



## 2019 FINANCIAL STATEMENTS AND REVIEW OF 2017-2018 FINANCIAL STATEMENTS

### Background regulations: Article 223-1 of the AMF General Regulation

These recommendations are intended primarily for companies preparing financial statements in accordance with IFRS under the European Union's IAS Regulation No. 1606/2002.

The task of setting and interpreting international accounting standards is the exclusive responsibility of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC).

The AMF, like ESMA and other regulators, identifies, before each annual accounting closing, the accounting and financial matters that seem important with a view to raising awareness among listed companies, their audit committees and their statutory auditors. In this way, the AMF helps to protect savings and ensure that investors are properly informed through the presentation of high-quality accounting and financial disclosures.

Some of the recommendations below encourage companies to provide descriptions or explanations in their financial statements. As they concern specific aspects of the standards, the issues covered will not be applicable to all companies and the level of information must be appropriate to the relative importance of the topic.

ESMA has identified a set of common priorities<sup>1</sup> at the European level focusing on the standards that entered into force on 1<sup>st</sup> January 2018 (IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*) and on 1<sup>st</sup> January 2019 (IFRS 16 – *Leases* and IFRIC 23 – *Uncertainty over Income Tax Treatments*), as well as information related to financial reporting more broadly (non-financial performance and alternative performance measures).

The AMF's recommendations are consistent with those issued by ESMA. In some cases, the AMF has tailored the issues to reflect the specific French context. References to the ESMA document are provided to facilitate the link between the two documents.

The AMF has included the specific recommendations relating to non-financial performance in its 2019 CSR Report,<sup>2</sup> which summarises all existing European practices and recommendations on these issues and provides numerous examples. Companies may find it useful to refer to this report.

As mentioned in the previous ESMA and AMF recommendations following the United Kingdom's decision to leave the European Union, the exit procedure will likely eventually have financial consequences in the long term that will have to be disclosed to the market. The AMF asks those companies that may be affected to inform the market of the risks, strategies implemented (for example, organisational), exposures and, where known, expected impacts (depreciation, restructuring, taxes, etc.).

As part of the ongoing reform of interbank rates (such as EURIBOR, LIBOR, etc.), the AMF highlights the potential material implications for financial statements of the transition from one rate to another and the clarity expected in the financial statements on the consequences of this reform. The IASB has published amendments to IFRS 9 and IAS 39 that allow accounting hedging relationships to be maintained under certain conditions during the period of uncertainty before one rate is replaced by another. The AMF encourages companies to prepare for the implementation of these amendments and to monitor their adoption by the European Union. The IASB is also working on additional amendments to IFRS 9 to clarify certain accounting difficulties identified at the date of transition from one rate to another.

<sup>1</sup> [ESMA Public Statement – European Common Enforcement Priorities for 2019](#)

<sup>2</sup> [AMF – Report on Social, Societal and Environmental Responsibility of listed companies](#)

### ***Review of Financial Statements by the AMF***

The AMF presents a summary of the work done in connection with its review of the financial statements of listed companies between October 2018 and September 2019.

The AMF remains available to any listed company and their statutory auditors to discuss any subject relating to financial communications and, in particular, the application of IFRS, including in advance of the closing and publication of the financial statements.

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

The technical standard relating to the implementation of the European single electronic format was published in the Official Journal in 2019<sup>3</sup> and will apply to annual financial statements including IFRS consolidated financial statements for financial years beginning on or after 1<sup>st</sup> January 2020. The AMF encourages companies to begin understanding and working on this topic. To this end, the AMF and ESMA have added dedicated areas to their websites.<sup>4</sup> The AMF organises workshops for companies and is available to market participants to answer their questions. The AMF emphasises that this project adds an electronic dimension to the financial statements but does not necessarily require any changes. In this respect, the AMF welcomes the ongoing efforts of French companies to make their financial statements more specific and readable. These efforts remain relevant and useful, including in relation to the introduction of this electronic reporting system.

### ***Other AMF publications related to financial statements***

In September 2019, the AMF updated the table of contents<sup>5</sup> that includes all its recommendations on IFRS financial statements (2006 to 2018). This document provides easy access to previous recommendations, which are presented by topic in a clear and easily searchable format.

In June 2019, the AMF published a report on the 2018 half-yearly financial statements of 93 French and European companies, which provides an overview of practices with numerous examples.<sup>6</sup>

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<sup>3</sup> [Delegated Regulation \(EU\) 2018/815](#)

<sup>4</sup> [Dedicated area on the AMF website](#) / [Dedicated area on the ESMA website](#)

<sup>5</sup> [AMF Recommendation – DOC-2018-06 – Table of Contents – Financial Statement Recommendations as at 1<sup>st</sup> January 2019](#)

<sup>6</sup> [AMF – Review of Practices for Interim Financial Statements](#)

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## 1. AMF'S REVIEW OF FINANCIAL STATEMENTS

### 1.1 A Posteriori Review of Financial Statements

The AMF presents a summary of its review of the annual financial statements of 85 companies (59 registration documents and 26 annual financial reports) between October 2018 and September 2019.<sup>7</sup> There is a link between the reviews of financial reports conducted by the market regulator, used to identify difficulties in applying accounting standards, and the choice of issues discussed in the AMF's recommendations on financial statements.

#### 1.1.1 Selection of issuers for the 2019 work programme and type of review

At the beginning of the year, the AMF selects a sample of issuers whose financial statements will be reviewed according to three criteria – risk, rotation and random selection – in accordance with ESMA's principles on the control of financial information.

In its risk analysis, the AMF examines market criteria (capitalisation, free float and changes to these, for example), financial indicators (ratios and changes in key figures, financial transactions) and more general criteria (sectoral issues, for example).

The rotation approach ensures that the financial statements of issuers in a given sub-fund are reviewed at least once over a given period.

Finally, an additional random selection is used for Euronext Segment C companies, which are more numerous and have smaller capitalisation, and for bond issuers.

For the companies selected in 2019, 77% (81% in 2018) were selected on the risk criterion, 14% (13% in 2018) on the rotation criterion and 9% (6% in 2018) randomly.

In 2019, 73% of the reviews carried out during the period were full reviews (a review of all financial statements), compared with 79% in the previous period. The targeted reviews carried out (on one or more specific topics) mainly focused on the first-time use of standards on revenue, financial instruments and the impacts of the financial difficulties encountered by certain groups.

#### 1.1.2 Recommendations and areas for improvement sent to companies

In its end-of-review letters, the AMF makes recommendations and suggests areas for improvement. Recommendations are systematically followed up at the next annual closing, while areas for improvement generally cover topics that are not material or are less significant in relation to the accounting period reviewed.

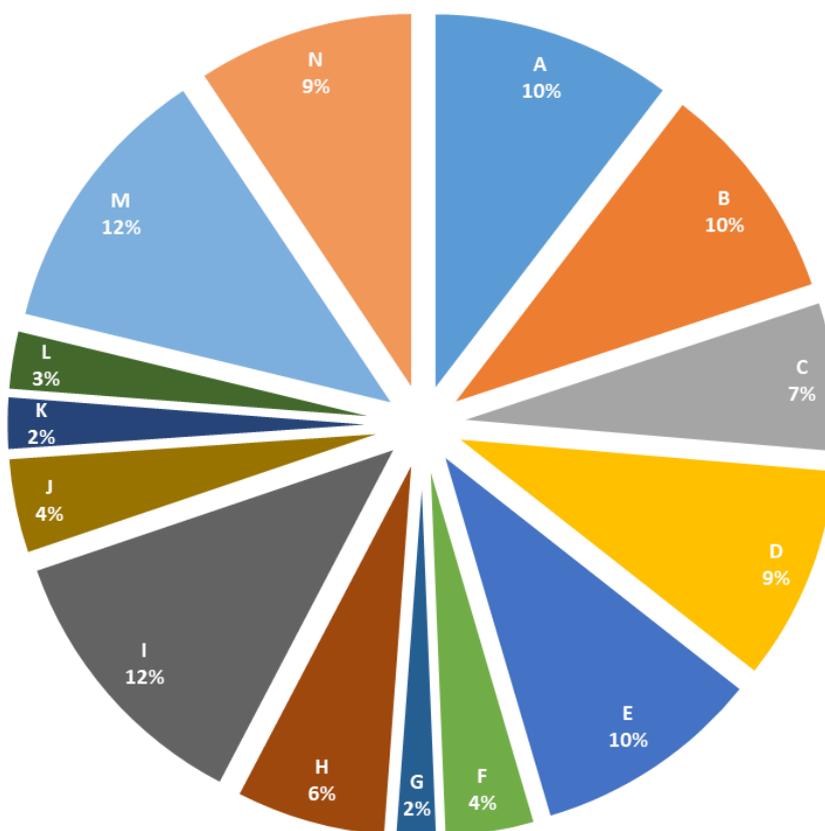
89% of the reviews completed during the period (October 2018-September 2019) resulted in recommendations and areas for improvement being sent to companies (76% in the previous period). For 12% of companies, the AMF only sent areas for improvement (9% in the previous period). No specific action was taken for 11% of the reviews (24% in the previous period).

