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RSM EBNER STOLZ

novus

INTERNATIONAL ACCOUNTING (IFRS)

Proposed amendments to IAS 32, IFRS 7 and IAS 1

Editorial

Dear readers

In this edition of novus IFRS, we inform you, amongst other, about the IASB Exposure Draft "Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1". This Exposure Draft proposes amendments to IAS 32 in relation to the distinction between equity and liabilities and to IFRS 7 and IAS 1 on disclosure and presentation requirements in order to meet the increased accounting challenges posed by the more complex financial instruments

We also inform you about the amendments adopted by the EU to IAS 12 on global minimum taxation, amendments to IFRS 16 on sale and leaseback transactions and amendments on IAS 1 on the classification of liabilities with covenants.

We have also compiled the IFRIC updates since November 2023 to date.

Furthermore, the German Federal Financial Supervisory Authority (BaFin) has declared the management report to be the focal point of the audit 2023.

If you have any questions on any of the topics, please do not hesitate to contact us.

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EXPOSURE DRAFT: FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

Proposed amendments to IAS 32, IFRS 7 and IAS 1

On November 29, 2023, the IASB published the Exposure Draft ED/2023/5 "Financial Instruments with Characteristics of Equity (Proposed amendments to IAS 32, IFRS 7 and IAS 1)" which proposes amendments to tackle the existing challenges in the financial reporting on financial instruments with characteristics of equity.

The Exposure Draft also introduces proposals to improve the presentation and disclosure of information about financial liabilities and equity instruments.

The IASB specifically proposes:

- Clarifications to the classification principles of IAS 32, to make it easier for entities to distinguish between liabilities and equity
- Amendments to IFRS 7 with regard to disclosures explaining the complexity of instruments that have both, debt and equity characteristics.
- Amendments to IAS 1 with regard to the separate disclosure of amounts attributable to ordinary shareholders and other holders of equity instruments (profit and other comprehensive income).

Note: The comment period was open until March 29, 2023. The draft can be accessed at the following QR-code:

IASB: ONGOING STANDARDIZATION PROJECTS

EU adopts amendments to IFRS 16 "Leasing" on Sale and Leaseback transactions

On November 21, 2023, the Commission Regulation (EU) 2023/2579 amending Regulation (EU) 2023/1803 was published by the European Union announcing the adoption of the amendments to IFRS 16 issued by the IASB on September 22, 2022, which address the requirements for accounting for lease liabilities arising from sale and leaseback transactions.

The amendments are to be applied for annual reporting periods beginning on or after January 1, 2024, with a permission of earlier application.

Note: We have previously reported on the amendment in edition no. 2 (2022) of our novus IFRS. The novus IFRS can be accessed at the following QR-code:

The Commission Regulation can be accessed at the following QR-code:

EU adopts amendments to IAS 12 "Income Taxes" on Global Minimum Taxation

On November 9, 2023, the Commission Regulation (EU) 2023/ 2468 amending Regulation (EU) 2023/ 1803 was published by the European Union announcing the adoption of the amendments to IAS 12 issued by the IASB on May 23, 2023.

The amendments introduced a temporary exception from accounting for deferred taxes arising from the implantation of the OECD's Pillar Two model rules, in addition to the required disclosures for the concerned entities.

The amendments are to be applied for annual reporting periods beginning on or after January 1, 2023. Required disclosures are not applied for any interim period ending on or before December 31, 2023.

Note: We have previously reported on the amendment in edition no. 2 (2023) of our novus IFRS. The novus IFRS can be accessed at the following QR-code:

The Commission Regulation can be accessed at the following QR-code:

EU adopts amendments to IAS 1 "Presentation of Financial Statements" on Classification of Liabilities as Current or Non-Current

On December 20, 2023, the Commission Regulation (EU) 2023/ 2822 amending Regulation (EU) 2023/ 1803 was published by the European Union announcing the adoption of the amendments to IAS 1 issued by the IASB on October 31, 2022, on the classification of liabilities with covenants in connection with long-term loans as current or non-current.

The amendments are to be applied for annual reporting periods beginning on or after January 1, 2024.

Note: We have previously reported on the amendment in Issue No. 2 (2022) of our novus IFRS. The novus can be accessed at the following QR-code:

The Commission Regulation can be accessed at the following QR-code:

IFRS INTERPRETATIONS COMMITTEE

Agenda Decisions of the IFRS Interpretations Committee

If, in the opinion of the Committee, 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 facts of the case and a justification for the rejection. After a comment period of at least 30 days, the IFRS IC decides on the final wording of the decision, including the reasons.

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

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 November 27, 2023, to March 27, 2024. The detailed description of the facts and the decision are published as an IFRS IC agenda decision in the IFRIC Update.

