AMF RECOMMENDATION
DOC-2021-06

CLOSING OF THE 2021 FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS EXAMINATION WORK

Reference texts / Article 223-1 of the AMF General Regulation

These recommendations are intended primarily for companies preparing financial statements in accordance with the IFRS guidelines pursuant to IAS Regulation No 1606/2002 of the European Union.

The task of producing and interpreting international accounting standards is the exclusive responsibility of the IASB and the IFRS Interpretations Committee, IFRS IC. In order to comply with the IFRS guidelines, a company must take into consideration the decisions of the IFRS IC; companies have sufficient time to implement the changes of accounting principles that might result. At the end of 2020 and in 2021, the IFRS IC published several decisions potentially having an impact on the 2021 annual financial statements for certain companies.[1]

The AMF, like ESMA and other regulators, identifies before each annual balance sheet date the accounting and financial issues which appear important for listed companies, including their audit committees, and their auditors. The AMF thereby contributes to the protection of savings and to good investor information by means of high-quality accounting and financial information.

Some of the following recommendations invite companies to provide descriptions or explanations in their financial statements. As regards specific aspects of the standards, the topics addressed will not be applicable to all companies and the level of information must remain adapted to the relative importance of the topic.

ESMA has identified European common enforcement priorities[2] relating to the preparation of the 2021 annual financial statements and of financial information more generally:

- With regard to the 2021 financial statements:
    - The link between climate risks and the financial statements;
    - Monitoring the financial impacts of the Covid-19 pandemic;
    - Specific points for attention regarding credit risk for financial institutions;
- With regard to non-financial information:
    - Climate-related issues;
    - The Taxonomy Regulation and the communication obligations pertaining thereto;
    - Monitoring the impacts of the Covid-19 pandemic.

This AMF Recommendation carries over the ESMA Recommendation. In some cases, the AMF has adapted the topics to the specific French context. References are made to the ESMA document to facilitate links between the two documents.

As regards non-financial aspects, the ESMA recommendations translated into French are available on the AMF website.[3] Companies are also invited to refer to the statement on the entry into force of reporting obligations within the framework of the Taxonomy Article 8[4] and the AMF's 2021 CSR Report specifically concerning carbon commitments, which is scheduled for publication in November 2021.

Interbank interest rate reform

Within the framework of the current reform of interbank interest rates (such as the EONIA and LIBOR rates, etc.), the AMF stresses the potential implications for the financial statements of the transition from one rate to another and the expected clarity in the financial statements regarding the consequences of this reform. In 2019 the IASB published amendments resulting in a relaxation of hedge accounting requirements. The objective is to avoid having to prematurely terminate hedging relations solely due to the uncertainty preceding the replacement of one rate by another. In 2020 the IASB also published amendments to the standards relating to financial instruments introducing simplifications concerning the accounting consequences of the effective transition to the new

[1] *Cf. in particular reverse factoring (IFRS IC Update December 2020), costs of configuration or personalisation in a cloud computing agreement (IFRS IC Update March 2021), and the assignment of benefits to periods of service (IFRS IC Update April 2021)*

[2] *ESMA Public Statement – European common enforcement priorities for 2021 annual financial reports*

[3] *Non-financial reporting 2020: ESMA recommendations*

[4] *Taxonomy Article 8: The AMF informs issuers concerning the gradual entry into force of reporting obligations*

benchmark rates (particularly with regard to hedge accounting and the recognition of contractual changes in instruments). Companies shall indicate in their financial statements the degree of progress and management of the transition, and the nature and extent of the risks entailed by the IBOR reform (for example, for each significant IBOR rate, the amount of the assets, liabilities and derivatives indexed on the IBOR rates and having not yet undergone a transition to the new benchmark rates; cf. IFRS 7.24H-J).

European Single Electronic Format (ESEF)

Companies listed on a regulated market and subject to the Transparency Directive shall publish their Annual Financial Report (AFR) for financial year 2021 in XHTML format and, if applicable, mark up the IFRS consolidated financial statements contained in this AFR with the ESEF taxonomy. Initially, only the primary financial statements will have to be marked up in electronic format.

The AMF expects a learning curve in the first years of application of this obligation which in 2022 will be extended to the notes, which will be block-tagged. The AMF gives a reminder, moreover, that the tagging of the financial statements in electronic format is the subject of due diligence on the part of the auditors.

In 2021 the AMF conducted workshops to provide support for listed companies in this area, following on from the positive reception given to the workshops organised in 2019 and 2020.

Companies which face difficulties in carrying out this new obligation are invited to contact the AMF.[5] Issuers may also refer to the dedicated areas on the ESMA[6] and AMF[7] websites which address all the issues relating to this obligation (scope of application, reference texts, checklist to be complied with, etc.). The AMF proposes to those companies that so wish to perform tests prior to submission, and also encourages them to work as early as possible with their auditors in order to solve any technical problems before publication of their AFR.