The average number of recommendations and areas for improvement per review is still 5.

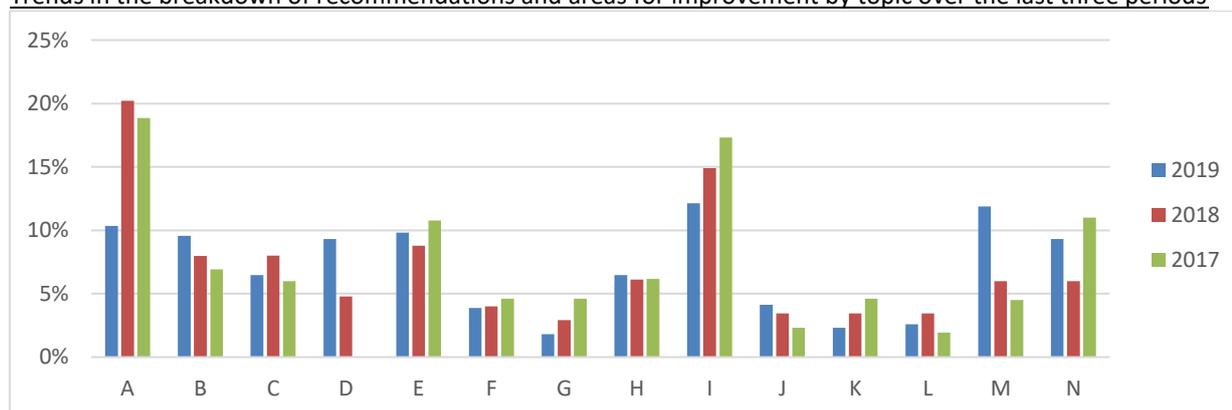
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<sup>7</sup> Consolidated Annual Financial Statements 2017 and 2018

Breakdown of recommendations and areas for improvement by topic



Trends in the breakdown of recommendations and areas for improvement by topic over the last three periods



A: Presentation of Financial Statements (IAS 1, IAS 8)  
 B: Statement of Cash Flows (IAS 7)  
 C: Consolidation (IAS 27, IAS 28, IFRS 10-11-12, IFRS 3)  
 D: Leases (IAS 17, IFRS 16)  
 E: Impairment of assets (IAS 36)  
 F: Income Taxes (IAS 12)  
 G: Non-Current Assets Held for Sale and Discontinued Operations (IFRS 5)

H: Operating Segments (IFRS 8)  
 I: Financial Instruments, Fair Value (IAS 32, IAS 39, IFRS 7, IFRS 9, IFRS 13)  
 J: Share-Based Payment, Employee Benefits (IFRS 2, IAS 19)  
 K: Provisions (IAS 37)  
 L: Earnings Per Share (IAS 33)  
 M: Revenue (IAS 18, IAS 11, IFRS 15)  
 N: Other (IAS 21, IAS 2, IAS 38, IAS 20, IAS 16, IAS 29)

The most recurrent topics of recommendations and areas for improvement for 2018-2019 are generally in line with those of 2017-2018. It should be noted, however, that the entry into force of the standards on revenue on 1<sup>st</sup> January 2018 and on leases on 1<sup>st</sup> January 2019 has led to an increase in the number of recommendations and areas for improvement for these topics, relating in particular to updating the resulting accounting principles.

With regard to the presentation of the financial statements (10%), the recommendations and areas for improvement are significantly lower than in previous years. The previous increase was related to the entry into force of the amendment to IAS 1.85A-B relating to subtotals. The points raised by the AMF again focused mainly on clarifying the wording of subtotals and their definition, including the distinction to be made between operating items considered recurring and non-recurring. The AMF has also reiterated on several occasions the importance of commenting on certain significant items or changes.

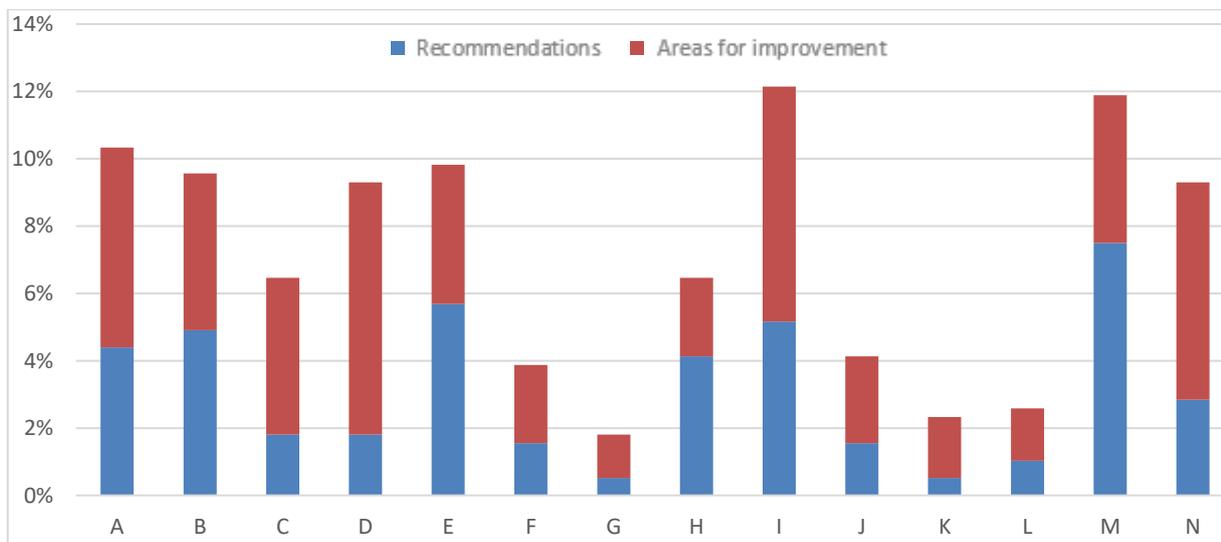
For the statement of cash flows (9%), the recommendations and areas for improvement mainly focused on the importance of cross-referencing to the notes, commenting on the main balances and changes, and presenting the change in liabilities from financing activities, including the distinction between cash and non-cash flows (IAS 7.44A-B).

The AMF notes that the proportion of its recommendations relating to the implementation and disclosures for impairment of assets (10%) remains stable. These recommendations concerned in particular the presentation by companies of their sensitivity analyses to all key assumptions (actuarial and operational). On several occasions, the AMF also encouraged companies to clarify the level at which the testing is performed and the information provided in relation to the concepts of cash-generating units (CGUs) and groups of CGUs.

A significant proportion of the recommendations and areas for improvement are related to financial instruments (12%). This year, the AMF often made recommendations to companies using significant deconsolidating factoring programmes (see 1.1.3). The other issue for recommendations is updating the accounting principles related to the impairment model for trade receivables and contract assets.

The recommendations and areas for improvement made with regard to revenue recognition mainly encouraged companies to specify their accounting principles and methods in relation to the specific characteristics of their activities (identification of performance obligations, principal-agent analysis) and to further develop the disaggregation of revenue (see 1.1.3).

