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INTERNATIONAL ACCOUNTING (IFRS)

IASB publishes amendments to IAS 12 as a result of the OECD's Pillar 2 model rules

Editorial

Dear Reader,

In this edition of novus IFRS we present the amendment to IAS 12 "International Tax Reform – Pillar 2 Model Rules" published by the IASB, which contains temporary relief in accounting for deferred taxes. It applies to large multinational companies affected by the introduction of minimum taxation as a result of the reform of international corporate taxation.

In addition, we present the IASB's draft amendment ED/2023/2 to the classification and measurement of financial instruments under IFRS 9 and IFRS 7, which relates in particular to the classification of financial assets with ESG-linked features and liabilities settled through electronic payment systems.

The IASB has also published amendments to IAS 7 and IFRS 7 concerning "Supplier Finance Arrangements". These include additional disclosure requirements on the effects of supplier financing arrangements on liabilities, cash flows and liquidity risks.

ESMA has published a report on the enforcement activities it has carried out within Europe and on the review of compliance with the accounting standards to be applied in 2022.

We have compiled these and other developments from mid-March 2023 until today in this edition of novus IFRS.

We hope you enjoy reading it.

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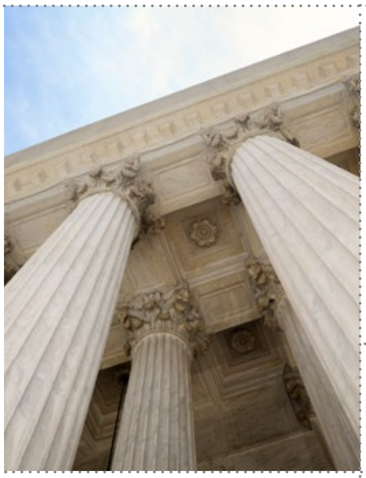
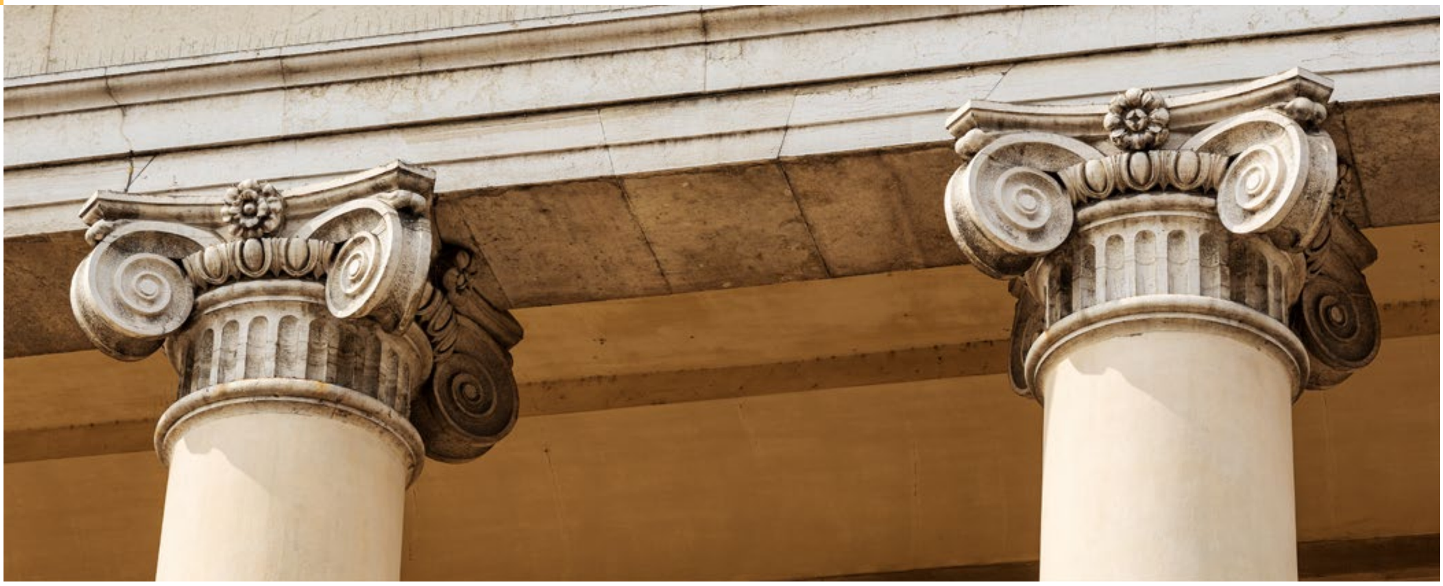




IASB

IASB publishes amendments to IAS 12 as a result of the OECD's Pillar 2 model rules

On May 23, 2023, the IASB issued amendments to IAS 12 "Income Taxes" – "International Tax Reform – Pillar 2 Model Rules". This introduces temporary relief in the accounting for deferred taxes arising as a result of the planned implementation of the OECD's international tax reform.