Application of the ESEF was optional for the 2020 AFRs. However, almost 80 companies chose to publish their AFR in this format. The AMF gives a reminder that the AFR or the universal registration document (URD) equivalent to the AFR in ESEF that must be submitted to the AMF and published on the company's website contains a number of files (see guideline 2.6.1 of the ESMA Reporting Manual). These files must comply with a specific naming rule (see *ESEF - your frequently asked questions* on the AMF website). Moreover, the use of positive and negative values during tagging is specific to iXBRL and can be a source of errors (see guideline 1.6.1 of the ESMA Reporting Manual). Lastly, the French National Accounting Authority (ANC) has published the ESEF coding of its model financial statements which could help companies with this operation.[8]

Other AMF publications relating to financial statements

The AMF has updated the Table of Contents listing all of its recommendations on IFRS financial statements (2006 to 2020) which are still applicable at present. This document facilitates access to the prior recommendations through clear indexing by theme.[9]

[5] *Dedicated address: esefxbrl@amf-france.org*
[6] *Dedicated area on the ESMA website*
[7] *Dedicated area on the AMF website*
[8] *ANC – Recommendation 2020-02 of 6 March 2020 and Recommendation 2021-01 of 5 February 2021*
[9] *AMF - Table of Contents of recommendations for closing the financial statements applicable at 1 January 2021*

Table of Contents

1. FINANCIAL STATEMENTS EXAMINATION WORK

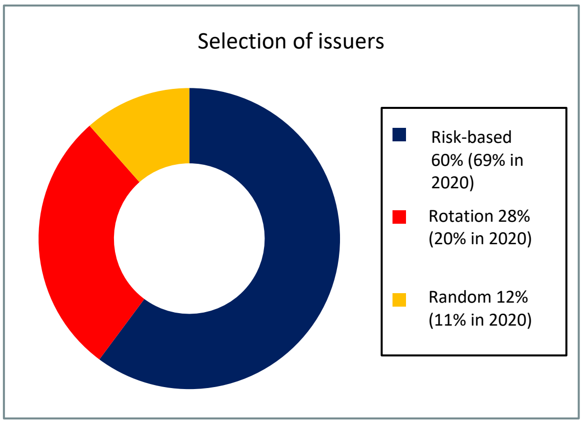
The AMF presents a summary of its financial statements examinations performed between October 2020 and September 2021, and the main topics that gave rise to work and comments by the AMF. These examinations covered 72 companies, including 55 universal registration documents and 17 annual financial reports.

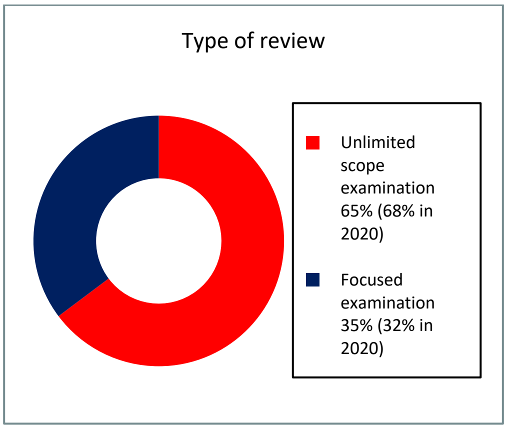
1.1. Ex-post examination of financial statements

1.1.1. Selection of issuers for the 2021 work programme and type of examinations

In line with the ESMA Guidelines on Enforcement of Financial Information, the AMF selects the issuers to be examined based on the following three criteria: risk-based selection, a mandatory rotation period (ensuring that issuers' financial statements are examined at least once in a given period) and random selection.
As part of its risk analysis, the AMF takes into account, in particular, market criteria (market cap, free float and changes therein, for example), financial indicators (ratios, changes in key figures, financial or market operations), but also more general criteria (sector issues, *inter alia*).

The 2021 selection was as follows:



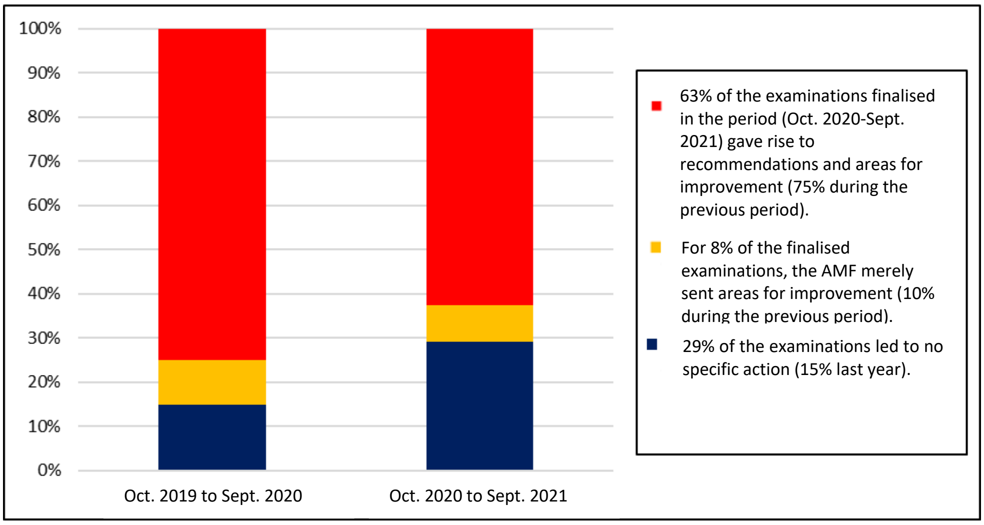


The unlimited scope examinations cover all the financial statements while the focused examinations concern one or more specific topics. In 2021, the focused examinations mainly concerned the impacts of the financial difficulties faced by certain issuers, deferred tax assets, non-financial asset impairment and application of the IFRS 16 standard to leases.