#### Breakdown between recommendations and areas for improvement issued for period 2018-2019



A: Presentation of Financial Statements (IAS 1, IAS 8)	H: Operating Segments (IFRS 8)
B: Statement of Cash Flows (IAS 7)	I: Financial Instruments, Fair Value (IAS 32, IAS 39, IFRS 7, IFRS 9, IFRS 13)
C: Consolidation (IAS 27, IAS 28, IFRS 10-11-12, IFRS 3)	J: Share-Based Payment, Employee Benefits (IFRS 2, IAS 19)
D: Leases (IAS 17, IFRS 16)	K: Provisions (IAS 37)
E: Impairment of assets (IAS 36)	L: Earnings Per Share (IAS 33)
F: Income Taxes (IAS 12)	M: Revenue (IAS 18, IAS 11, IFRS 15)
G: Non-Current Assets Held for Sale and Discontinued Operations (IFRS 5)	N: Other (IAS 21, IAS 2, IAS 38, IAS 20, IAS 16, IAS 29)

This graph illustrates the breakdown between recommendations and areas for improvement over the 2018-2019 period.

With regard to leases, the AMF's comments are mostly areas for improvement since these reviews were carried out just before the transition to IFRS 16. By contrast, due to the entry into force of the standards on revenue recognition and financial instruments, our comments here mainly resulted in more recommendations than in the previous financial year.

### 1.1.3 Examples of some cases reviewed

#### Earnings Per Share (IAS 33):

The AMF noted that retrospective adjustments to earnings per share raise questions.

For example, some companies may have to modify (particularly prior to an initial public offering or a transaction) the nominal value or number of shares making up their share capital. In this case, IAS 33.26-28 requires the weighted average number of ordinary shares outstanding during the period, and for all periods presented, to take into account such events that change the number of ordinary shares outstanding without a corresponding change in resources (including when changes occur after the balance sheet date (IAS 33.64)). For example, in the event of a share split (or share consolidation), the number of ordinary shares outstanding increases (or decreases) without a corresponding increase (or decrease) in the entity's resources (i.e. no cash flow).

The earnings per share of some of the companies involved in these cases was not adjusted retrospectively or the explanations were not provided.

Other cases of more specific adjustments to the number of ordinary shares were reviewed, in particular capital increases through the exercise of preferential subscription rights where the exercise price is lower than the fair value of the shares (IAS 33.27(b)). IAS 33.A2 and Example 4, both of which should be referred to, indicate the calculation methods to be used in this case.

#### Factoring Transactions (IFRS 9 – IFRS 7):

In the case of factoring transactions or the transfer of trade receivables, when it is determined, at the end of the analysis, that the receivables are derecognised (transfer of substantially all the risks and rewards), often limited information is provided in the financial statements on the sales transactions, including in the case of a mandate to collect or manage the transferred receivables. As part of its reviews, the AMF ensured that the analysis carried out justified the derecognition of these receivables, i.e. the analysis relating to the transfer of all the risks and rewards associated with these receivables (credit, exchange, dilution, late payment, etc.).

Where the effects were significant (on free cash flow, days sales outstanding or liquidity issues, for example), the AMF recommended that the companies concerned disclose the characteristics of the contracts, the main factors justifying the accounting treatment and the amounts involved at the end of the financial year (eligible amounts in the disposal programme, the amount of derecognised receivables and the effects on the income statement and statement of cash flows).

In the financial statements of the companies reviewed this year, no reference to reverse factoring transactions was observed. However, as this type of transaction continues to raise important issues, it is still an area to which the AMF pays particular attention in relation to the 2015 AMF recommendations (paragraph 2.2).<sup>8</sup>

Revenue (IFRS 15):

The AMF identified, in its reviews, certain practices that do not comply with the revenue recognition principle regarding presentation of revenues. Companies did not distinguish in their financial statements between revenue recognised under IFRS 15 and other income recognised under other standards (mainly rental income), or they presented revenue net of certain expenses without being an agent. The AMF has made recommendations in this regard.

The most frequently discussed accounting topics in the reviews concern (i) identifying performance obligations in the contract, (ii) determining the transaction price and its allocation to the various performance obligations and (iii) recognising the revenue associated with the performance obligations. In this respect, the AMF noted wide-ranging analysis of the provisions of IFRS 15 in the biotechnology and high-technology sector, particularly in determining how revenue is recognised when a single performance obligation is identified for development services and the sale of licences. The AMF sought to understand these diversities, which result, in particular, from the specific features of such contracts.

Noting that often limited information is provided in the financial statements on these important issues, the AMF recommended that the companies concerned develop information on the contractual terms of the main contracts (while protecting the confidentiality of certain information) and the key analyses and judgements that justify the accounting treatment adopted.

## 1.2 Prospectus Review

### 1.2.1 Review of financial statements in initial public offering prospectuses

The financial statements of eight companies were reviewed as part of the draft initial public offering (IPO) prospectuses between October 2018 and September 2019. The number of draft IPOs decreased significantly over the period.

Financial statements reviewed as part of initial public offering prospectuses			
	2018-2019	2017-2018	2016-2017
Total	8	23	24
IFRS	4	15	18
French standards	4	8	6

The AMF reminds issuers that the new regulation on prospectuses, when securities are offered to the public or admitted to trading on a regulated market, has been in force since 21 July 2019. The AMF has set up a dedicated page on its website<sup>9</sup> to help companies and their advisors to implement this regulation.

### 1.2.2 Other prospectuses

The AMF also reviews the pro forma financial information presented as part of information documents relating to mergers and acquisitions or in prospectuses for the issue of equity or bond securities refinancing a significant acquisition.

For the period analysed, the AMF reviewed five information documents or prospectuses containing pro forma information.

Although, strictly speaking, not being IFRS financial statements, this pro forma financial information is based on IFRS principles that will subsequently be used in the issuer's consolidated financial statements. In this respect, the AMF pays particular attention to the accounting treatments applied to this information.

<sup>8</sup> [AMF Recommendation – DOC-2015-08 – 2015 Financial Statements](#)

<sup>9</sup> [Dedicated page on the AMF website](#)

### 1.3 Preliminary Review of an Accounting Treatment, Discussions with Issuers

In 2018, as in 2017, the AMF discussed an accounting analysis with five companies in advance of the publication of the financial statements. The main issues covered included changes in segment reporting and the application of the standard on leases (IFRS 16).

Furthermore, in the first quarter of each year, the AMF organises meetings with a number of Segment A companies (in 2019, 11 companies were met in relation to the 2018 financial statements and 12 companies in relation to the implementation of IFRS 16). The main objective of these meetings is to discuss structural accounting issues encountered during the period.

## 2. IFRS 16 – LEASES

IFRS 16 – *Leases* applies for annual reporting periods beginning on or after 1<sup>st</sup> January 2019 and sets out a single principle for the recognition of a right-of-use asset and of a lease liability on the lessee’s balance sheet for most lease contracts.

The points of focus presented below only concern the recognition of assets and liabilities and disclosures for lessees. For lessors, in addition to certain changes applicable to all leases (definition, lease term) that are also applicable to them, the standard requires additional disclosures and changes the accounting treatment of subleases, in line with the accounting treatment of leases with lessees.

### 2.1 Transition disclosures

IFRS 16 establishes two transition methods for lessees. If the simplified retrospective method is used, practical expedients and exemptions are proposed for contracts qualifying as operating leases under IAS 17 (IFRS 16.C9-10). Based on the information provided on the transition to IFRS 16 in the interim financial statements at 30 June 2019 of CAC 40 and NEXT 20<sup>10</sup> companies, the AMF’s findings were as follows:

- The simplified retrospective method was applied by 93% of the sample.
- Lease liability at the date of first application represents more than 10% of the balance sheet total as at 31 December 2018 for nearly half of the sample and more than 25% for 20% of the sample.
- 98% of companies provide information on the classes of underlying assets (mainly real estate, vehicles or IT equipment).
- With respect to transitional provisions, 93% of companies present some of the selected practical expedients. Most of these are exemptions for low-value assets and short-term contracts (89% and 78% respectively) or relate to the exclusion of initial direct costs in determining the right-of-use assets (38%).
- 91% of issuers using the simplified retrospective method reconcile the minimum payments provided under IAS 17 in the last financial statements with the lease liability recognised under IFRS 16 at the date of first application. This information is particularly useful to readers and is required by IFRS 16.
- 62% of issuers using the simplified retrospective method report the average interest rate used at the date of first application.