IFRIC Update March 2024

Standard/Topic	Excerpts from the key agenda decisions
No tentative agenda decision published in the IFRIC Update March 2024.	

IFRIC Update November 2023

Standard/Topic	Excerpts from the key agenda decisions
IAS 37: Provisions, Contingent Liabilities, and Contingent Assets ▶ Climate-related Commitments	Regarding the question of whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation, the committee concluded that the constructive obligation in this case is owed to all people adversely affected, and hence could be extended to the public at large, which questions the expectation reality to fulfil such a commitment. Hence, the management's judgement is required to assess whether a constructive obligation exists or not depending on the facts and circumstances surrounding it. If the entity has decided to create a constructive obligation, the IFRS IC was asked whether a constructive obligation created by such a commitment satisfies the recognition criteria of a provision according to IAS 37. The committee agreed that the entity does not recognize a provision when it makes the statement, because at that time, the constructive obligation is not a present obligation as a result of a past event. As the entity emits greenhouse gases thereafter, it will have a present obligation to retire the carbon credits required to offset its past emissions. Assuming it has not already retired the carbon credits needed to offset its past emissions and that a reliable estimate can be made of the amount of the obligation, the entity recognizes a provision. If, and when, a provision is recognized, the IFRS IC was asked whether the expenditure required to settle it is recognized as an expense or an asset. The committee decided that expenditure is recognized as an expense, unless it results in an item that qualifies for asset recognition in accordance with IFRS. The Committee will not include a standard-setting project in its work plan.
IFRS 8: Operating Segments ▶ Disclosure of Revenues and Expenses for Reportable Segments	For the request about how an entity applies the requirements in paragraph 23 to disclose for each reportable segment specified amounts related to segment profit or loss, the committee concluded that the principles and requirements in the standards provide an adequate basis for the application of disclosure requirements in paragraph 23 of IFRS 8. The committee will not include a standard-setting project in its work plan.

International Practices Task Force: Watch List on Hyperinflationary Economies Updated

With the publication of the updated watch list for hyperinflationary economies on November 9, 2023, the International Practices Task Force (IPTF) removed Haiti and South Sudan from the list, and added Ghana, Sierra Leone and Yemen as they have had a cumulative inflation rate of over 100% in the last three years.

The watch list currently includes the following twelve countries where cumulative inflation has exceeded 100% in the last three years:

- Argentina
- Ethiopia
- Ghana (new in November 2023)
- Iran
- Lebanon
- Sierra Leone (new in November 2023)
- Sudan
- Suriname
- Turkey
- Venezuela
- Yemen (new in November 2023)
- Zimbabwe.

Haiti was added to the list for the first time in the previous update in May 2023. In the new update, Haiti was moved from the watch list to the list of countries predicted to have a cumulative three-year inflation rate of over 100 % in the current year.

South Sudan was also removed from the list as it has cumulative inflation of over 100% in recent years, but only cumulative inflation of between 70% and 100% in the previous year.

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

- Angola
- Burundi
- Egypt
- Lao People's Democratic Republic
- Malawi
- Moldova
- Nigeria (new in October 2023)
- Pakistan
- São Tomé und Príncipe
- Sri Lanka
- Ukraine.

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

Note: The IPTF watch list dated November 9, 2023, with detailed explanations of the calculation can be found at the following QR-code:

BAFIN

German Federal Financial Supervisory Authority: Error Findings

The error findings of the German Federal Financial Supervisory Authority (BaFin) published from November 27, 2023 to March 27, 2024 are listed below.

The aim is to avoid errors in these areas.

Note: BaFin's publications on the error findings are available online at www.bafin.de under "Stock Exchanges & Markets" – "Transparency" – "Financial Reporting Enforcement").