1.1.2. Recommendations and areas for improvement

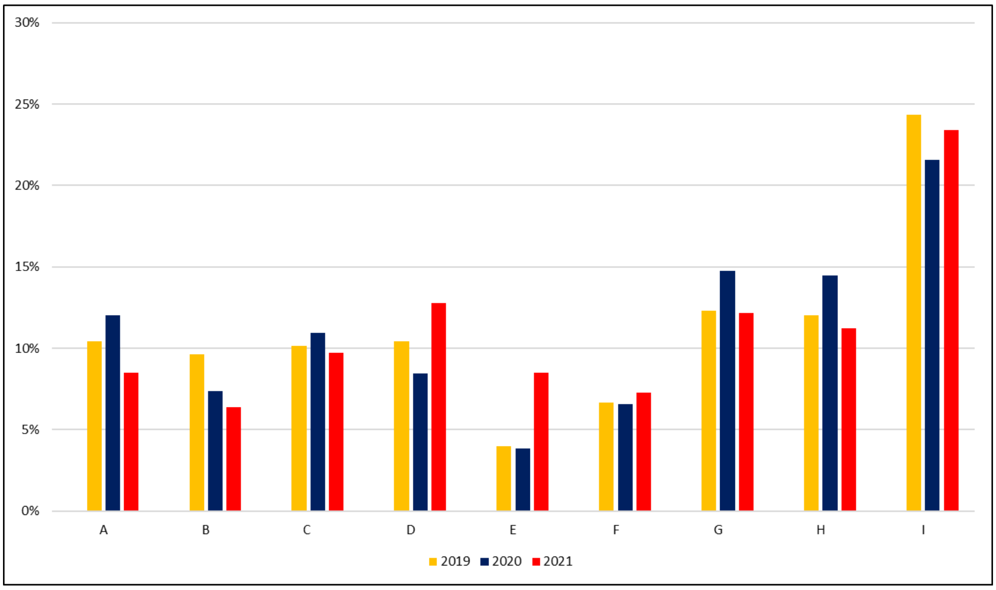
As part of the examination of financial statements, the AMF issues recommendations and mentions areas for improvement by sending end-of-examination letters. The recommendations are systematically followed up at the following annual closure of accounts. The areas for improvement generally cover issues for reflection or which could prove material for the coming financial years.

Change in recommendations and areas for improvement issued

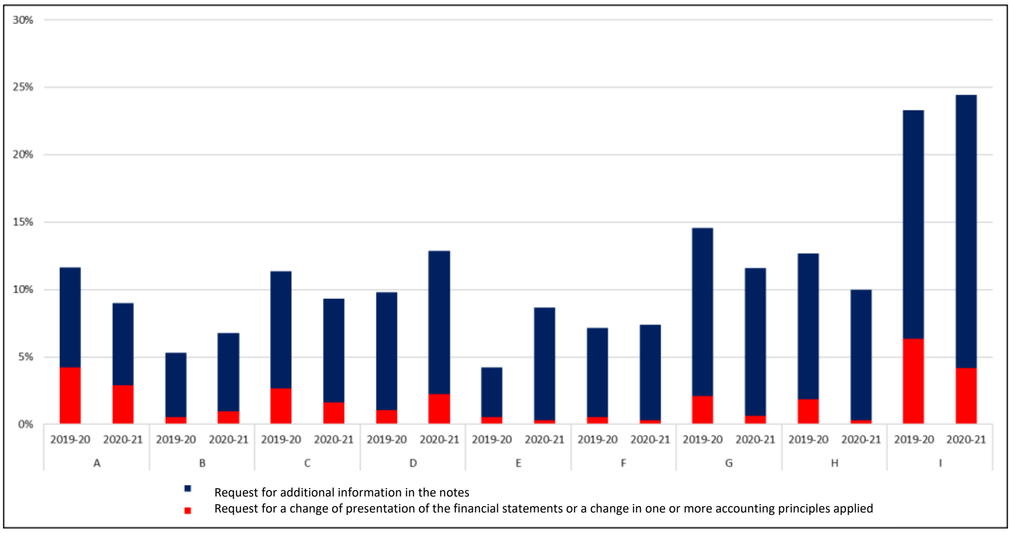


The average number of recommendations and areas for improvement per examination is 4 over the period, versus 5 during the previous period.

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



Type of recommendations and areas for improvement issued in 2020-2021



A: Presentation of financial statements (IAS 1, IAS 8)	F: Operating segments (IFRS 8)
B: Cash flow statement (IAS 7)	G: Financial instruments, fair value (IAS 32, IFRS 7, IFRS 9, IFRS 13)
C: Leases (IFRS 16)	H: Revenue (IFRS 15)
D: Impairment tests (IAS 36)	
E: Income taxes (IAS 12)	I: Other (IAS 37, IAS 33, IFRS 3, IAS 2, IAS 38, etc.)

During the period 2020-2021, the main topics of the recommendations and areas for improvement were generally the same as those in the previous period. The most frequently recurring items noted during the period concern:

- The presentation of financial statements (9%): the points raised by the AMF once again mainly concerned the clarity and definition of the titles of sub-totals (including operating items considered as current and non-current). The AMF also mentioned in certain cases the importance of specifying the factors underpinning the going concern assumption whenever this assumption involved significant uncertainties or when the company had made a significant judgment to conclude that there was no risk.

- Cash flow statement (7%): the AMF regularly reminded companies of the importance of making reference to the notes, of commenting on the main balances and changes, and of presenting the change in liabilities arising from financing activities, distinguishing between transactions without any effect on cash flows (IAS 7.44A-B) in a sufficiently detailed manner to establish a link with the other items presented in the financial statements.