#### Recommendation

**The AMF highlights the importance, particularly when using the simplified retrospective method, of:**

- **presenting all the main transition provisions applied, from all the practical expedients available under IFRS 16, such as the exclusion of initial direct costs;**
- **providing the key assumptions used to determine the weighted average incremental borrowing rate and perform the reconciliation between the minimum payments under IAS 17 and the lease liability at the date of first application.**

<sup>10</sup> Companies that applied the standard early in their 2018 financial statements and companies whose closing is delayed are excluded from the sample.

**The AMF also encourages companies to explain, in an educational and specific way, the main impacts of the standard, including the impacts on the income statement (e.g. EBITDA if applicable) and the statement of cash flows.**

*See ESMA ECEP pages 3-4 Application of IFRS 16 Leases for Lessees – Transition*

## 2.2 Presentation of Financial Statements

IFRS 16.47 requires, firstly, that rights of use assets be presented separately from other assets on the balance sheet or in the notes (including them in the balance sheet the same line item as that within which the corresponding underlying assets would be presented if they were owned), and secondly, that lease liabilities be presented separately from other financial liabilities either on the balance sheet or in the notes.

In the income statement, the interest on lease liabilities is a component of financial expenses (IFRS 16.49).

In the statement of cash flows, cash outflows related to the repayment of the principal portion of lease liabilities are presented within financing activities. The cash payments for the interest portion of the lease liability is presented as interest paid on borrowings (within operating or financing activities under IAS 7.33). Cash outflows that have not been included in the measurement of the lease liabilities (for example, certain variable lease payments, payments for leases of low-value assets and short-term leases) are classified within operating activities (IFRS 16.50).

Within the sample analysed, the AMF notes that:

- 60% of companies present the right-of-use assets on a separate line in the balance sheet. 53% of the companies present the lease liabilities on a separate line.
- In the statement of cash flows, as there is a choice of presentation, 29% of companies present the payments of interest within operating activities, 27% within financing activities and the others do not specify the classification used.

### Recommendation

**The AMF recommends that companies with significant cash flows related to interest payments (now including those on lease liabilities) present them separately in the statement of cash flows.**

**Furthermore, in the case of specific material transactions for which the standard is not prescriptive in terms of presentation, it is useful to provide the information that readers need to understand the impacts of these transactions on the financial statements (example: presentation of the result of sale and lease-back transactions in the income statement and of the cash flows related to the sale of underlying asset in the statement of cash flows).**

*See ESMA ECEP page 3 Application of IFRS 16 Leases for Lessees – Presentation and disclosures*

## 2.3 Specific issues

The AMF identified several areas of focus, notwithstanding other specific points that may require particular attention for companies that are significantly affected.

### 2.3.1 Deferred taxes and IAS 12 exemption

For the initial recognition of deferred taxes, the AMF points out that in July 2019 the IASB published an exposure draft<sup>11</sup> aimed at amending the exemption provided for in paragraphs 15 to 24 of IAS 12. This exemption would not apply to leases since, at the transaction date, the transaction gives rise to an identical amount of taxable and deductible differences.

To date, the recommendation made at the time of the 2018 financial statements remains relevant<sup>12</sup> (i.e. specify the accounting treatment used if the impacts are significant; a voluntary change in accounting method in this regard will be retrospective).

<sup>11</sup> [IASB ED/2019/5 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction](#)

<sup>12</sup> [AMF Recommendation – DOC-2018-12 – Annual Financial Report – 2018 Financial Statements and Review of 2016-2017 Financial Statements](#)

### 2.3.2. Lease term

The lease term is defined as the non-cancellable period during which the lessee is entitled to use the underlying asset, together with the periods covered by (i) any option to extend the lease that the lessee is reasonably certain to exercise, and (ii) any option to terminate the lease that the lessee is reasonably certain not to exercise (IFRS 16.18).

In this context, the standard specifies that the lease is no longer enforceable when the lessee and lessor each has the right to terminate the lease without the permission from the other party and with no more than an insignificant penalty (IFRS 16.B34). However, the standard does not provide clarification on the concept of penalty or on how the insignificant nature of the penalty is to be assessed.

This subject was brought to the attention of the IFRS IC by a question on how to read the standard and its paragraph B34 for lease contracts that can be terminated by either party without contractual penalty and with a notice period of less than twelve months, and also for tacit renewal contracts. A preliminary decision was published in June 2019 and received many comments. The analysis will continue at a future IFRS IC meeting.

Additionally, in order to assess the reasonable certainty of whether or not to exercise an option within the enforceable period of the lease, paragraph B37 specifies that the company must determine whether the lessee has an economic advantage in exercising that option and lists examples of factors to be considered in this regard.

Furthermore, IAS 16.50 requires an asset to be depreciated over its useful life (the period during which the entity expects to be able to use the asset). In its preliminary decision of June 2019, the IFRS IC indicated that, in determining the useful life of non-removable leasehold improvements (e.g. fixtures and fittings), a company often concludes that the useful life of these assets cannot exceed the lease term. The IFRS IC specifies that the existence of significant leasehold improvements with a useful life longer than the contractual term of the lease is a factor to be considered when assessing the amount of penalty.

### **Recommendation**

**As a result of the ongoing discussions at the IFRS IC on determining the enforceable period of the contract and lease terms, the AMF recommends that companies significantly affected should specify in their accounting policies the significant judgements and estimates used to determine:**

- the lease term (by clarifying, firstly, the enforceable term and, secondly, the reasonable certainty of the lessee continuing the contract if he/she has renewal or termination options);
- the useful life of non-removable leasehold improvements that cannot be separated from the leased assets.\*

**In the event of a final decision by the IFRS IC clarifying the interpretation of the texts before the closing of the financial year, the AMF encourages companies with contracts that may be affected to:**

- if possible, take this decision into consideration by modifying the specified lease term, where appropriate, or,
- if the company is significantly affected but cannot accurately measure the impacts, disclose in the financial statements the ongoing analyses and a qualitative description of the potential impacts, if possible.

**The responses from the IFRS IC could have an impact on the approaches used by companies in determining the lease term beyond the specific cases mentioned in the question. The AMF therefore recommends that all companies monitor the outcome of discussions on this subject.**

*\* See ESMA ECEP page 2 Application of IFRS 16 Leases for Lessees – Lease term*

### 2.3.3. Determining the lessee's incremental borrowing rate

In accordance with IFRS 16.26, when the implicit rate in the lease cannot be readily determined, the lessee's incremental borrowing rate should be used. This rate is defined in Appendix A of the standard as the rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

In its decision of September 2019,<sup>13</sup> the IFRS IC stated that the standard does not explicitly require a lessee to determine its incremental borrowing rate to reflect the interest rate in a loan with a similar payment profile to the

<sup>13</sup> [IFRIC Update September 2019 - Committee's Agenda Decision - Lessee's Incremental Borrowing Rate](#)

lease payments (i.e. a rate reflecting the contract term) but that this would be consistent with the IASB's objectives when defining this rate.

In this regard, 33% of the sample specify how the rate was determined, and of these 87% use duration to determine their incremental borrowing rates.

### **Recommendation**

**The AMF emphasises that the discount rate used must reflect the lessee's incremental borrowing rate, which requires specific adjustments (examples: currency risks, country risks, credit of the lessee subsidiary, etc.), including for companies that determine this rate using the parent company's borrowing rate.**

**In the case of a material judgment made, the AMF recommends that companies disclose in their accounting principles in the 2019 annual financial statements the assumptions used to determine the incremental borrowing rate, taking into account the IFRS IC's decision of September 2019.**

*See ESMA ECEP pages 2-3 Application of IFRS 16 Leases for Lessees – Discount rate*

#### 2.3.4. Implementation of impairment testing

IFRS 16.33 requires the provisions of IAS 36 to be applied when performing impairment testing of the right-of-use assets. In accordance with IAS 36.22, the right-of-use assets is tested as an individual asset when the cash inflows it generates are largely independent of those from other assets. Otherwise, it is tested within the CGU or group of CGUs to which it belongs.

