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## Notes on the consolidated financial statements

The notes to IFRS consolidated financial statements prepared in the EU must contain disclosures on newly adopted standards and interpretations (IAS 8.28) as well as on standards and interpretations that have been issued but not yet adopted (IAS 8.30). [Read more...](#)

### IASB

The IASB published amendments to IFRS 2 "Sharebased payment" on 20 June 2016. These include clarifications on individual questions concerning the accounting and measurement of cash-settled sharebased payment transactions. [Read more...](#)

### EU Endorsement

On 25 November 2016, the EU Commission announced the adoption of IFRS 9 into EU law. The announcement in the Official Journal was made on 29 November 2016. [Read more...](#)

### ESMA

The European Securities and Markets Authority (ESMA) has published its annual Public Statement on European Common Enforcement Priorities (the Statement) which identifies enforcement priorities for listed companies' 2016 financial statements and highlights the need for transparency in disclosing the potential impact of Brexit on issuers' financial statements. [Read more...](#)

# Notes on the consolidated financial statements

## Required disclosures in the notes on the legal status of IFRS

The notes to IFRS consolidated financial statements prepared in the EU must contain disclosures on newly adopted standards and interpretations (IAS 8.28) as well as on standards and interpretations that have been issued but not yet adopted (IAS 8.30). The following provides an overview of the current status of the standards and interpretations issued by the IASB that have to be reported on pursuant to IAS 8.28 and IAS 8.30 in IFRS consolidated financial statements prepared in the EU as of 31 December 2016.

## Effects of new or amended standards and interpretations (IAS 8.28)

IAS 8.28 requires the disclosure of new and amended standards and interpretations when their initial application has an effect on the reporting period or any prior period. The scope of application of IAS 8.28 therefore extends to all changes in accounting policies that result from the initial application of a new or amended standard or interpretation. For example, the disclosures in the notes must then include the following in relation to the new standard or interpretation:

- Title of the standard or interpretation
- When applicable, a description of the transitional provisions
- Nature and change in accounting policy
- Amount of the adjustment for each financial statement line item affected (including earnings per share) for the beginning of the prior year, for the prior year and for the year, where practicable.

It must also be noted that the disclosures pursuant to IAS 8.28 are also required in the case of early voluntary adoption of new standards or interpretations.

**Note:** The following table provides an overview of rules under IAS 8.28 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2016 as well as a general assessment in terms of their effect on accounting

practice. It is not necessary to list all of the regulations. If necessary, a general wording can be included after the explanation of the new standards and interpretations as well as of their effects which states for example that the other standards and interpretations subject to mandatory adoption in the EU for the first time as of 1 January 2016 do not have any material effect on the consolidated financial statements.

Standard	Title	IASB Effective date*	Date of first-time application in the EU*	Effect**
10, IFRS 12 and IAS 28	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2010-2012 Cycle)	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38 and IAS 24	1 July 2014	1 February 2015	Industry-specific or company-specific significance
Amend. IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014	1 February 2015	Industry-specific or company-specific significance
Amend. IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IAS 16 and IAS 41	Accounting for Bearer Plants	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2012-2014 Cycle)	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IAS 1	Disclosure Initiative (Amendments to IAS 1)	1 January 2016	1 January 2016	Fundamental significance
Amend. IAS 27	Equity Method in Separate Financial Statements	1 January 2016	1 January 2016	Only for IFRS separate financial statements

\* For financial statements beginning on or after this date.

\*\* The general assessment in terms of effects on accounting practice serves as a guide – the individual effects on the individual company must be explained separately.

## IFRS 10, IFRS 12 and IAS 28 “Investment Entities”

The amendments serve to clarify issues in relation to applying the exception from the duty to consolidate pursuant to IFRS 10.4 if the parent company meets the definition of an investment entity.

## Annual Improvements to IFRSs (2010-2012 Cycle)

### IFRS 2 “Share-based Payment”:

The amendment involves the clarification of the definitions “vesting conditions” and “market conditions” and also adds independent definitions for “performance conditions” and “service conditions”. Performance conditions must be within the influence of the employee, for example revenue, EBIT or the share price of the company. Service conditions are characterized by the fact that they are linked solely to a certain service period within the company. The breakdown of individual vesting conditions into service conditions, market-related and other performance conditions has an impact on the measurement of a share-based payment.

### IFRS 3 “Business Combinations”:

Contingent considerations classified as an asset or a liability must be measured at fair value at each reporting date. This subsequent measurement is regardless of whether the contingent consideration is a financial instrument as defined by IFRS 9 or IAS 39 or a non-financial asset or a non-financial liability.

### IFRS 8 “Operating Segments”:

When aggregating operating segments into one reportable segment, an entity must disclose the judgments made by management when creating the segment. A brief description of the individual aggregated segments is also required in this context. In addition, the total of the reportable segments’ assets must be reconciled to the total assets of the group only if the segment assets are also reported to management for internal purposes.

### IFRS 13 “Fair Value Measurement”:

Discounting can continue to be disregarded for short-term receivables and payables as long as the effect of not discounting is immaterial. Despite removing the simplification rule for short-term receivables and payables as part of the introduction of IFRS 13, IAS 8 applies with respect to assessing the general materiality criterion, and discounting can be dispensed with if interest effects are immaterial (change in the

Basis of Conclusions only, therefore no endorsement by the EU required).

### IAS 16/IAS 38: “Property, Plant and Equipment / Intangible Assets”:

The amendment clarifies that when an item of property, plant and equipment or an intangible asset is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and that the accumulated amortization or depreciation corresponds to the difference between the gross carrying amount and the revalued carrying amount less impairment losses.

### IAS 24 “Related Party Disclosures”:

The amendment extends the group of related parties to include those who provide key management personnel services to the reporting entity or the parent. These persons qualify as related parties even if no other legal or personal relationships exist with the reporting entity.

## Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”

The amendments to IAS 19 “Employee Benefits” clarify how employee contributions or third-party contributions to defined benefit plans are accounted for. The accounting treatment differs based on whether or not the contributions depend on the number of years of service. If the amount of the contributions does not depend on the number of years of service, for example if age is a decisive characteristic for the amount of the contribution, there is an option to either recognize the contributions

as a reduction in service cost in the period in which the corresponding service is rendered or to attribute them over the employee’s period of service using the projected unit credit method. If the amount of the contributions does depend on the number of years of service, the contributions must be attributed to the periods of service using the projected unit credit method (generally by means of an actuarial calculation).

## Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”

The amendments clarify that, when acquiring interests in joint operations in which the activity constitutes a business pursuant to IFRS 3, all of the principles on business combinations accounting in IFRS 3 and other IFRSs must be applied as long as they do not conflict with the guidance in IFRS 11.

## Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”

The amendment to IAS 16 clarifies that a depreciation method of property, plant and equipment that is based on revenue is not appropriate, as it does not represent the consumption of the economic benefits embodied in the asset. The amendment to IAS 38 introduces the rebuttable presumption that revenue is not an appropriate basis for the amortization of intangible assets. This presumption can be overcome only in the following two cases:

- If the intangible asset can be expressed as a measure of revenue. This would be the case, for example, if the contractual term of a concession to extract natural resources were linked not to a specific period but to the total revenue generated by extracting the natural resources.
- If revenue and the consumption of the economic benefit are highly correlated.

## Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”

The amendments to IAS 16 and IAS 41 bring bearer plants used only to create agricultural produce under the scope of IAS 16. As a result, they must be accounted for in the same way as items of property, plant and equipment (and no longer at fair value).

## Annual Improvements to IFRSs (2012-2014 Cycle)

### IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”:

The amendment provides for the inclusion of special guidance in IFRS 5 for cases where an entity reclassifies an asset from the ‘held for sale’ category to the ‘held for distribution’ category or vice versa. Guidance will also be introduced for cases where ‘held for distribution’ accounting is ceased.

### IFRS 7 “Financial Instruments”:

Clarification is provided regarding the conditions under which the management of a transferred financial instrument is a continuing involvement and thus has to be reported. Furthermore, the disclosures on offsetting financial assets and financial liabilities do not specifically have to be included in all interim reporting pursuant to IAS 34.

### IAS 19 “Employee Benefits”:

The amendments to IAS 19 relate to determining the discount rate. The planned amendments propose that high-quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability.

### IAS 34 “Interim Financial Reporting”:

Disclosures and information which contrary to IAS 34 are not presented in the interim financial statements themselves but elsewhere in the report of the period should include a cross-reference in the interim financial statements.

## Amendments to IAS 1 “Disclosure Initiative”

The amendments to IAS 1 “Presentation of Financial Statements” are part of the IASB’s Disclosure Initiative, which comprises a range of sub-projects. They contain clarification in particular on the following:

- Assessment of the materiality of disclosures made in the financial statements
- Presentation of additional line items in the statement of financial position and the statement of

- comprehensive income
- Presentation of the share of the other comprehensive income of associates and joint ventures accounted for using the equity method
- Structure of disclosures made in the notes
- Presentation of significant accounting policies.

## Amendments to IAS 27 “Equity Method in Separate Financial Statements”

The amendments permit the equity method again as an accounting option for shares in subsidiaries, joint ventures and associates in the separate financial statements of an investor.

## New or amended standards and interpretations not applied (IAS 8.30)

According to IAS 8.30, standards or interpretations already issued by the IASB must be disclosed if they are not yet subject to mandatory application in the reporting period and were not early adopted. For example, the following disclosures are required in the notes:

- Title of the new standard or new interpretation
- Nature of the impending change in accounting policy
- Date by which application of the standard or interpretation is required
- Date as at which the company plans to apply the standard or interpretation
- Expected impact on the financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

**Note:** The following table provides an overview of rules under IAS 8.30 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2016. A distinction is made between standards that have been endorsed in the EU (if applicable by means of early voluntary adoption) and those that have not yet been endorsed in the EU.

In addition, a general assessment in terms of their effect on accounting practice is provided. Standards and interpretations of fundamental significance as well as those that are expected to have an impact on the financial statements should be discussed in the notes. It is not necessary to provide a full presentation of the new or amended standards and interpretations not applied. If several new standards or new interpretations will not have a material effect on a company, a wording can be used that neither describes nor lists the corresponding standards and interpretations without a material effect. For example this could take the form of a general statement that, apart from the standards and interpretations described in detail, the other standards and interpretations issued by the IASB are not expected to have a material effect on the consolidated financial statements. In addition, the company can make a general statement that early adoption of the new standard or interpretation is not planned.

Standard	Title	IASB Effective date*	Date of first-time application in the EU*	Effect**
<b>EU endorsement completed by 14 December 2016</b>				
IFRS 9	Financial Instruments	1 January 2018	1 January 2018	Fundamental significance
IFRS 15	Revenue from Contracts with Customers	1 January 2018	1 January 2018	Fundamental significance
<b>EU endorsement still outstanding (as of 31 December 2016)</b>				
Amend. IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	postponed	postponed	Industry-specific or company-specific significance
IFRS 14	Regulatory Deferral Accounts	1 January 2016	Not endorsed by the EU	
Amend. IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 January 2017	Industry-specific or company-specific significance
Amend. IAS 7	Statement of Cash Flows	1 January 2017	1 January 2017	Industry-specific or company-specific significance
Amend. IFRS 2	Clarification of Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Amend. IFRS 4	Applying IFRS 9 with IFRS 4 Insurance Contracts	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2014-2016 Cycle)	Amendments to IFRS 1, IFRS 12 and IAS 28:	1 January 2018	1 January 2018/ 1 January 2017	Industry-specific or company-specific significance
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Amend. IAS 40	Classification of Property Under Construction	1 January 2018	1 January 2018	Industry-specific or company-specific significance
IFRS 16	Leases	1 January 2018	1 January 2018	Fundamental significance

\* For financial statements beginning on or after this date.

\*\* The general assessment in terms of effects on accounting practice serves as a guide – the individual effects on the individual company must be explained separately.