- Leases (9%): the recommendations and areas for improvement mostly concerned the description of the application of accounting principles and methods to companies' specific contracts (specific features of the leases and analyses performed, indicating how any termination or renewal clauses were taken into account in determining the length of the leasing period), in light of the IFRS IC decision of November 2019. Companies were also asked to describe in detail the effects of leases in the income statement and in cash outflows (in particular information relating to cash outflows for the period and future outflows), as required by IFRS 16. Lastly, special attention was paid to lease payment adjustments through the presentation of the characteristics, identified impacts and accounting treatment adopted by typology (for example, those within the scope or not of the amendment of IFRS 16).

- Non-financial asset impairment tests (13%): the AMF examined in particular the relevance of the information given regarding the operational assumptions (for example, assumptions of return to a level of business regarded as normal, or else the external evidence used) and the analyses of sensitivity to variations considered reasonably possible in the key assumptions, including operational assumptions (new analyses, increase in the magnitude of the variations). The AMF also invited certain issuers to clarify the level at which the tests are performed, in connection with the concepts of cash-generating units (CGUs) and CGU groups.

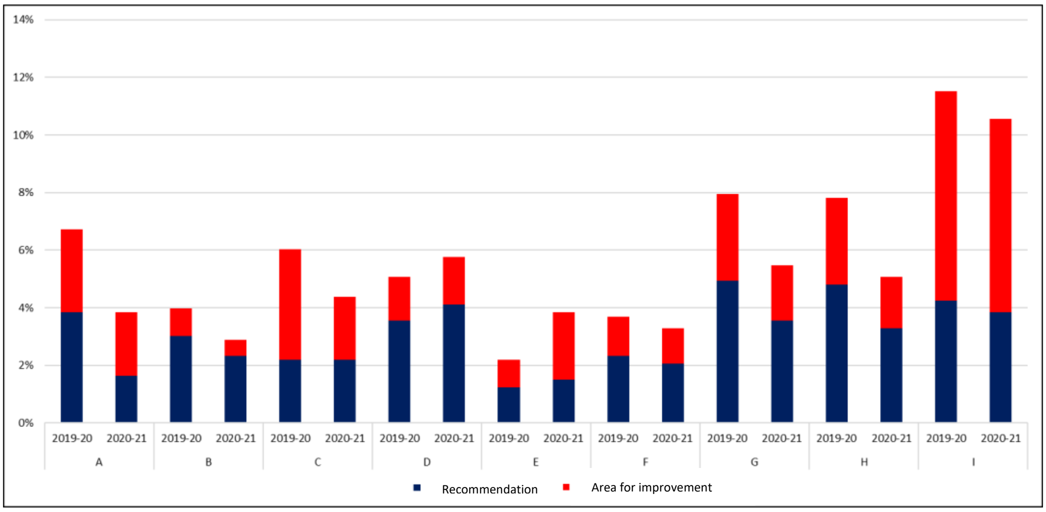
- Income taxes (8%): the recommendations and areas for improvement mainly concerned the assumptions used for assessing the recoverability of deferred tax assets (expected time frame for the use of capitalised tax loss carryforwards and main characteristics of the most significant tax loss carryforwards). The AMF also invited issuers to indicate the amount and main characteristics (in particular the indefinitely deferrable nature and the tax scopes concerned) of the most significant non-capitalised tax loss carryforwards.

- Financial instruments (12%): an update of the accounting principles relating to the trade receivables impairment model was requested of a number of companies. During certain examinations, the AMF had difficulty establishing a link between the age of overdue receivables and their level of impairment, due either to the lack of information on the order of age of overdue trade receivables, or to information on the anteriority without a breakdown of the impairment amounts. Moreover, the AMF also invited certain issuers using significant deconsolidating factoring programmes (or reverse factoring operations) to specify the characteristics of these arrangements and the amounts involved. Lastly, the AMF invited several issuers to present the gross amounts of netted financial assets and liabilities.

- Revenue recognition (9%): the AMF mostly invited issuers to specify the application of accounting principles and methods in relation to the specific features of their businesses, and to provide a breakdown of revenue consistent with the information provided outside the financial statements. It was also requested that information be provided concerning the contract assets and contract liabilities of contracts or the order backlog when the issue was material and the information missing.

- Other subjects (24%): the other recommendations and areas for improvement mainly concerned the standards relating to consolidation (IAS 28, IFRS 10-11-12, 24%), information on the nature of material provisions (IAS 37, 9%), the addition of information in the notes for business combinations, including the main acquisitions and acquired liabilities and the required information on the revenue and net income of the acquired company (IFRS 3, 7%), the amounts of research and development costs recognised as expenses (IAS 38, 9%), or the calculation of earnings per share (IAS 33, 3%). As regards the information relating to consolidation, the AMF encouraged certain companies to provide details of the analysis leading to a conclusion regarding control or the absence of control, and also stressed the presentation of specific information on companies that are jointly controlled or under significant influence, and on the presentation of minority interests. In some cases, the AMF reiterated the importance of mentioning and giving details of the impairment tests performed on associated companies. Finally, the AMF reiterated that the earnings per share for the prior financial year had to be modified due to certain changes (accumulation or bonus share issue, share split or reverse share split).

Breakdown of recommendations and areas for improvement issued in the period 2020-2021



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1.2. Illustrations of practical cases found in the examinations

1.2.1. SPACs

Investors are increasingly interested in Special Purpose Acquisition Companies (SPACs).[10] The structure of SPACs is complex and arouses numerous questions and points for attention.[11] Moreover, structuring differences may result in diversity in accounting treatment.