IFRS 16 raises practical questions about the way in which impairment test is conducted, because of its potentially significant impact on the main parameters of this test: how to take into account the lease liability in the carrying value and recoverable value of the CGU or group of CGUs tested; the impact of the lease liability on the calculation of the discount rate; whether lease payments are taken into account in future cash flows; and contract renewal considerations.

### **Recommendation**

**The AMF recommends that companies consider in depth, in conjunction with their statutory auditors and assessors where appropriate, the potential impacts of IFRS 16 on their impairment testing methodology, particularly when risks of impairment are identified.**

*See ESMA ECEP page 3 Application of IFRS 16 Leases for Lessees – Impairment of right-of-use assets*

#### 2.3.5. Other issues

The IFRS IC has published a few decisions and draft decisions on the scope of IFRS 16 in specific cases such as subsurface rights,<sup>14</sup> a contract for access to software hosted on the Cloud<sup>15</sup> and a ship rental contract.<sup>16</sup> The AMF highlights the educational usefulness of these decisions, which can help to identify the questions to raise and the reasoning to follow. The AMF reminds companies that a contract, that does not qualify as a lease, is recognised in accordance with other IFRS standards (IAS 38, for example).

## **2.4 Disclosures in the Notes**

The standard requires that disclosures be made to assess the impact of leases on the financial position, financial performance and cash flows. IFRS 16.53-60 set out the disclosures required to meet these objectives.

Although the principle of materiality is not explicitly included in the standard, it is a general principle that also applies to leases (IFRS 16.BC216). The standard also points out that it is not necessary to duplicate information already provided in other notes to the financial statements; cross-references are sufficient.

The AMF acknowledges and welcomes the efforts made by companies for the first application of the standard. The AMF expects that disclosures in the financial statements will continue to be improved in the next annual financial statements and during future financial closings.

<sup>14</sup> [IFRIC Update June 2019 – Committee's Agenda Decision – Subsurface Rights](#)

<sup>15</sup> [IFRIC Update March 2019 – Committee's Agenda Decision – Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud](#)

<sup>16</sup> *Draft decision: [IFRIC Update September 2019 – Tentative Agenda Decision – Shipping Contract](#)*

#### 2.4.1 Accounting principles, judgements and estimates

Generally all companies in our sample have updated their accounting policies, but the level of detail and specificity varies significantly from company to company. Some provided more entity-specific information by disclosing the analyses carried out with regard to the identification of leases (31%) and the lease term used for certain leases (56%), but they did not necessarily specify how the reasonable certainty of lessees exercising or not their options was assessed.

#### Recommendation

**The AMF reiterates the importance of updating accounting principles to reflect the new provisions of the standard by including the nature and characteristics of leases as well as the key assumptions and judgements made in the valuation of lease liabilities and rights-of-use assets.**

*See ESMA ECEP page 3 Application of IFRS 16 for Lessees – Presentation and disclosures*

#### 2.4.2 Other information to be disclosed in the notes to the financial statements

In order to understand the amounts recognised in the income statement over the period and to relate them to the balance sheet, the standard requires details of all expenses for the period (depreciation of assets, expenses not included in the measurement of lease liabilities such as certain variable payments or lease payments related to qualifying short-term or low-value contracts, and interest on lease liabilities). In its BC217 basis for conclusions, the IASB specifies how each of these disclosures is useful.

In addition to the information presented in the statement of cash flows, the standard requires the total cash outflows for leases made to be disclosed (IFRS 16.53).

As part of liquidity risk management, IFRS 16.58 also requires that a maturity analysis of lease liabilities be disclosed (separate from the maturity analysis provided for other financial liabilities) and IFRS 16.59(b) requires both qualitative and quantitative disclosures about future cash outflows that are not included in lease liabilities but to which the lessee is exposed (variable leases, extension options, guaranteed residual value in certain cases, etc.). This information is provided by 36% of our sample, of which about one-third of companies provide detailed information for annual periods.

#### Recommendation

**The AMF recommends that companies provide the disclosures required by the standard in paragraphs 53 to 59, and expanded in paragraphs B48 to B52, by primary nature of contracts and underlying assets.**

**Entity-specific disclosures are useful to users of financial statements to assess the impact of leases on the group's performance and understand the complexity of certain contracts (for example, for certain variable payments, termination options, sale and lease-back transactions).\***

**The presentation of all these disclosures in the same note of the financial statements or the use of references between the relevant notes improves the understanding of the financial statements.**

**The AMF highlights the information required on maturity analysis to understand the impact of leases on the assessment of liquidity risk and the estimation of future cash flows.**

*\* See ESMA ECEP page 3 Application of IFRS 16 Leases for Lessees – Presentation and disclosures*

## 2.5 Impacts on Group Financial Communication

33% of the sample reviewed changed the performance measures used in financial communication as a result of the standard's entry into force (mainly EBITDA, net debt and free cash flows), and 7% used new measures such as EBITDAal (EBITDA after Leases) or eCAPEX (economic CAPEX).

In the half-yearly financial communication, approximately one quarter of the companies in the sample restate their net debt measure (or equivalent) presented in the financial communication in order to neutralise the impact of IFRS 16 lease liability.

### Text Reminder

**The AMF asks companies to refer to its statement of 23 May 2019<sup>17</sup> and AMF position 2015-12 on alternative performance measures,<sup>18</sup> which remind the market of the principles of financial communication to be followed in terms of the impact on financial measures and ratios presented by listed companies as part of the transition to this standard.**

See ESMA ECEP page 11 Alternative Performance Measures

Particular attention, namely on the clarity of financial communication, could also be paid to certain types of lease contracts that in substance represent purchases of goods. The classification of leases as in substance purchase contracts could, *inter alia*, have an impact on financial communication depending on the definitions of CAPEX and of net financial debt used.

## 3. IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 – *Revenue from Contracts with Customers*, effective from 1<sup>st</sup> January 2018, has changed the fundamental principles of revenue recognition, although there was often no material impact on the amount of revenue recognised.

The AMF acknowledges the efforts made by companies to apply this standard and to develop the information presented in their financial statements. As revenue is a key performance indicator, the AMF expects that disclosures made in the financial statements will continue to be improved during future financial closings.

Revenue-related matters were the subject of IFRS IC decisions and draft decisions in 2019, including the inability to capitalise the costs to fulfil a contract (when revenue is recognised using the percentage of completion method)<sup>19</sup> or training costs.<sup>20</sup>

Companies are encouraged to monitor the issues covered by IFRS IC decisions and assess the impact of these decisions on their accounting principles.

In this regard, the AMF's recommendations on the application of IFRS 15 for the 2017 and 2018 financial statements also remain applicable.

### **3.1. Accounting principles**

Generally, accounting principles were updated in the 2018 annual financial statements, but the level of detail and of entity-specific information varies significantly from company to company.

Some companies present a general description of the principles of IFRS 15 without entity-specific information related to their activities and to the significant judgements and estimates made (identification of performance obligations and their accounting methods, principal-agent analysis, price allocation to the various performance obligations, etc.).