## IFRS 9 “Financial Instruments”

In July 2014, the IASB completed its project to replace IAS 39 “Financial Instruments: Recognition and Measurement” by publishing the final version of IFRS 9 “Financial Instruments”. IFRS 9 introduces a uniform approach for classifying and measuring financial assets. The subsequent measurement of financial assets will in future be based on three categories with different value measures and a different recognition of changes in value. Assets are categorized depending on the contractual cash flows of the instrument as well as the business model in which the instrument is held. For financial liabilities, by contrast, the existing categorization requirements in IAS 39 were largely carried over into IFRS 9. IFRS 9 provides a new

impairment model that is based on the expected credit defaults. IFRS 9 also contains new regulations on the application of hedge accounting in order to better present the risk management activities of an entity, in particular with regard to the management of non-financial risks. Furthermore, additional disclosures are required in the notes as a result of IFRS 9.

## IFRS 15 “Revenue from Contracts with Customers”

The new standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” as well as the associated interpretations. IFRS 15 sets a comprehensive framework to determine whether, at what amount and at what time revenue is recognized. The core principle of IFRS 15 is that an entity should recognize revenue if the goods have been delivered or service has been provided. In the standard, this core principle is implemented using a five-step model. Firstly, the relevant contracts with the customer and the performance obligations therein have to be identified. Revenue is then recognized at the amount of the expected consideration for each separate performance obligation at a point in time or over time. In addition, IFRS 15 contains detailed application guidance on a large number of individual topics (e.g. contract modifications, sales with a right of return, treatment of costs to obtain and to fulfil a contract, extension options, licensing, principal versus agent relationships, bill-and-hold arrangements, consignment arrangements). The scope of disclosures in the notes is also extended. The aim of the new disclosure requirements is to provide information about the nature, amount, timing and uncertainty

of revenue and cash flows from contracts with customers.

Furthermore, the IASB published clarifications to IFRS 15 on 12 April 2016. The amendments address the identification of performance obligations, principal versus agent considerations and licenses and target transitional arrangements for modified and completed contracts.

## Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The aim of these amendments was to clarify the recognition of earnings effects from transactions between an investor and its associate or joint venture. The recognition of earnings effects was to depend in future on whether or not a business pursuant to IFRS 3 is transferred. Where the transaction relates to a business (in accordance with IFRS 3), the plan was that the investor would be required to recognize all gains and losses. Where the transaction relates only to the sale of assets that do not constitute a business, the investor would have to recognize the gains and losses partially. The amended standard was to apply prospectively for annual periods commencing on or after 1 January 2016.

The IASB found an inconsistency between the rules in the amended standard and the existing rules of IAS 28 and determined to remove the inconsistency by means of a further amended standard. However, in the meantime the IASB has decided to commence a research project on the equity method in which, among other things, the topics in the planned amended standard will be dealt with again. As a result,

it decided not to publish the amended standard. In view of this situation, a further amended standard was published on 17 December 2015 to postpone the effective date of the amended standard (amendments to IFRS 10 and IAS 28) indefinitely. The aim is to prevent any circumstances where potentially contradictory amendments to the standards would have to be made within a short period of time – based on the findings of the research project. However, it is still possible for entities to choose to early adopt the amended standard.

Endorsement by the EU was also postponed indefinitely.

## IFRS 14 “Regulatory Deferral Accounts”

IFRS 14 is intended as an interim solution until the IASB has completed its comprehensive project on rate-regulated activities. The interim standard offers accounting options for rate-regulated activities for first-time adopters of IFRS. Due to the extremely limited group of users, the European Commission has passed a resolution not to endorse this standard.

## Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”

The amendments serve to clarify various questions concerning the recognition of deferred tax assets.

One of those questions related to the recognition of deferred tax assets for unrealized losses on (available-for-sale) debt instruments measured at fair value. The amendments to IAS 12 clarify that an unrealized loss from such a debt instrument leads to a deductible temporary difference if the tax base of the debt instrument is its cost. This applies regardless of whether the holder expects to hold the instrument to maturity in order to recover the nominal value or to sell the instrument.

IAS 12 also contains further clarification on the determination and recognition of deferred tax assets.

- In principle, an overall assessment is required for all temporary differences to determine whether sufficient taxable profits are expected to be available in future in order to realize the temporary differences and thus whether recognition of

deferred tax assets is justified. However, this is only the case if the applicable tax law does not restrict the offsetting of tax losses. If tax law distinguishes between different types of taxable profits, a separate assessment of whether a deferred tax asset can be recognized must be performed for each part of the taxable profit.

- Under the newly introduced IAS 12.29A, a company can assume when estimating future taxable profit that an asset can be realized at above its carrying amount, provided that such realization is probable.
- The taxable profit against which a company examines the recognition of a deferred tax asset is the taxable income before reversal of deductible temporary differences (see IAS 12.29 (a) (i)), as otherwise amounts may be recognized twice.

## Amendments to IAS 7 “Statement of Cash Flows”

The amendments aim to ensure that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Under the premise of information relevant for decision making by the users of financial statements, a company must make disclosures on liabilities arising from financing activities substantially in the following cases:

- cash changes,
- changes arising from obtaining or losing control of subsidiaries or other businesses,
- the effect of changes in foreign exchange rates,
- changes in fair values.

The IASB states that one way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The reconciliation should include at least the items listed. Also, the reconciliation should be prepared such that it provides sufficient information

to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

## Amendments to IFRS 2 “Clarification of Classification and Measurement of Share-based Payment Transactions”

In response to the scope for interpretation arising on account of a lack of specific rules in IFRS 2, the IASB published amendments to IFRS 2 “Share-based Payment” on 20 June 2016. These relate to three specific areas, namely specifying relevant vesting conditions for cash-settled share-based payment transactions, classifying share-based payment transactions with a net settlement feature and explaining the accounting procedure for reclassifying a cash-settled share-based payment transaction to an equity-settled share-based payment transaction.

