operating and investing activities due to incorrect inclusion of cash and cash equivalents in the course of a deconsolidation in accordance with IAS 7.39 ▶ Violation of IAS 1.7 and IAS 1.96 as well as IAS 19.122 and IFRS 10B99 in connection with the recognition of actuarial losses from pension provisions on deconsolidation of a subsidiary
Publication dated April 14, 2022	▶ Violation of IAS 12.68(a) due to the recognition in profit or loss (instead of directly in equity) of deferred tax assets from loss carryforwards in connection with the acquisition of a subsidiary
Publication dated April 14, 2022	▶ Violation of IAS 12.68(a) due to the recognition in profit or loss (instead of directly in equity) of deferred tax assets from loss carryforwards in connection with the acquisition of a subsidiary
Publication dated April 14, 2022	▶ Violation of IAS 8.42, as not all previous affected periods were corrected when correcting errors regarding transaction price allocations from multi-component transactions ▶ Violation of IFRS 15.74 in conjunction with IFRS 15.79(b) due to lack of inclusion of insurance costs when allocating the transaction price

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