### Recommendation

**The AMF highlights the importance of continuing to improve the quality of the disclosures made in the financial statements with regard to revenue recognition, based on the experience gained during the first year of application and, if relevant, on peer practices (level of detail of the information presented, nature of the issues disclosed, etc.).**

**It is important to focus on entity-specific information that is useful to readers, ensuring consistency in the way activities and services are presented in other financial communication documents.**

<sup>17</sup> [AMF statement – 23 May 2019](#)

<sup>18</sup> [AMF Position – DOC-2015-12 – Alternative Performance Indicators](#)

<sup>19</sup> [IFRIC Update June 2019 – Committee's Agenda Decision – Costs to Fulfil a Contract](#)

<sup>20</sup> [Draft decision: IFRIC Update September 2019 – Tentative Agenda Decision – Training Costs to Fulfil a Contract](#)

**For example, for companies with different activities, it is helpful to present the accounting principles for each significant activity or service, particularly in the event that their accounting treatments differ. Similarly, for companies that are significantly affected, it is useful to describe the analysis that led to the conclusion that the company is an agent or principal or that revenue is recognised using the percentage of completion method or not.**

**The AMF also recommends that companies continue to improve the significant judgements and estimates made as a result of market discussions with their peers and statutory auditors.**

*See ESMA ECEP page 6 Application of IFRS 15 by Corporate Issuers – Accounting policy on revenue recognition & Disclosure of significant judgements and estimates*

### **3.2. Disaggregation of Revenue**

IFRS 15.114 requires the disclosure of disaggregated revenue by category to highlight how the nature, amounts, timing and uncertainties related to revenue and cash flows are affected by economic factors.

To comply with these provisions, companies have provided a disaggregation of revenue as part of segment reporting or in a dedicated revenue note.

Based on the information provided in the 2018 annual financial statements of CAC 40 and Next 20 companies,<sup>21</sup> it appears that:

- 33% of the companies presented additional information compared with the information provided in the previous financial statements (on types of goods or services, types of customers or geographical areas).
- 44% presented additional revenue disaggregations outside the financial statements as part of financial communication (types of customers, business lines, regions, currencies, etc.).

#### **Recommendation**

**The AMF recommends that companies continue their work on the disaggregation of revenue presented in relation to their activities and environment, the objectives of the standard, the narrative and quantitative information provided in financial communication and users' expectations. In some cases, the presentation of a disaggregation in addition to that provided in accordance with IFRS 8 is necessary.**

**For example, the additional revenue disaggregations presented in the other financial communication materials meet, except in specific cases, the objective set out in IFRS 15.114 and therefore should be disclosed in the financial statements.**

*See ESMA ECEP page 6 Application of IFRS 15 by Corporate Issuers – Disaggregation of revenue*

IFRS 15.115 requires that companies disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and the revenue information provided for each reportable segment. In the sample, 33% of companies present all revenue disaggregations in their segment reporting information, and the entire sample reconciles, where necessary, between the amounts presented in that information and in other notes.

Furthermore, IFRS 15.114 requires disclosure of disaggregated revenue recognised from contracts with customers. As explained in paragraph BC340, segment reporting disclosures do not necessarily meet the revenue allocation objectives of IFRS 15 and, moreover, do not necessarily comply with IFRS (for example, if proportionate consolidation in segment reporting is maintained).

#### **Recommendation**

**The AMF points out that the disaggregation of revenue provided in segment reporting disclosures but prepared in accordance with principles that do not comply with IFRS do not meet the requirements of IFRS 15.114.**

<sup>21</sup> Excluding financial institutions, real estate companies, companies with their headquarters abroad and companies that have not published their annual financial statements as at 31 July 2019 due to their delayed closing.

### 3.3. Contract Assets and Liabilities

IFRS 15.105-109 specify that when an entity has provided a service, it must present the contract as a contract asset or liability, depending on the relationship between the service and the payment made. Contract assets and liabilities must be presented separately in the balance sheet or in the notes (IFRS 15.116).

Accordingly:

- a contract asset is a right to consideration in exchange for goods or services already transferred to a customer;
- a contract liability is an obligation to transfer goods or services to a customer for which the entity has received a consideration (or amount is due) from the customer;
- a trade receivable is an unconditional right of the entity to a consideration.

Based on the 2018 financial statements of CAC 40 and Next 20 companies:

- 79% present contract assets or liabilities in their financial statements with 35% presenting assets and liabilities separately in the balance sheet and 65% only in the notes.
- For companies with contract assets and liabilities, 47% of them provide information as to their nature for assets and 41% of them for liabilities. The most common types of detailed items are, for contract assets, invoices to be issued or received and, for contract liabilities, deferred income and prepayments received. Furthermore, 23% present a breakdown between the current and non-current assets or liabilities.
- 67% of companies with contract assets and liabilities combine the disclosures made in this respect in a single note to the financial statements.

IFRS 15.116-118 specify the information to be disclosed on contract assets and liabilities and focus on changes in these items during the period by requiring qualitative and quantitative explanations. The standard gives examples of changes beyond the movements related to the fulfilment of performance obligations or the payment of considerations, such as a change in the estimated transaction price or a contract modification.

Among the companies in the sample with contract assets and liabilities, only 26% disclosed information on changes in balances over the period (33% in narrative form and 67% in tabular format). The most frequently detailed changes were those related to the performance of the contractual obligation, exchange rate fluctuations and changes in the scope of consolidation. One company in our sample specified the impact resulting from contract modifications.

#### Recommendation

**For companies that are significantly affected, the AMF recommends that the composition of contract assets and liabilities be explained by linking them to terms of payment.\***

**The AMF also encourages these significantly affected companies to present disclosures related to contract assets and liabilities in a specific note or to cross-reference the relevant notes in order to facilitate the reading of the financial statements.**

**The AMF highlights the importance of presenting and explaining the movements over the period affecting contract assets and liabilities balances by detailing each significant source of change (fulfilment of performance obligations, payment of considerations, but also changes in the estimated transaction price or contract progress rate or adjustments related to performance obligations fulfilled in previous financial years).**

*\* See ESMA ECEP page 7 Application of IFRS 15 by Corporate Issuers – Contract balances*

### 3.4. Transaction Price Allocated to Remaining Performance Obligations

IFRS 15.120 requires a schedule to be disclosed highlighting the expected revenue recognition period for revenue derived from the remaining performance obligations on existing contracts. This requirement applies to all contracts with an expected initial duration of more than one year, except for revenue recognised under paragraph B16 (an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date; for example, a service contract in which the entity bills a fixed amount for each hour of service provided).

Furthermore, IFRS 15.122 and Example 42 require that any significant consideration not presented in the schedule (e.g. some variable components) be disclosed.

Based on the 2018 annual financial statements of CAC 40 and Next 20 companies it appears that:

- 38% of companies disclose this information in the financial statements (including 19% who also present it in other part of the financial communication ). Among the rest of the sample, about a quarter of the companies seem potentially concerned with the description of services provided to clients without explaining why this information is not provided.
- Of the companies providing information, 86% present a schedule either in tabular format (67%) or narrative form (33%). In this sample, 25% break down the amount between less than and more than one year, 25% distinguish between amounts before and after a specified time frame (e.g. 3 years or 5 years), 33% provide more disaggregated annual time frames (<1 year, 1-3 years and >5 years) and 17% have monthly time frames.
- 93% of the companies that provided a schedule also provide qualitative information (details for certain contracts or lines of business) but few specify the items excluded from this schedule (such as variable components that are subject to a limitation).

### **Recommendation**

**In addition to presenting a schedule of the transaction price allocated to remaining performance obligations and an explanation of the items excluded from this schedule (variable components subject to a limitation, contracts with an initial term of up to one year, etc.) required by the standard, the AMF recommends that, for companies that are significantly affected, this schedule be broken down by contract type and that the movements over the period be explained.**

**The AMF recommends that the time frames presented be adjusted to best reflect the time frame for revenue recognition.**

Furthermore, 17% of the sample present other information related to orders (order taking, reservations, order coverage, etc.) in other financial communication documents.

### **Text Reminder**

**The AMF reminds companies that an order book that is provided as part of financial communication and would not be assessed under IFRS 15 is an alternative performance measure and in this case must comply with AMF position 2015-12, particularly in terms of definition.<sup>22</sup>**

## **4. IFRS 9 – FINANCIAL INSTRUMENTS FOR FINANCIAL INSTITUTIONS**

The first application of IFRS 9 on 1<sup>st</sup> January 2018 was a major step for financial institutions, the following points of focus are directed at them.

### **4.1. Continuation of Work on the Implementation of IFRS 9 and IFRS 7**

As an extension of the first application of IFRS 9, which involved financial institutions in particular, implementation work is continuing to take into account regulatory changes, improve data quality or the robustness of models and enhance the information disclosed.