## Amendments to IFRS 4 “First-time application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts”

The amendments aim to reduce the effects of differing effective dates of IFRS 9 and the successor standard to IFRS 4 especially for companies with extensive insurance activities.

## Annual Improvements to IFRSs (2014-2016 Cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”:  
The short-term exceptions in paragraphs E3 to E7 will be deleted, as they have now fulfilled their intended purpose.

IFRS 12 “Disclosure of Interests in Other Entities”:  
Clarification is provided that the disclosure requirements in the standard – with the exception of IFRS 12.B10 - B16 – also apply to interests that fall under the scope of IFRS 5.

IAS 28 “Investments in Associates and Joint Ventures”  
Clarification is provided that the option to measure an investment in an associate or joint venture held by a venture capital organization or other qualifying entity can be elected on an investment-by-investment basis.

## IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IFRIC 22 addresses an application question regarding IAS 21 “The Effects of Changes in Foreign Exchange Rates”. Clarification is provided regarding the date

to use for the purpose of determining the exchange rate for translating foreign currency transactions that include the receipt or payment of advance

consideration. Accordingly, the authoritative date for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the asset or liability arising from the payment or receipt of advance consideration.

## Amendments to IAS 40 “Classification of Property Under Construction”

The amendment of IAS 40 serves to clarify in which cases the classification of property as “investment property” begins and ends if the property is still under construction or under development. The exhaustive list in IAS 40.57 to date meant that there was no clear rule regarding the classification of property under construction. Now the list is specifically no longer an exhaustive list. This means that property under construction can now also be subsumed under the rule.

## IFRS 16 “Leases”

Under IFRS 16, the distinction made up to now between operating leases and finance leases will no longer apply with respect to the lessee. For all leases, the lessee recognizes a right of use to an asset and a lease liability. The right of use is amortized over the contractual term in line with the rules for intangible assets. The lease liability is recognized in accordance with the rule for financial instruments pursuant to IAS 39 (or IFRS 9 in future). Write-downs on the asset and interest on the liability are presented separately in the income statement. There are exemptions when accounting for short-term leases and low-value leased assets.

The disclosures in the notes to the financial statements will be extended and should provide a basis for users to assess the amount, timing as well as uncertainties in relation to leases.

For lessors, however, the new standard sets forth similar rules to those previously contained in IAS 17. They will continue to classify leases either as a finance lease or an operating lease.

## IFRS 2 Share-based Payment

### General

The IASB published amendments to IFRS 2 “Share-based payment” on 20 June 2016. These include clarifications on individual questions concerning the accounting and measurement of cash-settled share-based payment transactions. The amendments relate to three areas, namely taking into account vesting conditions in the measurement of cash-settled share-based payment transaction, classifying share-based payment transactions with a net settlement feature and accounting for a modification of a cash-settled share-based payment plan that changes its classification to an equity-settled share-based payment transaction.

### Taking vesting conditions into account in the measurement of cash-settled share-based payment transactions

So far, IFRS 2 stated only that the liability incurred for cash-settled share-based payment transactions must be recognized at fair value. IFRS 2 did not contain any guidance on how the different types of vesting conditions must be taken into consideration in the measurement of cash-settled share-based payment transactions. In line with the approach for equity-settled share-based payment transactions, in future only market-related performance conditions (referred to as ‘market conditions’ in IFRS 2) and non-vesting conditions will be included in fair value measurement. Service conditions and non-market performance conditions will be taken into account only on a more-likely-than-not basis in the quantity structure.

#### Example: Taking vesting conditions into account for cash-settled share-based payment transactions

As of 1 January 2018, a young tech start-up plans to go public within the next five years. Because its eager, ambitious and highly qualified employees are its most important asset, the company wants to retain these staff members at all costs and provides 100 stock options each to around 20 employees. Remuneration takes the form of a cash payment for the amount of fair value. However, the basic prerequisite is that staff must remain with the company until 31 December 2022. It is expected that all employees will remain in the company,

and this proves to be the case as of 31 December 2022. The probability of an IPO is estimated as follows:

31 December 2018	5%
31 December 2019	15%
31 December 2020	45%
31 December 2021	65%

On 31 December 2022, the company ultimately goes public.

The IPO constitutes a non-market performance condition and therefore does not impact on the fair value of the stock options. Only the quantity structure is affected. Because the probability of an IPO was still below 45% until 31 December 2020, no expense is recognized. By contrast, the probability as of 31 December 2021 is over 50%. As of that date, four of five years of the vesting period have expired and thus four-fifths of the fair value of the shares must be recognized as an expense (provision) as of that date.

### Classification of share-based payment transactions with a net settlement feature

In Germany, like in various other countries, companies are obliged to withhold the wage tax for their employees in the company and transfer it to the national tax authorities. The second amendment to IFRS 2 relates to agreements concerning share-based payments that permit or oblige companies to withhold part of the shares promised to the employee in order to make tax payments on behalf of the employee. The question in the past has been whether this part withheld by the company should be classified as a cash-settled share-based payment transaction.

As a result of the amendment to IFRS 2, it has now been determined that agreements with a net settlement feature must be classified in their entirety as an equity-settled share-based payment transaction. The withheld shares are accounted for in the same way as if they had been issued in full to the employee in a first step and repurchased at fair value in a second step. Therefore, the fair value as of the grant date of the options must be

determined and recognized pro rata in equity over the vesting period. The wage tax liability is also recognized in equity when it is incurred.

**Example:** Share-based payment transactions with a net settlement feature

A company grants an executive 100 shares as of 1 January 2018 on the condition that the executive remains in the company until at least 31 December 2021. The agreement provides that the company will withhold the wage tax incurred as of 31 December 2021 of 40% of the fair value of the shares and will transfer this amount to the tax authorities.

The fair value of one share amounts to EUR 2 as of 31 December 2018 and to EUR 10 as of 31 December 2021. The fair value of the 100 shares amounts to EUR 200 as of 31 December 2018. Consequently, the company recognizes an expense of EUR 50 in each of the four years (2018 to 2021) (100 shares x EUR 2 / 4).