The introduction of global minimum taxation is intended to ensure that multinational companies with worldwide group sales of more than EUR 750 million will in future be subject to an effective income tax rate of at least 15 % in each jurisdiction in which they operate.

The amendments adopted by the IASB include the introduction of the following regulations in particular:

- a temporary exception to the requirement to recognize deferred tax assets and liabilities in connection with OECD second pillar income taxes,
- disclosure requirements on the use of the exception for affected companies,
- separate disclosure of a company's actual tax expense (or income) related to second pillar income taxes, and
- further disclosure requirements to show how companies are affected by minimum taxation, especially in reporting periods in which the legislation implementing the Pillar 2 model rules has not yet entered into force.

The exemption is to be applied immediately after publication of the amendments to IAS 12 "Income Taxes" and retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2023. For entities preparing EU-IFRS financial statements, the regulations apply after the corresponding EU endorsement.

Due to the relevance of the Pillar Two Model Rules also for entities applying the IFRS for SMEs, the IASB published a draft "International Tax Reform – Pillar Two Model Rules (proposed amendments to the IFRS for SMEs standard)" on June 1, 2023, in order to achieve alignment with the amendments to IAS 12 "Income Taxes". Comments on the draft are to be submitted by July 17, 2023.

Note: We reported on the details of the background to the amendments to IAS 12 "Income Taxes" as well as on the global minimum taxation in edition 1/2023 of novus IFRS. The IASB's press release and further information are available at the following link:

The draft concerning IFRS for SMEs can be found on the IFRS Foundation website at the following link:

IASB publishes ED/2023/2 on the classification and measurement of financial instruments (proposed amendments to IFRS 9 and IFRS 7)

On March 21, 2023, the IASB published the draft amendment ED/2023/2 "Amendments to the Classification and Measurement of Financial Instruments (proposed amendments to IFRS 9 and IFRS 7)". This provides for draft amendments to the classification of financial instruments.

The amendments result from findings of the Post-Implementation Review of IFRS 9 with regard to classification and measurement requirements.

The amendments proposed in ED/2023/2 relate in particular to clarifications and examples on the **classification of financial assets (SPPI test)**. These relate to the assessment of whether contractual cash flows that exhibit variability depending on environmental, social and governance aspects (ESG-linked features) represent solely payments of principal and interest (SPPI) on the principal amount outstanding (this is called the SPPI criterion).

In addition, the draft contains specifics on the assessment of contractual terms and conditions that affect the amount, timing and uncertainty of contractual cash flows. Accordingly, the SPPI criterion is met if such contingent payment claims depend solely on the debtor and not on general market factors. The probability of the contingent event occurring has no relevance in the assessment.

Furthermore, the draft concerns the introduction of an **option** – provided certain conditions are met – to derecognize financial liabilities that are settled through electronic transfer. Clarifications are included on the accounting treatment of such liabilities, giving entities an accounting option to derecognize financial liabilities settled through electronic transfer before the settlement date. The exercise of this option is subject to certain conditions and requires the entity to apply it consistently to all cash transfers made through the same electronic payment system.

Furthermore, the draft contains clarifications on the classification of non-recourse financial assets and contractually linked instruments.

Finally, the following additional disclosures on financial instruments are proposed under IFRS 7:

- investments in equity instruments designated to be measured at fair value for which changes are presented in other comprehensive income. The draft amendment requires disclosure of the aggregate fair value of these instruments instead of the individual fair values of these instruments.
- disclosures about the potential impact of contingent events on the agreed principal and interest payments. The disclosures should be made for each class of financial assets and financial liabilities measured at amortized cost or for financial assets measured at fair value with changes recognized in other comprehensive income.

The comment period ends on July 19, 2023, and the effective date is to be determined after publication.