The AMF identified some points of focus, but other specific points may require particular attention depending on the significance of the issue (for example, the treatment of non-performing outstanding debt or work and disclosures relating to the new prudential definition of default). In this regard, the AMF's recommendations on the application of IFRS 9 for the 2017 and 2018 financial statements are still applicable.

<sup>22</sup> The order book may also meet the definition of inside information as defined in the Market Abuse Regulation

### **Recommendation**

**As part of the ongoing work to implement IFRS 9, the AMF reiterates the importance of maintaining and strengthening governance, internal control systems and efforts in terms of disclosures in the financial statements to enable users to understand credit risk management practices and expected loss measurement methods.\***

**Furthermore, the AMF recommends that the March 2019 IFRS IC decisions on the inclusion of credit enhancements in the measurement of expected losses and the presentation of the reversal of expected credit losses following the curing of a credit-impaired asset in the income statement.\***

**In addition, IAS 1 requires that interest income calculated using the effective interest rate method on financial assets recognised at fair value through other comprehensive income or amortised cost (IAS 1.82(a) and IFRS IC decision of March 2018) be presented on a separate line in the income statement.**

*\* See ESMA ECEP pages 4-5 Application of IFRS 9 by Credit Institutions – Transparency about ECL allowance & Determination of the expected credit losses (ECL) and forward-looking information*

## **4.2. Impairment Model: Significant Increase in Credit Risk**

At each financial closing, companies must assess whether the credit risk of a financial instrument has increased significantly since its initial recognition (IFRS 9.5.5.9). Determining the significant increase in the credit risk of an instrument is based on a relative analysis (i.e. an increase in credit risk compared to the initial recognition date).

### **Recommendation**

**In assessing the significant increase in credit risk, it is important to ensure that the thresholds used appropriately reflect the change in credit risk of the financial instruments in question and do not delay the recognition of credit losses. The determination of the significant increase in credit risk being based on a relative analysis the sole use, for example, of the criteria of unpaid receivables or minimum absolute thresholds required for a transition to bucket 2 does not necessarily appear to comply with this principle.**

**Companies are encouraged to specify the criteria used to assess the significant increase in credit risk across portfolios, indicating how forward-looking information is taken into account.**

*See ESMA ECEP page 5 Application of IFRS 9 by Credit Institutions – Significant increase in credit risk (SICR)*

## **4.3. Disclosures Required under the Impairment Model**

### **4.3.1. Credit quality**

To enable users of financial statements to assess the entity's exposure to credit risk and understand the concentrations of that risk, IFRS 7.35M requires that the gross carrying value of financial assets and the exposure to credit risk related to loan commitments and financial guarantee contracts be disclosed by credit risk category, with a breakdown of outstanding debt by bucket. The application guide (IFRS 7.IG 20C) illustrates this provision by presenting exposures by portfolio type (consumer loans, corporate loans) and sub-portfolio type (secured and unsecured corporate loans, corporate equipment and construction loans, etc.) according to risk categories presented by the internal and external rating grades used and by default probability band.

Based on the disclosures in the financial statements of 31 December 2018 of a sample of thirteen European banks,<sup>23</sup> the AMF notes that:

- all, except four banks, provided an analysis, by rating or risk profile by probability of default, of the gross carrying amount of their balance sheet and off-balance sheet exposures broken down by bucket;
- in most cases, these analyses were provided according to the accounting classification of the instruments and, more rarely, by portfolio or product type;

<sup>23</sup> Sample of 5 French banks, 3 British banks and 5 other banks (from Germany, Netherlands, Italy, Spain and Switzerland).

- in most cases, it was difficult to reconcile the figures disclosed in this analysis with the accounting data, because, for example, of the exclusion of certain accounting exposures or because of different bases (prudential scope);
- the rating or risk profile by probability of default presented were heterogeneous, making it difficult to compare them;
- four banks also provided an analysis of expected losses by rating or default probability band, generally at the same level of detail as that provided for gross outstanding debt.

In view of these findings, the AMF expects that disclosures made in the financial statements will continue to be improved during future financial closings.

### Recommendation

**When disclosing gross carrying amounts by credit risk category, the AMF encourages companies to break down credit risk exposures into categories that reflect their activities, the characteristics of the instruments held and significant concentrations of credit risk (by type of debtor, product or activity). For example, a company could present the breakdown of gross outstanding debt by bucket and by type of loan (real estate loans, consumer loans, loans to SMEs or loans to large corporate) and by significant country, as appropriate.**

**The AMF encourages companies to also present these analyses for expected losses in buckets to enable readers to assess gross exposure coverage in relation to their credit quality.\***

**The AMF highlights the importance of still improving the information provided in the financial statements with regard to credit quality by relying on the experience gained during the first year of application and, where relevant, on peer practices (level of detail of the information presented, adaptation of default probability bands, etc.).\***

**Finally, companies are encouraged to comment on these disclosures, and where applicable:**

- **reconcile gross carrying amount and expected losses presented in the balance sheet based on the IFRS 9 categories and the information presented for exposures and credit risk quality;**
- **specify the instruments presented in these different disclosures (e.g. securities or exposures included or excluded) in order to facilitate comparisons.\***

*\* See ESMA ECEP page 5 Application of IFRS 9 for Credit Institutions – Transparency about the ECL allowance*

4.3.2. Reconciliation of opening and closing balances of loss allowance and outstanding amounts  
IFRS 7.35H-I require a reconciliation by class of financial instrument of loss allowance by bucket between the opening and closing date of the financial statements and an explanation of movements related, *inter alia*, to changes in gross values. The concept of a class of financial instrument is not defined by the standard, although it does specify that it should take into account the characteristics of financial instruments and be adapted to the type of disclosures being made (IFRS 7.B1-B3).

Based on the disclosures in the financial statements of 31 December 2018 in our sample, the AMF notes that:

- the statement of changes in loss allowances is presented by the entire sample, whereas the statement of changes in gross carrying amount is presented by only half of them, including two French companies;
- the class of financial instrument used most often reflects the accounting category of the instruments, while a small number provided information according to several classes (type of activity, product, trade, region, industry or consideration);
- seven banks broke down the gross movements related to transfers between buckets;
- almost the entire sample has an “Other” movement category, but few specified what it includes.

### Recommendation

**Regarding the disclosure of the reconciliation of loss allowances between the opening and closing of the financial year, the AMF highlights the importance of:**

- detailing the significant sources of changes in impairment by bucket, avoiding the aggregation of movements of different kinds (e.g. in and out transfers, repayments and write-offs, etc.);
- clearly defining the types of changes to make them easier for readers to understand;
- ensuring that movements qualified as “Other” do not involve a significant amount without explanation;
- describing the link between these movements and the income statement (write-offs, recoveries).

With regard to the link between changes in the gross values of financial instruments and changes in impairment, the AMF encourages companies to use a tabular format showing the reconciliation of gross values at opening and closing, such as that proposed by the IG.20B application guide, in order to make this information easier to read.

Finally, the AMF encourages companies to provide relevant breakdowns of this information, by class of instrument, to reflect their characteristics (e.g. by portfolio or activity).

**Explanations accompanying these tables are also considered relevant and useful to readers.**

*See ESMA ECEP page 5 Application of IFRS 9 by Credit Institutions – Transparency about the ECL allowance*

#### 4.3.3. Presentation of the parameters and assumptions used in calculating expected losses

In accordance with IFRS 9.5.5.17, the calculation of expected losses is based on unbiased data, taking into account all reasonable and supportable information, including information of a forward-looking nature that can be obtained without undue cost or effort (IFRS 9.B5.5.41-43).

IFRS 7.35B requires disclosures about the company’s credit risk management practices and their impact on the recognition and measurement of expected credit losses. IFRS 7.35G requires, in particular, the disclosure of the key inputs, estimation techniques and assumptions used to calculate expected losses and the approach used when incorporating forward-looking information into this calculation (see IFRS 9.5.5.4).