As of 31 December 2021, the fair value for the 100 shares is EUR 1,000, resulting in a wage tax liability of EUR 400. The company pays the wage tax on behalf of the employee. This is accounted for as if the company had issued all 100 shares to the employee and repurchased shares for the amount of the wage tax (40 shares) at fair value on the same date.

The **accounting** for the matter is summarized in the following table:

Accumulated expense	EUR 200 (DR)	
Equity entries	EUR 200(CR) EUR 200(DR) EUR 400(DR)	Equity increase as counter entries to the expense entries Accumulated expense entry "Repurchase" of the 40 shares
Cash and cash equivalents	EUR 400(CR)	Wage tax payment

**Modification of the terms and conditions of a cash-settled share-based payment transaction that changes its classification to equity-settled**

So far, IFRS 2 did not include any rules on how to account for changes in the terms and conditions of a payment plan that led to a transition from recognition as a cash-settled share-based payment transaction to an equity-settled share-based payment transaction. As a result, the difference between the fair values of a cash-settled share-based payment transaction and an equity-settled share-based payment transaction was recognized in different ways. Some companies recognized this difference as an expense immediately, while others recognized it as an expense over the remaining vesting period.

The amendments in IFRS 2 now lead to clarification, in that cash-settled share-based payment transactions that are classified as equity-settled share-based payment transactions due to a change in their terms and conditions must be recognized as equity-settled share-based payment transactions from the date of the changes. This leads to the following approach:

- At the modification date, the equity-settled share-based payment transaction is measured and recognized in equity at the proportionate fair value vested.
- The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date.
- Any difference between the carrying amount of the liability derecognized and the amount of equity recognized on the modification date is recognized immediately in profit or loss. The remaining fair value of the equity instrument is recognized in equity over the remaining vesting period.

**Example:** Modification of the terms and conditions of a cash-settled share-based payment transaction that changes its classification to equity-settled

A company grants 100 SARs (share appreciation rights) to an employee as of 1 January 2016 in the form of a share-based payment transaction. For each SAR, the employee receives a cash payment corresponding to the increase in value of one share between 1 January 2016 and 31 December 2019, provided that he or she is still employed in the company as of that date.

On 1 January 2018, management decides to amend the agreement on a cash-settled share-based payment transaction to settlement using equity instruments. The new contractual conditions provide for the employee to receive 100 stock options at a strike price of EUR 10. In addition, the period for the service conditions is reduced from four to three years.

The value of one SAR (fair value) develops as follows:

Date	Fair value of one SAR in EUR	Fair value of one stock option in EUR
1 January 2016 Cash-settled share-based payment transaction	10	
31 Decemeber 2016	12	
31 Decemeber 2017	15	
1 January 2018 Change to equity-settled share-based payment transaction		14
31 Decemeber 2018		20

The employee remains in the company and exercises his/her 100 stock options as of 31 December 2018.

The **accounting** for the matter is as follows:

	Debit	Credit
<b>31 December 2016</b> Expense	300	
Provisions (100 SARs x EUR 12 x 1/4)		300
<b>31 December 2017</b> Expense	450	
Provisions (100 SARs x EUR 15 x 2/4 - 300)		450
<b>1 January 2018</b> Change to equity-settled share-based payment transaction Provision	750	

	Debit	Credit
Expense	183	
Equity (100 x EUR 14 x 2/3)		933
<b>31 December 2018</b> Expense	467	
		467
<b>2019</b> Exercise of the stock options		
Bank	1000	
Equity (100 x EUR 10)		1000

**Note:** The rules are applicable to annual periods beginning on or after 1 January 2018. They have yet to be endorsed by the EU. Earlier periods do not have to be adjusted. Instead, the following must be noted:

- The amendments in relation to the effects of the vesting conditions on the measurement of cash-settled share-based payment transactions and the amendments concerning the share-based payment transactions with a net settlement feature are applicable to share-based payments granted on or after the effective date and to those that are not vested on the effective date.
- The clarifications regarding accounting for changes in the terms and conditions of a cash-settled share-based payment transaction that lead to classification as an equity-settled share-based payment transaction are applicable to payments that are reclassified on or after the effective date.

# IASB issues Exposure Draft on IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”

On 28 June 2016, the IASB issued Exposure Draft ED/2016/1 “Definition of a Business and Accounting for Previously Held Interests – Proposed amendments to IFRS 3 and IFRS 11”. The background to the exposure draft involved the difficulties in acquisition transactions often encountered in accounting practice with regard to the definition of the assets acquired as a business or as a group of assets. Definition as a business has far-reaching consequences, in that different financial reporting requirements apply to the acquisition of a business, e.g. recognition of goodwill pursuant to IFRS 3. As a result, the IASB decided to set out the definition of a business in accordance with IFRS 3 in more detail. In addition, the IFRS Interpretations Committee of the IASB recommended due to inconsistent application in practice that the accounting be standardized for previously held interests in which an entity obtains control or joint control via a joint operation that meets the definition of a business.

## Change in the definition of a business

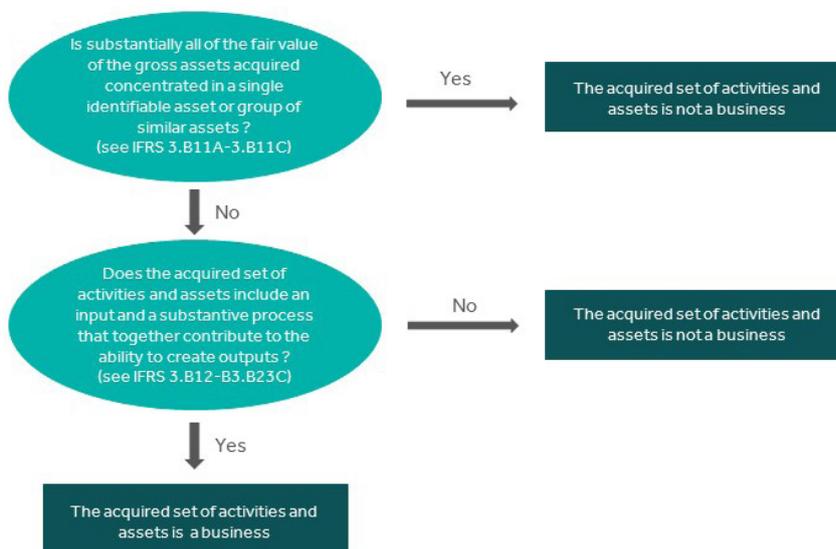
The definition of a business is now based on a two-step asset concentration test (ED IFRS 3.B8A). The first step is to assess whether substantially all of the fair value of the gross assets acquired are concentrated in a single asset or group of similar assets. If this is the case, the transaction is the acquisition of an asset, and the rules for presenting a business combination in accordance with IFRS 3 cannot be applied.