A number of accounting issues are raised by the initial public offering, including whether the shares, subscribed to by external investments, should be classified as debt or equity. Based on the IFRS standards, a (non-derivative) financial instrument meets the definition of an equity instrument whenever the company has no contractual obligation to pay cash or any other financial asset (IAS 32.16). Moreover, for shares having a conditional right to reimbursement (in particular at the time of acquisition of a target or in the event of winding up if the SPAC has not made an acquisition and its lifetime has not been extended), the classification will depend on the analysis of the conditions of reimbursement and, for conditions subject to a decision of the General Meeting, the analysis of these decisions (to determine whether they are decisions of the entity or of the shareholder in their capacity as holder of an instrument).
Other questions may also be raised about the initial public offering, particularly regarding the classification and valuation of the stock options and shares of the founders.
The SPAC prospectuses present adjusted data (view of the company post-fundraising and hence post-issuance of the shares and stock options) in the selected financial information and in the capitalisation table. The AMF prompted issuers to show the utmost transparency and asked them to mention in the prospectus the accounting treatment adopted in these adjusted data, for shares, stock options and expenses directly related to the operation. This information shall also be provided in the financial statements of the SPACs, post-listing.

[10] Newly incorporated companies, created at the initiative of one or more founders, with no commercial operations, that raise capital through an initial public offering to finance one or more acquisitions of unlisted operating companies that have not yet been identified at the time of the IPO.
[11] The French legal framework allows SPACs to operate in Paris while ensuring investor protection (AMF), SPACs: Opportunities and risks of a new approach to public listing (AMF), ESMA publishes disclosure and investor protection guidance on SPACs (ESMA)

SPACs also raise other accounting points for attention which may be material, especially in case of the acquisition of a target (identification of the accounting acquirer, treatment of share-based payments, information concerning the comparative period), which require specific work and deliberation by the companies with their auditors and with the AMF where applicable.

1.2.2. Period and method of depreciation and amortisation

In its examinations, the AMF found issuers who, in the current economic context engendered by the Covid-19 health crisis, performed specific examinations of the methods and periods of depreciation and amortisation adopted for their depreciable tangible and intangible assets.

Some issuers previously adopted a straight-line depreciation method which actually corresponded to a stable level of use of an appropriate unit of measure. Due to the health crisis, they have adopted a depreciation method based on production units, because the rate of consumption of the asset is no longer straight-line.
The AMF examined the analysis performed in order to ensure that depreciation according to production units was possible, and reminded issuers that it was important to present this change in the rate of use of the asset in the notes, and to maintain this method of depreciation based on production units in the future.

Other issuers performed specific work on the useful lives of assets. In the event of changes in useful lives, the AMF emphasised the importance of justifying the new lives adopted based notably on the analysis of internal and external data. The AMF also invited companies to think about the classification adopted for this change: change of estimate or correction of an error.
In terms of financial information, the AMF asked the companies concerned to indicate in their financial statements the reasons that led them to revise the useful lives, specifying the assets concerned, the procedures for determining the new lives and the impacts of this change.

1.2.3. Freeing up of floor space and leases

The subject of the freeing up of leased floor space before the expiry date of real estate leases was discussed with some companies.
The applicable accounting treatment is notably related to the strategy post-freeing up of floor space (subletting, sale, permanent discontinuation of the asset) and to the legal and contractual framework currently applicable at the balance sheet date. The discussions concerned analysis of the strategy for freeing up premises and, for example, the signature or not of a possible amendment to the lease agreement. In every case, the AMF stressed the importance of taking into consideration the strategy adopted in order to assess the potential impacts on the useful life of the asset and to ensure the appropriateness of the allocation of said asset to a CGU, as well as the assumptions adopted to determine the recoverable value. Moreover, in the case of a strategy of subletting of the asset, an analysis of its classification must be performed in order to determine its accounting treatment in the company which becomes the intermediary lessor. Lastly, questions are also raised concerning the classification as assets held for sale in accordance with IFRS 5 in case of a sale scenario, or accelerated depreciation of the asset in case of a scenario of permanent discontinuation of the asset.
In these discussions, the AMF reiterated the importance of being transparent and instructive in the financial statements with regard to the characteristics of the transactions performed, their accounting analysis and the recognised impacts.

1.2.4. Deferred tax assets

The AMF paid special attention to companies which, even though they are experiencing economic problems and negative earnings, maintained or recognised deferred tax assets over the period.

The AMF noted that the companies concerned seldom gave explanations making it possible to understand the evidence justifying the amounts capitalised. When companies experienced problems and losses in some of their businesses due to the business environment, the AMF endeavoured to check that these were targeted and temporary problems.

When the recognition of deferred tax assets is based on taxable profit projections beyond the reversal of taxable temporary differences, the AMF invited the companies to greater transparency concerning the analysis conducted, indicating in particular the external evidence capable of explaining the probability of generation of future taxable profits. For example, the AMF recommended expanding on the information disclosed concerning the key assumptions adopted and their changes since the previous balance sheet date, and concerning the sensitivity of the capitalised amounts to reasonably possible changes in these key assumptions. The AMF also gave a reminder that, in its statement of July 2019[12] on the recognition of deferred tax assets arising from the carry-forward of unused tax losses, ESMA gives examples of positive and negative evidence to be taken into consideration in order to assess the probability that future taxable profits will be available against which unused tax losses can be utilised.

1.2.5. Cash and cash equivalents

The AMF paid special attention to the composition of cash and cash equivalents due to the importance of the information on liquidity risk as a result of the crisis and the sometimes significant amounts making up this item (especially in a low-interest-rate environment).

The AMF noted that the information disclosed concerning cash and cash equivalents is still generally too generic. The AMF checked that the instruments classified as cash equivalents met the criteria stipulated by the standard (investments held for the purpose of meeting short-term cash liabilities and easily convertible into a known amount of cash, subject to an insignificant risk of change in value). It invited companies to give details of the cash equivalents item by typology of significant products with their specific characteristics and the amounts involved.