Note: The draft amendment is available on the IFRS Foundation's website at the following link

We have already presented an overview of the results of the Post-Implementation Review of IFRS 9 on classification and measurement in edition 1/2023 of novus IFRS.

IASB publishes final amendments to IAS 7 and IFRS 7 on supplier finance arrangements

On May 25, 2023, the IASB published amendments to IAS 7 and IFRS 7 (Supplier Finance Arrangements), which include supplementary disclosure requirements under IAS 7 "Statements of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures".

The additional disclosure requirements relate to the disclosure of financing arrangements granted to suppliers ("supplier finance arrangements"), which include reverse factoring arrangements in particular. The amendments do not define these arrangements; instead, they describe the characteristics of an arrangement for which an entity must include the proposed disclosures. Examples of the various forms of such arrangements are also presented.

The quantitative and qualitative disclosure requirements include:

- the contractual terms of the supplier finance arrangements (including extended payment terms, securities or guarantees),
- the following information about the arrangements 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 suppliers have already received payments from the finance providers,
  - the range of financial liability due dates (e. g., 30 to 40 days after the invoice date) that are part of the arrangement; and
  - the range of maturity dates of financial liabilities and of comparable trade payables that are not part of a supplier finance arrangement.

While the Exposure Draft of the amendments to IAS 7 and IFRS 7 initially envisaged presenting these disclosures for each supplier financing arrangement individually, the IASB has finally decided that in most cases, aggregated information on these arrangements will satisfy the information needs of users of financial statements.

Entities must also disclose information that enables users of financial statements to evaluate the effects of supplier financing arrangements on the entity's liabilities and cash flows. This is because the amendments do not contain any specific requirements for the disclosure of the underlying obligations. The disclosure requirements also apply with regard to the related cash flows, regardless of whether they are presented in the statement of cash flows as operating cash flows or as cash flows from financing activities.

Note: Uncertainties regarding the accounting treatment of reverse factoring transactions are addressed in the module announcement IDW RS HFA 50: Module IAS 1-M1. We have already reported on this in edition 4/2021 of novus IFRS.

In addition, the amendments to IFRS 7 Financial Instruments: Disclosures include supplementary disclosures on liquidity risk management, taking into account existing supplier finance arrangements and the associated risks. These include, among other things, risk concentrations arising from supplier finance arrangements. The companies must also describe how they could be affected if the arrangements were no longer available.

The amendments to IAS 7 and IFRS 7 are effective for annual periods beginning on or after January 1, 2024. In the case of EU-IFRS financial statements, this is subject to a corresponding EU endorsement. As part of the first-time application, no corresponding comparative information for the prior-year period is to be disclosed.

Note: The press release is available on the IFRS Foundation's website at the following link:

Existing disclosure requirements for supply chain financing arrangements (reverse factoring) had already been explained by the IFRS IC in an agenda decision in December 2020, which is available at the following link:

IFRS INTERPRETATIONS COMMITTEE

Agenda decisions of the IFRS Interpretations Committee

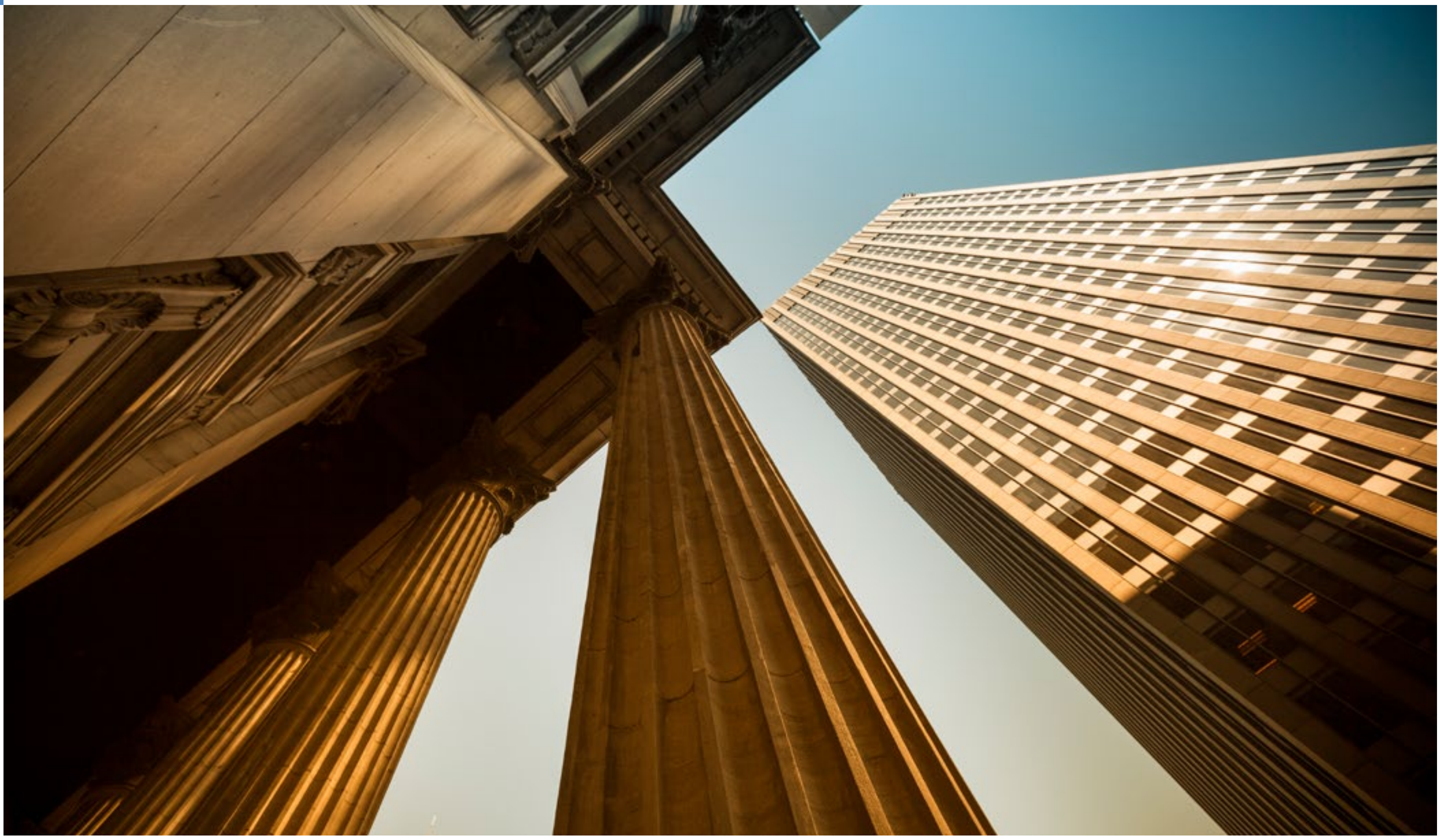
If the Committee is of the opinion that an issue addressed to the IFRS IC is not suitable as a basis for an interpretation, the decision not to include it in the work program is published in the IFRIC Update. This "Tentative Agenda Decision" contains a description of the issue and the reasons for the 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 and may only deviate from them if there are weighty reasons for doing so.

Note: The following table provides a brief overview of the topics of the IFRS Interpretations Committee's preliminary agenda decisions in the period from March 17, 2023, to June 6, 2023. A detailed description of the facts and the decision itself are published as an IFRS IC Agenda Decision in the IFRIC Update.

IFRIC Update March 2023

Standard/Topic	Excerpts from the main agenda decisions
IFRS 9: Guarantee relating to a derivative contract	The IFRS IC received an inquiry as to whether a guarantee that compensates the holder for a loss that would arise in the event of default by a counterparty under a derivative contract should be accounted for as a financial guarantee or as a derivative when applying IFRS 9. The Committee concluded that the matter described in the application does not have a widespread impact and does not significantly affect stakeholders, so no standard-setting project will be initiated in this regard.
IFRS 17: Premiums to be received from an agent	The IFRS IC addressed the question of how an entity that issues insurance contracts (insurer) should apply the requirements of IFRS 17 and IFRS 9 to premiums receivable from an intermediary when policyholders pay premiums to the intermediary and these premiums have not yet been passed on to the insurance company. The question was whether the premiums receivable from the intermediary are future cash flows under an insurance contract to be included in the measurement of the group of insurance contracts applying IFRS 17, or whether they are a separate financial asset applying IFRS 9. The Committee concluded that an insurer could account for such premiums under either IFRS 17 or IFRS 9. This then applies analogously to the disclosure requirements for credit risk. The Committee will not include a standard-setting project in its work plan.
Home ownership plans and home loans for employees	The Committee received an inquiry about how a company accounts for homeownership plans and home loans for employees that are structured to deduct a portion of the employee's base salary each month in exchange for the company granting the employee an entitlement (right to homeownership/interest-free loan). The Committee concluded that the matter described in the application does not have a widespread impact and does not significantly affect stakeholders, so no standard-setting project will be initiated in this regard.