All banks in the sample provided qualitative information in their 2018 financial statements on the inclusion of forward-looking information, and seven banks quantified these assumptions (for example, a quantification for each macroeconomic indicator scenario, sometimes also broken down by geographical area). Specifically, eleven banks (including four French banks) reported the number of scenarios used in the macroeconomic assumption projections and the nature of the indicators used, six banks specified the weighting of the scenarios, and two banks also presented, for each scenario, the expected loss amounts by main portfolio (i.e. consumer loans, loans to SMEs, etc.).

Four banks in the sample presented analysis of expected losses based on the sensitivity to changes in macroeconomic assumptions, and one bank presented the impact of this sensitivity on the classification by credit risk category (expected losses at 12 months and expected losses at maturity).

#### **Recommendation**

**The AMF highlights the importance of providing qualitative and quantitative information relating to the calculation of expected losses (key assumptions made, parameters, write-off policy, possible additional adjustments to models, etc.). In this regard, companies should explain how forward-looking information is taken into account in determining expected losses (number of scenarios used and their weighting, nature and quantification of the macroeconomic parameters considered in the development of the scenarios).**

**Presenting only qualitative information may not be sufficient and may not provide readers with a clear understanding of the extent and nature of the risks underlying the holding of financial instruments.**

**The AMF encourages companies to perform sensitivity analysis of expected losses as part of their credit risk management. Where appropriate, in accordance with the provisions of IAS 1.125 and 129, it may be useful to disclose the main assumptions and results of these analysis in the financial statements.**

*See ESMA ECEP pages 5-6 Application of IFRS 9 by Credit Institutions – ECL disclosures: qualitative and quantitative disclosures & ECL disclosures: sensitivity analysis*

## 5. INCOME TAXES

### 5.1. Deferred Tax Assets on Tax Loss Carryforwards

The recognition of deferred tax assets on tax loss carryforwards was the subject of an ESMA public statement<sup>24</sup> in July 2019. The IFRS principles set out in this statement are applicable to the recognition of all deferred tax assets, not only those related to tax loss carryforwards.

This statement reminds companies, statutory auditors and members of audit committees of the importance of ensuring that the recognition of deferred tax assets for tax loss carryforwards complies with the criteria set out in IAS 12.34 to 36 when the company has a history of recent losses. In this case, in accordance with IAS 12.35, the recognition of a deferred tax asset in respect of these tax loss carryforwards is only possible when the company has sufficient taxable temporary differences or other convincing evidence that it will use these losses.

IAS 12.82 requires disclosure of the nature of the evidence supporting the recognition of a deferred tax asset, particularly when the company has incurred losses (during the current or previous financial year) in the tax group on which the deferred tax asset depends and the use of that asset depends on the existence of taxable profits beyond the reversal of existing taxable temporary differences.

The statement emphasises that the information used to support an assertion that it is probable that future taxable profits will be available must be sufficiently convincing and provides, *inter alia*, a few examples.

The AMF reviewed the information provided in the 2018 financial statements of 90 companies (CAC 40, Next 20 and a sample of 30 companies that have been loss-making for at least two years).

Concerning the sample of 30 companies that have been loss-making for at least two years:

- Half of them recognise deferred tax assets on tax loss carryforwards and the amounts are significant for 40% of the sample, after offsetting any deferred tax liabilities.
- When the amounts are significant:
  - o Half of the companies in sample provide the expected time frame for using capitalised tax loss carryforwards and the entities or consolidated tax groups concerned.
  - o Few companies present information on the key judgements and assumptions used to support the recognition of deferred tax assets, most of them reflecting the general principles of the standard. One biotechnology company linked the amounts capitalised to the timing of the first expected sales. Another company supports its analysis with the expected profits of certain entities within a tax group and, conversely, with the expected losses justifying the absence of capitalisation for another tax entity.
  - o All of them disclose the amount of non-capitalised tax loss carryforwards.

Regarding the CAC 40 and Next 20 companies:

- Almost 95% recognise deferred tax assets on tax loss carryforwards and the amounts are significant for 80% of them, after offsetting any deferred tax liabilities.
- When the amounts are significant, 60% disclose the amount of non-capitalised tax loss carryforwards, and a quarter of the companies provide the expected time frame for using the capitalised tax loss carryforwards and the entities or consolidated tax groups concerned.

#### Recommendation

**The AMF encourages companies affected by the recognition of deferred tax assets, including for significant tax loss carryforwards, and in particular when they have a history of recent losses, to refer to ESMA's public statement on this subject. This statement may help to identify the points to look out for when determining the feasibility of recognising deferred tax assets and when valuing them.**

<sup>24</sup> [ESMA 32-63-743 – Public Statement – Considerations on recognition of deferred tax assets arising from the carry-forward of unused tax losses](#)

Where the company has a history of losses and the recognition of deferred tax assets is based on forecasts of taxable profits other than the reversal of taxable temporary differences, IAS 12.82 requires that the evidence supporting the recognition of deferred tax assets be provided.

The AMF recommends that, where the amounts recognised are significant, companies should specify:

- indication of the taxable entities concerned;
- the ratio of recognised DTA on loss carryforwards to available carryforwards;
- the applicable tax rules (periods over which losses can be carried forward for the main tax consolidation groups);
- the expected period over which the DTAs on tax loss carryforwards are expected to be used;
- an analysis of the sensitivity to possible changes in key assumptions, where relevant;
- the amount of deferred tax liabilities on taxable temporary differences relating to the same tax consolidation groups.

Disclosing the information that led to the non-recognition of deferred tax assets may also be relevant where the analysis required significant judgements.

The AMF highlights the importance of adapting the information disclosed in the financial statements to the materiality of the amounts recognised.

See ESMA Public Statement 32-63-743 of 15 July 2019

## 5.2. Uncertainty over Income Tax Treatments

IFRIC Interpretation 23 – *Uncertainty over Income Tax Treatments* of IAS 12 – *Income Taxes* entered into force for financial years beginning on or after 1<sup>st</sup> January 2019. This interpretation clarifies how to apply the recognition and measurement provisions of IAS 12 in the event of uncertainty over the tax treatment of income tax transactions. One of the fundamental principles of this interpretation is that, in determining the impact of an uncertain tax treatment and the probability that the tax authorities will accept that treatment, the company assumes that the tax authorities will control all amounts that they have the right to control with full knowledge of all related information (IFRIC 23.8).

In September 2019, the IFRS IC published a decision stating that, in accordance with IAS 1.54, assets and liabilities relating to uncertain tax treatments are to be presented within current and deferred tax balances (and not in IAS 37 provisions).

### Recommendation

In applying IFRIC Interpretation 23 on the recognition of uncertain tax treatments in determining taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, the AMF recommends that significantly affected companies present, in their financial statements, the main judgements and assumptions made. In this regard, it may be useful for companies to specify:

- whether the company has considered each uncertain tax treatment individually or collectively, and
- for treatments considered unlikely to be accepted by the tax authorities, whether the impact of this uncertainty has been assessed using the most likely amount or expected value (weighting the results of the various possible scenarios by their probability of occurrence).

If uncertain tax treatments are considered to be sources of significant uncertainty, the AMF recommends, in accordance with IAS 1.125-129, that the amounts recognised be disclosed.

See ESMA ECEP page 8 *Specific aspects of application of IAS 12 – Application of IFRIC 23*

## 5.3. Income Tax Consequences of Dividends

The amendment to paragraph 57A of IAS 12, which entered into force for financial years beginning on or after 1<sup>st</sup> January 2018, requires the income tax consequences of dividends to be recognised as part of net income under

other comprehensive income or under equity, depending on the line item under which these past events or transactions were initially recognised.

The BC67 basis for conclusions states that paragraph 57A only applies when the company has considered that payments made on an instrument classified as equity are distributions of profits (dividends).

### **Recommendation**

**When the classification of payments made on an instrument classified as equity has required judgement (i.e. whether or not payments are dividends), the AMF recommends describing the analysis carried out and the amounts involved, where these are significant.**

*See ESMA ECEP page 7 Specific aspects of application of IAS 12 – Amendments to IAS 12 stemming from 2015-2017 Annual Improvements*