1.2.6. Employee benefits and decision of the IFRS IC

The AMF was questioned by certain companies, following the publication by the IFRS IC of a decision on the allocation of the expense related to certain post-employment benefits, the amount of which depends on the length of service and is capped above a certain length of service, while being subject to the presence of the beneficiary at the date of retirement.

In this context, the AMF reiterated that this decision applied to all the plans meeting these criteria and not merely end-of-career compensation. Moreover, the decision was published in April, so the AMF expects the great majority of companies to apply it in their financial statements as at 31 December 2021 (for companies needing extra time, it is necessary to indicate in the financial statements the reasons that prevented them from applying this decision, the analyses underway and the potential implications).

1.3. Accounting treatment pre-clearances, discussions with companies

In 2020 and 2021 the AMF held discussions with eight different companies about their accounting analyses ahead of publication of the accounts. The main subjects were, *inter alia*, the accounting treatment of reorganisation operations and revenue recognition.

Every year, the AMF holds meetings with a number of companies in compartment A (24 companies met in the context of closing of the 2020 financial statements), the main purpose of which is to discuss the main financial issues of the closing. These discussions allow dialogue between the companies, their auditors and the AMF on accounting and financial communication issues ahead of publication of the accounts.

The AMF believes it is extremely useful to maintain a constructive dialogue between the various stakeholders. The AMF therefore remains at the disposal of any company and its auditors for the preparation of the next annual financial statements and the accompanying corporate communications.

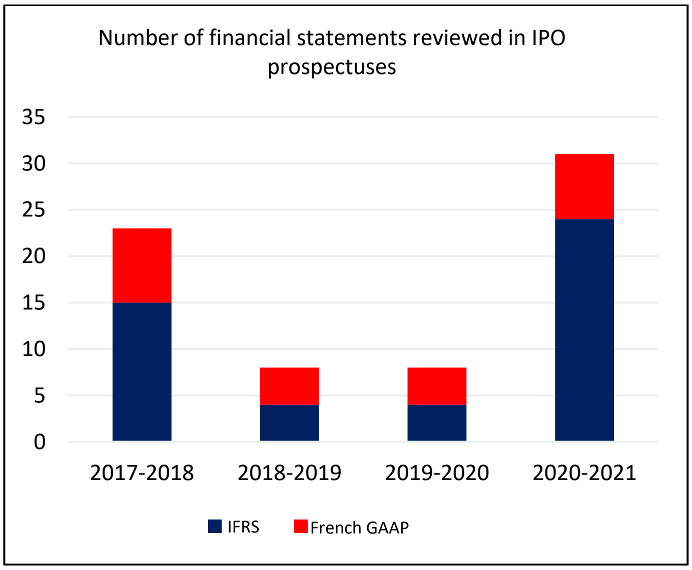
[12] *ESMA – ESMA sets out expectations regarding application of IAS 12*

1.4. Examination of prospectuses: main issues faced

1.4.1. Planned initial public offerings

The financial statements of 21 companies were examined within the framework of draft prospectuses for initial public offerings between October 2020 and September 2021. After a year marked by the almost total absence of planned IPOs in 2020, the number of plans increased very sharply in 2021.

Financial statements examined within the framework of prospectuses for initial public offerings



Numerous plans required specific thinking about the financial information to be presented in the prospectuses due to complex financial histories (e.g., the IPO of a newly created company serving as an acquisition vehicle for other entities, or the spin-off of an existing company). In such cases, it is useful to enter into discussion with the AMF as early as possible to determine the information that it will be possible and appropriate to present in the prospectus. Moreover, in the case of combined financial statements, the note setting out the bases for preparation is key, because it indicates the scope of combination and, where applicable, the procedures used to determine it.

In the IPO plans examined, the main subjects that were regularly commented on are:

- The importance of specifying the revenue recognition methods and also its breakdown with regard to the information provided elsewhere in the prospectus;
- The presentation of segment information, including the required revenue information for significant countries;
- The detailed presentation of debts with their characteristics;
- Earnings per share and in particular a reminder that the diluted earnings must not include antidilutive effects.

1.4.2. Other prospectuses

The AMF also examines the pro-forma financial information presented in the information documents for a merger by takeover or a prospectus.
Over the study period, the AMF examined five information documents or prospectuses containing pro-forma financial information.
Even if these are not IFRS financial statements strictly speaking, this pro-forma financial information is construed on the basis of the IFRS principles, which will be subsequently used in the issuer's consolidated financial statements. The AMF therefore pays special attention to the accounting treatments applied for the construction of this pro-forma financial information.

The AMF reiterated that, notably in IPO plans, companies may present pro-forma financial information only for the last financial year ended and/or the last interim period (see ESMA guidelines, paragraph 101).[13] Thus, it is not possible, under these guidelines, to present pro-forma information covering several annual periods.
The AMF Guide to preparing universal registration documents,[14] updated in 2021, includes a section dedicated to pro-forma financial information which carries over the guidelines based on the applicable regulations (Annex 20 of Delegated Regulation 2019/980 and ESMA guidelines on the prospectus) and provides clarification and recommendations on certain subjects related to the production of pro-forma financial information.