EU Endorsement Status Report

The following table contains standards and interpretations (endorsements) that have not yet been adopted by the EU, and where available, those that have been adopted by the EU since the last editon of novus IFRS. The basis is the latest EU Endorsement Status Report published by EFRAG dated June 2, 2023 (as of June 6, 2023).

Amendments to standards	Effective date IASB	EU Endorsement
IAS 7 and IFRS 7: Supplier Financing Arrangements (May 25, 2023)	January 1, 2024	Outstanding
IAS 12: International Tax Reform – Pillar 2 Model Rules (May 23, 2023)	immediately and January 1, 2023*)	Outstanding
IAS 1: Classification of liabilities as current or non-current (January 23, 2020) and IAS 1: Classification of liabilities as current or non-current – deferral of the effective date (July 15, 2020) and IAS 1: Non-current liabilities with covenants (October 31, 2022)	January 1, 2024	Outstanding
IFRS 16: Lease liability in a sale and leaseback (September 22, 2022)	January 1, 2024	Outstanding

**) Companies may apply the exemption immediately; the disclosure requirement applies to annual reporting periods beginning on or after January 1, 2023.*

BAFIN

Error findings by BaFin

The following is a list of BaFin's error findings published from 02/16/2023 to 06/06/2023. The aim is to avoid errors in these areas.

Note: BaFin's publications on the error findings are available in German online (Click on "Börsen & Märkte" – "Transparenz" – "Bilanzkontrolle").

Publication	Subject area
Publication dated March 1, 2023	▶ Infringement of IAS 8.42 in conjunction with IFRS 15.31 due to lack of retrospective correction of sales revenue overstated in the previous year (customer did not yet have power of disposal) ▶ Violation of IAS 1.69(d) due to recognition of non-current liabilities despite covenant breach (short-term maturity possible)
Publication dated February 16, 2023	▶ Infringement of IAS 1.134 in conjunction with IAS 1.135(a)(iii) and (c) for lack of disclosures in connection with capital management objectives

ESMA

ESMA publishes EU enforcement report with its findings for 2022

On March 29, 2023, ESMA (European Securities and Markets Authority) published a report on the enforcement activities carried out within Europe and the results of the review of compliance with the accounting and reporting requirements applicable in 2022 of the financial statements of companies whose securities are admitted to trading on a regulated market in Europe or are in the process of being admitted.

The national enforcement bodies examined a total of 640 IFRS issuers in 2022 (in 2021: 711 IFRS issuers); this corresponds to approximately 16 % (in 2021: 17 %) of all IFRS issuers. Of these, a total of 425 unlimited scope examinations were performed. The audits resulted in 225 (in 2021: 250) enforcement actions where material departures from IFRS were identified.

As in the past, deficiencies were identified in particular in the following areas concerning accounting and measurement:

- financial instruments (24 %),
- financial statement presentation (13 %),
- impairment of non-financial assets (10 %),
- revenue recognition (8 %) and
- fair value measurement, leases (5 % each).

The main shortcomings in terms of disclosure requirements largely concern the same areas:

- financial statement presentation (16 %),
- financial instruments (15 %),
- impairment losses on non-financial assets (11 %) and
- revenue recognition and segment reporting (9 % each).

The report also contains information on the audit of non-financial reporting. A total of 403 issuers were audited (in 2021: 711 issuers). The audits resulted in 100 enforcement actions (25 %; in 2021: 10 %), relating in particular to disclosures under Article 8 of the Taxonomy Regulation and key performance indicators.

The ESMA enforcement report also addresses ESEF reporting with regard to the presentation of annual financial reports in accordance with the XHTML rules or the labeling of IFRS consolidated financial statements in accordance with the iXBRL rules. The enforcement actions affect 252 issuers.

Note: The full report is available in English on ESMA's website and can be accessed at the following Link.

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