If the answer to the question is negative, the next step is to determine whether a substantive business process was acquired. A distinction must be made as to whether or not output is already created as of the acquisition date. If output is not yet created, the criteria for definition of a business are met only if the entity acquired involves the transfer of an organized workforce having the necessary skills and experience to support a substantive process likewise acquired. If the entity acquired already creates output, there does not have to be a workforce if the acquired group integrated contained one or several business processes that are unique, scarce or difficult to replace. A business process is also classified as not substantive if it is viewed as ancillary or minor within the context of creating output

(ED IFRS 3.B12A).

Furthermore, the exposure draft on IFRS 3 states that an acquired contract is not a substantive process (ED IFRS 3.B12C). However, an acquired contract may give access to an organized workforce, and this workforce is then to be considered in the same way as a workforce transferred with a company.

The following diagram is taken from IFRS 3.B8A and presents the two-stage assessment process for determining whether a business was acquired.



## Accounting for previously held interests

The proposed amendments also provide clarification in terms of the accounting for transactions in which a company obtains control or joint control via a joint operation when the joint operation meets the criteria for definition as a business.

Obtaining control of a joint operation where the company is either already jointly involved or participates in joint control is classified as a business combination achieved in stages as defined by IFRS 3. Accordingly, the previously held interest in the assets and liabilities of the joint operation are remeasured at fair value.

By contrast, if a company merely increases its interest in a joint operation without obtaining control, the previously held interest in the assets and liabilities of that joint operation is not remeasured. While the nature of these interests in the assets and liabilities

changes, this does not lead to a change in the basis of consolidation or the accounting treatment for the previously held interests.

**Note:** The effective date of the amendments has not yet been specified, but early adoption is to be permitted. The proposed amendments to IFRS 3 and

IFRS 11 are to be applied prospectively.

## IASB issues amendment to IAS 40 in relation to transfers of investment property

On 8 December 2016, the IASB issued an amendment to IAS 40 "Investment Property". The amendments relate to IAS 40.57. The reason for the amendment was the question whether property under construction or under development has to be reclassified from inventories (IAS 2 "Inventories") to investment property if there is evidence of a change in use. The exhaustive list in IAS 40.57 to date meant that there was no clear rule regarding the classification of property under construction. The clarifications made mean that the list of evidence in IAS 40.57 is now a non-exhaustive list of examples. This means that an entity can transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. The change in use means that the property meets, or ceases to meet, the definition of investment property. A change in the intentions of management in respect of the use of the property does not in itself constitute evidence of a change in use.

**Note:** The amendments are effective for reporting periods beginning on or after 1 January 2018. Early adoption is permitted. Companies will apply the amendments to changes in use that take place on or after the beginning of the reporting period in which the entity applies the amendments for the first time. Retrospective application is permitted if this is possible without the use of later findings.

## IASB issues Annual Improvements to IFRS (2014-2016)

On 8 December 2016, the IASB issued the Annual Improvements to IFRS (2014-2016). The amendments relate to three IFRS standards:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards": Deletion of short-term exemptions for first-time adopters (exceptions in E3-E7 of IFRS 1) because they have served their purpose or have become obsolete over time.
- IFRS 12: "Disclosure of Interests in Other Entities": Due to the interaction of the disclosure requirements of IFRS 5 and IFRS 12, there was uncertainty regarding whether the disclosure requirements of IFRS 12 (except for B10-B16) also apply to interests that are classified as held for sale, as held for distribution to owners or as discontinued operations. 5A has now been added to IFRS 12, which clarifies that the disclosure requirements of IFRS 12 also apply to interests covered by the scope of IFRS 5.
- IAS 28: "Investments in Associates and Joint Ventures":

IAS 28.18 provides an option regarding the measurement of certain investments. According to that option, investments can be measured using the equity method or at fair value through profit or loss (FVPL). The question then was whether the FVPL option should be based on the respective investment (investment-by-investment choice) or on a consistent policy choice. The proposed amendment now clarifies that the option to measure an investment in an associate or joint venture held by a venture capital organization or other qualifying entity can be elected on an investment-by-investment basis.

**Note:** The amendments to IFRS 1 and IAS 28 take effect for reporting periods beginning on or after 1 January 2018; the amendments to IFRS 12 take effect for reporting periods beginning on or after 1 January 2017.

## IASB issues IFRIC 22 regarding foreign currency translation in the case of advance consideration

On 8 December 2016, the IASB issued IFRIC 22 “Foreign Currency Transactions and Advance Consideration”. IFRIC 22 addresses an application question regarding IAS 21 “The Effects of Changes in Foreign Exchange Rates”. Clarification is provided regarding the date to use for the purpose of determining the exchange rate for translating foreign currency transactions that include the receipt or payment of advance consideration. Accordingly, the authoritative date for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes

the asset or liability arising from the payment or receipt of advance consideration.

**Note:** For further details, we refer to novus IFRS II/2016. The interpretation is applicable from 1 January 2018. Earlier application is permitted.

## Amendments to IFRS 4 Insurance Contracts

The IASB published amendments to the existing IFRS 4 for insurance contracts on 12 September 2016. The amendments relate to the first-time adoption of IFRS 9 “Financial Instruments” for insurers.