[13] *AMF - Guide to preparing registration documents*
[14] *AMF - Guide to preparing registration documents*

2. ASSESSMENT AND DESCRIPTION OF THE FINANCIAL IMPACTS OF ENVIRONMENTAL RISKS

The importance of the links between climate risks, or non-financial issues more generally, and the financial statements, will continue to increase over the coming periods. Given its recent highlighting and its constant evolution (regulatory in particular), this issue will undoubtedly require analysis work and will entail further deliberations over the coming years.
The AMF is at the disposal of companies to support them in this process, regarding both the financial statements and the regulatory obligations relating to the non-financial information statement (NFIS), which includes the information to be provided for taxonomy purposes.

The level of information provided shall be proportional to the issues at stake and to the materiality represented by climate change for the entity. On this subject, companies may refer to the educational document[15] published in 2017 by the IASB to help them determine materiality. This document gives a reminder that analysis must be based on quantitative but also qualitative factors, and specifies that, in certain circumstances, an issue may influence users of the financial statements, due solely to its nature, irrespective of its amount.

2.1. Work to be carried out and link between financial and non-financial information

The AMF notes an increase in investors' expectations regarding information on the financial impacts and risks related to climate change and to the measures and commitments adopted by companies to try to limit its effects.

The aim is to assess what are or will be the effects of climate change on the firm's financial performance in light of its business in particular, but also its geographic exposure, its regulatory constraints and the adaptability of its business model. The effects are, on the one hand, directly related to climate change which could have an impact on the firm's performance, and, on the other hand, related to the actions taken by the entity in light of its commitments, e.g. with regard to carbon neutrality.

Recommendation

Although all companies are not impacted in the same way, all companies are invited to carry out work to identify the impacts on their financial performance and their financial statements of climate change, of the measures adopted and of the commitments made to cope with this.
The AMF encourages companies to involve all the divisions concerned, their governance bodies (Board of Directors, Audit Committee) and their auditors in this work that is bound to continue over the coming financial years, notably in light of regulatory changes.
The AMF recommends that companies organise internally in order to ensure consistency and links between the information given in the financial statements, in the other communication materials (including, in particular, the management report containing the non-financial information statement (NFIS) and risk factors) and, where applicable, in the key audit matters included in the auditors' report.

Cf. ESMA ECEP Section 1.2 Climate-related matters, consistency between IFRS financial statements and non-financial information

Consistency between the financial statements and other communication materials is especially important for companies that have made commitments regarding a reduction of their climate impacts within a defined time frame (carbon neutrality commitments or alignment on the objectives of the Paris Agreement in particular).

2.2. General principles regarding financial information to be reported

The IFRS standards do not deal specifically with the accounting consequences of climate change, but the current general provisions of the IFRS require that the effects of these changes be considered.
In its financial statements, the company must provide information which is useful for an understanding of the statements (IAS 1.112(c)), and information on the assumptions that the company adopts for the future (e.g., the

[15] IASB - IFRS Practice Statement 2: Making Materiality Judgements

expected climate scenarios, carbon neutrality within a given time frame, compliance with the Paris Agreements) and on the other major sources of uncertainty relating to the estimates used for preparation of the financial statements (cf. IAS 1.125-133).

Recommendation

For all companies, even when no climate commitment has been made, the AMF recommends disclosing in the financial statements the judgments made and the major sources of uncertainty so that the assumptions used to establish the financial statements are consistent with the information presented in the other communication materials (NFIS, management report, etc.). In some cases, it could be appropriate to explain why certain aspects which seem important have no material effect on the accounts (for example if it turns out that the commitments made by the company with regard to the transition to a low-carbon economy entail no material consequences).
The work performed and the level of information will be usefully adapted to the significance of the issue for the company, which depends in particular on its business and its geographic footprint (regions and sectors more or less exposed to climate disorder, and local regulations).
To facilitate the reading and understanding of the financial statements, the AMF recommends that companies disclosing in their financial statements information related to the financial impacts of climate issues group all this financial information together in a specific note or establish a link between the various notes covering this issue.

Cf. ESMA ECEP Section 1.2 Climate-related matters, consistency between IFRS financial statements and non-financial information, climate risks in IFRS standards & significant judgments and estimation uncertainty, paragraph 1

Thus, in order to identify the potential impacts and factors to be mentioned in its financial statements, a company may analyse each commitment made in order to identify whether it has a potential impact on its financial statements (for example, a commitment to reduce the carbon footprint of its products or services, or else a commitment to use renewable energies exclusively).
Moreover, public plans for transition to a carbon-free economy (including an expected increase in the cost of greenhouse gas emissions and plans to pull out, sometimes quickly, from fossil energies in certain regions) could have repercussions on the entities' performance. Accordingly, it seems appropriate that companies should keep up with developments and assess the expected or possible impacts of these transition plans on their business model and, where appropriate, recognise and mention these impacts on their financial statements.

2.3. Particular aspects for analysis and information to be presented in the financial statements

In November 2020 the IASB published an educational document entitled *"Effects of climate-related matters on financial statements"*[16] which lists and illustrates, standard by standard, certain potential impacts of climate change on financial statements. This document could help companies in their thinking about the potential impacts and risks to be taken into account in preparing financial statements.

Among the main items of analysis to be considered are the useful lives and residual values of non-financial assets (tangible assets, intangible assets, goodwill, user rights).
Pursuant to IAS 36.12(b), a major change in the technological, economic or legal environment having a negative effect on the entity in a foreseeable future constitutes an indicator of decline in value to be considered. Accordingly, the commitments made with regard to the Paris Agreements and outside information on expected climate changes could be considered as indicators of decline in value in some cases. Furthermore, IAS 16 and IAS 38 require a revision of the residual value and useful life of an asset if the expectations differ from previous estimates.