Publication	Subject area
Publication dated December 28, 2023	▶ Notice of errors in the annual financial statements. ▶ The choice of assessment methods to determine the risk provisions for counterparty default risks were not stated in the notes. ▶ This is in violation of section 340a (1) in connection with section 284 (2) no. 1 German Commercial Code (HGB), according to which the valuation methods applied to the balance sheet items must be stated in the notes.
Publication dated December 27, 2023	▶ Notice of errors in consolidated financial statements and in the notes to the consolidated financial statements. ▶ Receivables from the sale of shares were overstated, it was valued at their nominal value instead of their significantly lower fair value. ▶ The initial recognition of the purchase price receivables at a nominal value violated IFRS 10.B98 (b) (i) as well as IFRS 13.9 and IFRS 13.24. As a result of the incorrect initial valuation, the valuation of the purchase price receivable on the reporting date violated IFRS 9.5.2.1 (c) and IFRS 9.A, a definition of "amortized cost". ▶ The remaining shares valued under "shares in associated companies" were also significantly overstated. ▶ The initial value was derived from a purchase price that did not represent fair value, and the book value of the shares was developed based on this incorrect basis at the reporting date. ▶ This violates IFRS 10.B98(b)(iii) along with IFRS 13.9 and IFRS 13.24. As a result of the incorrect initial valuation, the valuation of the shares in the consolidated balance sheet at the reporting date violates IAS 28.10. ▶ The remaining purchase price receivable was significantly overstated for two subsequent years because the significant credit and realization risks known as of the reporting date were not included in the measurement of a value adjustment for expected credit losses. ▶ This violates IFRS 9.5.5.1, IFRS 9.5.5.3 and IFRS 9.5.5.17 (a) in conjunction with IFRS 9.B5.5.55 because it did not make an allowance for expected credit losses within the meaning of the definition of IFRS 9. ▶ The purchase price claim against another entity from the sale of a real estate portfolio was recorded at nominal value. ▶ This violates IFRS 9.5.2.1(c), IFRS 9.4.1.4, IFRS 9.4.1.2(b), IFRS 9.B4.1.15 f. and IFRS 9.B4.1.17 because the purchase price claim is recognized at fair value through profit or loss instead of at amortized value. The acquisition costs had to be evaluated and the order in which the other entity's available means of payment were paid out also had to be taken into account. ▶ A real estate project was valued too high. The book value recognized was based on a valuation report that was not suitable for measuring the fair value. ▶ This violates IFRS 13.9 and IFRS 13.88 Sentence 2. The value of the real estate project did not represent fair value within the meaning of IFRS 13, which was as of September 30, 2021 in accordance with IFRS 3.18 and as of December 31, 2021, was to be measured in accordance with IAS 40.33. ▶ Missing information in the notes on the non-collateralization of a loan to the parent company. ▶ This violates IAS 24.18(a)(i), according to which an outstanding claim against a related party must be disclosed as to whether collateral exists.

Publication	Subject area
Publication dated December 8, 2023	▶ Notice of errors in the published annual financial statements. ▶ The company did not include sufficient evidence on why the assumption of "Going Concern" was in place despite the existence of a threat to its continuation. ▶ This violates section 238 (1) sentence 2 in connection with section 252 (1) no. 2 German Commercial Code (HGB).
Publication dated December 8, 2023	▶ Notice of errors in the published condensed financial statement, and the interim management report for the first six months of the financial year. ▶ Information was missing from the condensed financial statements concerning the abbreviated statement of changes in equity and the abbreviated statement of cash flows. ▶ This violates IAS 34.8 (c) and (d). An interim report must contain these missing components. ▶ The company also did not adequately report on material risks in the interim management report. ▶ This violates section 117 (2) sentence 1, section 115 (2) no. 2 and section 115 (4) sentence 1 alternative 2 German Securities Trade Act (WpHG), according to which the material risks for the six months of the financial year after the reporting period must be stated in the interim management report.
Publication dated November 28, 2023	▶ Notice of errors in the approved consolidated financial statement. ▶ Two company investments were valued at acquisition cost instead of their fair value. ▶ This violates IFRS 9.5.2.1 (c), according to which the investments should have been measured at fair value through profit or loss. ▶ The entity also did not provide the required information regarding material long-term assets in their geographically organized sub areas "segments". ▶ This violates IFRS 8.33, according to which the entity must provide separate geographical information on non-current assets in all foreign countries in which the entity holds material assets. ▶ Financing expenses and income resulting from currency conversions of a US dollar loan were reported as part of other operating income. ▶ This violates IAS 1.82 (b) in connection with IAS 1.15. The financing expenses and income shall be presented in the financial result and not in the operating result.

German Federal Financial Supervisory Authority audit focus 2023

In its press release on December 4, 2023, the German Federal Financial Supervisory Authority (BaFin) declared the management report to be a focal point of the audit, so that in particular how the companies present their business models and management systems in the management report is examined.

In contrast to the European Securities and Markets Authority (ESMA) key audit matters, the BaFin key audit matters are only provided with comments and further guidance to a limited extent.

In its press release, BaFin expressly points out that third parties must be able to form their own opinion of the situation of the company or group on the basis of the management report, as the business activities of a company or group are often extensive and complex.

Information on the organizational structure, products, procurement and sales markets and business processes, for example, is important for a balanced presentation of business activities and the business model. In addition, the management must explain how it manages the company or the Group and how it intends to achieve the targets set (including financial, and if applicable, non-financial performance indicators).

Note: In the past, management reporting was a frequent source of error findings and comments from BaFin. The focus was often on the balance of information on the course of business and the situation, as well as the reconciliation of the company's individual key performance indicators to the figures in the consolidated financial statements.

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