Differing effective dates for IFRS 9 and IFRS 4 would result in twice as much conversion work unless the following exemptions were granted for the transition period:

1. There is an option to postpone first-time adoption of IFRS 9 if IFRS 4 is applied to existing insurance contracts. In such a case, IAS 39 can continue to be used instead of IFRS 9 provided that the annual periods concerned begin before 1 January 2021 and IFRS 9 has not been applied yet.
2. For a transition period, companies that apply IFRS 4 to existing insurance contracts can reclassify

certain financial assets. Reclassification of an amount between “profit or loss” and “other comprehensive income” means that the results in the profit or loss pursuant to IFRS 9 correspond to the figure under IAS 39.

# EU Endorsement

## IFRS 9 has been adopted in the EU

On 25 November 2016, the EU Commission announced the adoption of IFRS 9 into EU law. The announcement in the Official Journal was made on 29 November 2016.

IFRS 9 contains comprehensive new rules on the recognition, presentation and measurement of financial instruments as well as on the related disclosures in the notes, and is to replace the currently applicable IAS 39. IFRS 9 takes effect in the EU as of 1 January 2018. This corresponds to the effective date of the IASB. Early adoption is permitted.

The EU Commission is in favour of an option to temporarily postpone the entry into force of IFRS 9 for the insurance industry in order to ensure application at the same time as IFRS 17. As far as the correspondingly amended IFRS 4 is concerned, the EU Commission has requested a recommendation on adoption by EFRAG.

## EU Endorsement Status Report

The following table contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since the last edition of IFRS Link (endorsement). These are based on the EU Endorsement Status Report issued by EFRAG on 8 December 2016.

Standard	IASB entry into force	EU endorsement expected
IFRS 14: Regulatory Deferral Accounts (30 January 2014)	1 January 2016	No endorsement
IFRS 16: Leases (13 January 2016)	1 January 2019	H2/2017
<b>Amendments to standards</b>		
IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (11 September 2014)	Postponed indefinitely	Postponed
IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (19 January 2016)	1 January 2017	Q2/2017
IAS 7: Disclosure Initiative (29 January 2016)	1 January 2017	Q2/2017
IFRS 15: Clarifications (12 April 2016)	1 January 2018	Q2/2017
IFRS 2: Clarification of Classification and Measurement of Share-based Payment Transactions (20 June 2016)	1 January 2018	HY2/2017
IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts (12 September 2016)	1 January 2018	2017
Annual Improvements to IFRSs (2014-2016 Cycle)	1 January 2017/ 1 January 2018	HY2/2017
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1 January 2018	HY2/2017
IAS 40: Classification of Property Under Construction	1 January 2018	HY2/2017

# ESMA

## ESMA sets enforcement priorities for listed companies' 2016 financial statements

The European Securities and Markets Authority (ESMA) has published its annual Public Statement on European Common Enforcement Priorities (the Statement) which identifies enforcement priorities for listed companies' 2016 financial statements and highlights the need for transparency in disclosing the potential impact of Brexit on issuers' financial statements.

The Statement, directed at listed companies and their auditors, sets out the areas ESMA and national enforcers will focus on in particular when they examine listed companies' 2016 financial statements in order to promote a consistent application of International Financial Reporting Standards (IFRS Standards) across the EU.

Both recurring issues and the current economic climate, where it may pose challenges to issuers, are included in the Statement. The common priorities for 2016 financial statements encompass:

- Presentation of financial performance: ESMA again stresses the importance of providing investors with clear and high quality information on financial performance. ESMA urges issuers to ensure transparency and consistency when presenting their performance in the primary financial statements, notes and in the documents accompanying financial statements.
- Financial instruments: distinction between equity instruments and financial liabilities: ESMA notes there are cases where the distinction between equity and liability requires significant judgement and reminds issuers that the general principle for distinguishing liabilities from equity issued by an entity is whether

the entity has an unconditional right to avoid delivering cash or another financial asset to settle the contractual obligation.

- Disclosures of the impact of the new standards on IFRS financial statements: ESMA highlights that some aspects of the new IFRS standards, which come into force at the start of 2018 and 2019, represent a significant change to current standards. They concern Financial Instruments (IFRS 9), Revenue from Contracts with Customers (IFRS 15) and Leases (IFRS 16). These new standards may affect the recognition, measurement and presentation of assets, liabilities, income, expenses and cash flows. Consequently, issuers should start preparing for these new standards now.

In addition, taking into consideration the relevance of Brexit for some issuers in Europe, ESMA urges issuers potentially affected by the result of the UK's referendum to leave the EU to assess and disclose the associated risks and expected impacts it may have on their business activities. ESMA expects that more information about the impact will become available as the date of Brexit approaches.

ESMA and European national enforcers will monitor and supervise the application of the IFRS requirements outlined in the Statement, with national authorities incorporating them into their reviews and taking corrective actions where appropriate. ESMA will collect data on how European listed entities have applied the priorities and ESMA will report on findings regarding these priorities in its Report on the 2016 enforcement activities.

## ESMA Public Statement on IFRS 15

The European Securities and Markets Authority (ESMA) issued a public statement in order to promote consistent application of IFRS 15 "Revenue from Contracts with Customers" by European issuers of

securities admitted to trading on a regulated market.

In light of the expected impact and importance of the implementation of IFRS 15, ESMA highlights the need

for consistent and high-quality implementation of IFRS 15 and the need for transparency on its impact to users of financial statements. The statement deals with the following topics:

- Transparency on implementation and effects of IFRS 15,
- Specific considerations,
- Illustrative timeline and good practices of disclosures, and
- Next steps.

The English-language statement on IFRS 15 can be downloaded directly from the ESMA website.

**Note:** In November 2016, ESMA issued a similar statement on the application of IFRS 9. ESMA expects that the statements will be taken into consideration and reflected in the preparation of 2016 and 2017 annual financial statements and 2017 interim financial statements.

## ESMA Guidelines on Alternative Performance Measures

The European Securities and Markets Authority (ESMA) published guidelines on alternative performance measures (APMs) in October 2015 (see IFRS Link I/2016). Publicly traded companies must observe the ESMA Guidelines on Alternative Performance Measures in their regulated financial reporting, ad-hoc disclosures and/or prospectuses published on or after 3 July 2016. The legal basis for the ESMA guidelines is contained in Art. 16 of the ESMA Regulation. They do not constitute binding EU law and do not have any direct impact on the national enforcement procedures. However, the national financial reporting enforcement panels of the EU countries take the guidelines into account provided they do not contravene national law.

Alternative performance measures or APMs are defined as a financial measure of historical or future financial performance, financial position, or cash flows. They do not include financial measures defined or specified in the applicable financial reporting framework. Examples thus include EBIT, EBITDA and ROCE. The guidelines are aimed at increasing the transparency and comparability of financial information. According to the guidelines, the definitions of all APMs should be issued in a clear and readable way. In addition, the basis of calculation should be explained and meaningful labels should be used for the APMs. Furthermore, the guidelines call for a reconciliation of the APMs to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period. Also, the material reconciling items should be identified and explained separately.

The ESMA guidelines on APMs require that the most significant financial performance indicators are included in the analysis with reference to the amounts and disclosures in the consolidated financial statements. Furthermore, the guidelines require the following among other things:

- Definition of the performance indicators
- Consistent calculation of the performance indicators
- Presentation of the financial performance indicators used by management for management purposes
- Presentation of the calculation and reconciliation to the figures from the financial statements
- Presentation and explanation of the changes compared to the prior year.

The most significant financial performance indicators that the management board uses to manage the company are APMs.

**Note:** National financial reporting enforcement panels will take compliance with the ESMA guidelines into account when auditing the performance indicators in the management report, provided the management report is selected as an audit field. Potential questions could include in particular:

- Are the APMs determined consistently over time?
- Are the APMs presented prominently the most significant performance indicators used for internal management purposes?
- Is the statement of reconciliation to the IFRS figures present, correct and readable?
- Is the adjustment described correctly as a "one-time effect" or "special effect"?
- Is the presentation of the results of operations in the management report in line with the consolidated financial statements?

Special aspects relate firstly to the labelling of adjustments and to the presentation of effects of unusual events on the results of operations. When presenting the adjustment and quantifying unusual events or events that do not recur annually, the terms used must not be confusing. Terms like "seldom", "extraordinary", "non-recurring" or "one-time" must be assessed particularly critically.

## ESMA – Enforcement decisions published

The national European enforcers audit the financial statements of companies with securities traded on a regulated market in Europe or in the process of admission to the market. The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs) and reviewed to determine the extent to which they comply with the IFRSs and other applicable reporting requirements, including the authoritative national legal requirements.

The European Securities and Markets Authority

(ESMA) has developed a confidential database of implementation decisions made by the individual European enforcers as a source of information in order to promote the appropriate application of IFRSs and thus provide companies using IFRS and their auditors with insights into the decision-making process of the European enforcers.

An overview of the last two publications is presented below. The publications are available on the ESMA website.

Standard	Overview of matter	Source
IAS 39	Inflation-related index derivative embedded in a host lease contract	Decision ref EECS/0116-01
IFRS 11	Classification of a separate vehicle as joint operation based on 'other facts and circumstances'	Decision ref EECS/0116-02
IAS 21	Selection of the appropriate exchange rate when multiple exchange rates are available	Decision ref EECS/0116-03
IAS 38	Presentation of gains arising from the sale of an intangible asset	Decision ref EECS/0116-04
IFRS 13	Identification of unobservable inputs	Decision ref EECS/0116-05
IFRS 3, IAS 8, IFRS 2	Reverse acquisition of a listed shell company	Decision ref EECS/0116-06
IAS 18, IFRS 8	Disclosure of the amounts of significant categories of revenue	Decision ref EECS/0116-07
IAS 38	Determination of whether a dealer network acquired in a business combination is an intangible asset with indefinite useful life	Decision ref EECS/0116-07
IFRS 13, IFRIC 17	Exchange of a business for an interest in a subsidiary and subsequent distribution of the acquired subsidiary to owners	Decision ref EECS/0116-08
IAS 19, IFRIC 14	The determination of the maximum economic benefits available from a pension plan and the measurement of the defined benefit asset	Decision ref EECS/0116-10–
IAS 38	Determination of whether a dealer network acquired in a business combination is an intangible asset with indefinite useful life	Decision ref EECS/0116-08
IFRS 13, IFRIC 17	Exchange of a business for an interest in a subsidiary and subsequent distribution of the acquired subsidiary to owners	Decision ref EECS/0116-09
IAS 19, IFRIC 14	The determination of the maximum economic benefits available from a pension plan and the measurement of the defined benefit asset	Decision ref EECS/0116-10–
IAS 12, IAS 41	Measurement of a deferred tax liability relating to biological assets when income tax rates are changing over the assets' useful lives	Decision ref EECS/0116-11
IFRIC 21	Accounting for contributions to a deposit guarantee fund in the interim financial report	Decision ref EECS/0116-12
IFRS 5	Presentation of licensed activities as discontinued operations	Decision ref EECS/0215-01
IAS 34	Disclosures in interim financial statements	Decision ref EECS/0215-02
IAS 19	Disclosures on post-employment benefit plans	Decision ref EECS/0215-03

IAS 34, IAS 1	Going Concern disclosures	Decision ref EECS/0215- 04 –
IFRS 10	Control of an entity without holding any equity interest	Decision ref EECS/0215-05
IFRS 10	De facto control	Decision ref EECS/0215-06
IAS 36	Impairment of goodwill	Decision ref EECS/0215-07
IFRS 13	Fair value measurement for fixed-rate loans	Decision ref EECS/0215-08
IAS 36	Carrying amounts of a cash-generating unit to be tested for impairment	Decision ref EECS/0215-9
IFRS 5, IAS 27	Presentation and disclosure of discontinued operations in separate financial statements	Decision ref EECS/0215-10



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