Recommendation

For companies that could be materially impacted, the AMF recommends analysing whether the useful life should be revised and assessing whether there are indicators of decline in value related to climate change or the

[16] IASB - Effects of climate-related matters on financial statements

commitments made, which would require performing impairment tests on non-financial assets (in addition to the impairment tests required each year at the level of the CGUs or groups of CGUs containing goodwill and intangible assets with indefinite useful life).

To perform the impairment tests, the AMF recommends that the companies concerned check that the key assumptions used take into consideration the risks and impacts related to climate change and to their commitments made in this respect. The AMF also encourages the companies concerned to indicate in their financial statements how these assumptions have been allowed for (business plan, growth rate, discount rate).
Moreover, the AMF encourages companies to think about the relevance of adapting the sensitivity analyses performed in order to reflect climate risk (sensitivity to new variables such as a divergence from the key deadlines of the climate strategy pursued, change in the variations considered reasonably possible in the key assumptions).

Cf. ESMA ECEP Section 1.2 Climate-related matters, climate risks in IFRS standards & significant judgments and estimation uncertainty, paragraphs 2-3

For example, climate risks may have an effect on short-term flows (decline in revenue, new costs of product adaptation or costs related to the entity's organisation, rising cost of raw materials, etc.), long-term growth targets (declining market or erosion of market share, for example), or else the cost of risk for financial institutions.
Where appropriate, an indication of the outside sources taken into consideration in determining the key long-term assumptions seems useful for readers.

Environmental risks can also have impacts on the company's provisions and contingent liabilities (environmental litigation, additional taxes as a result of regulatory obligations, loss-making contracts, etc.).

Moreover, a growing number of companies are putting in place "green" financing. This classification covers a variety of instruments (loans to fund environmental projects, structured financial instruments for which the cash flows are indexed to an environmental index, or again loans for which the interest rates vary according to ESG criteria).
Classification of these instruments is performed based on the principles of the IFRS 9 standard – *Financial instruments*. In particular, to be recognised at amortised cost or fair value through other comprehensive income, the AMF gives a reminder that a financial asset must, among other requirements, be made up of contractual cash flows which correspond solely to repayments of principal and interest payments on the principal remaining due. With regard to financial liabilities, the existence of an embedded derivative or not shall be analysed based on the principles of IFRS 9. The IASB plans to analyse this subject as part of the post-implementation review of the IFRS 9 standard on Financial Instruments for which the request for information was published on 30 September 2021.

Lastly, the IFRS standards do not address the recognition of greenhouse gas emission allowances, energy savings certificates, and in general the emission rights related to pollutant emission plans, which results in a potential diversity of accounting treatments. The ANC, for its part, has published a regulation relating to the recognition of greenhouse gas emission allowances and similar units[17] which can be applied in IFRS pending clarification of the accounting treatment.

Recommendation

In the case of financing through the issue of "green" financial products or investments in such products, the AMF recommends, for both the issuers and the subscribers, that the characteristics of these products and their accounting treatment be described, if they are considered material.

When emission rights related to pollutant emission plans, including in particular greenhouse gas emission rights and energy savings certificates, are material for the company, the AMF recommends specifying the amounts at stake, the accounting treatments adopted and the impacts on the financial statements.

Cf. ESMA ECEP Section 1.2 Climate-related matters, climate risks in IFRS standards & significant judgments and estimation uncertainty, paragraphs 5-6

[17] *ANC – Regulation 2014-03 of 5 June 2014 (section 5)*

3. MONITORING THE EFFECTS OF COVID-19

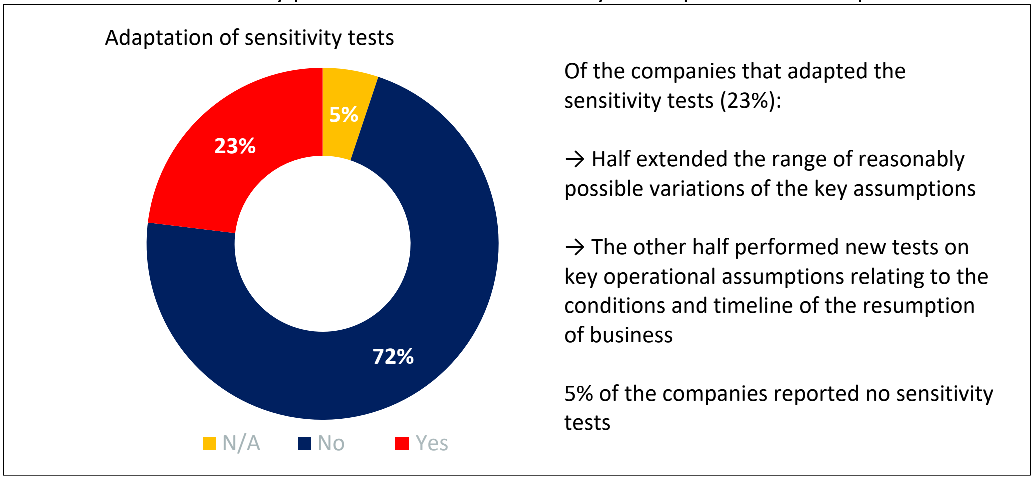
The Covid-19 pandemic had major impacts on financial year 2021 in certain sectors and certain regions. There is still at present a significant lack of visibility regarding the evolution of this health crisis and its impacts on the economy, with very diverse situations depending on the company.

These recommendations are in line with the 2020 recommendations which specifically addressed the crisis situation and which remain relevant.

3.1. Impairment tests

The AMF closely monitored the information provided regarding impairment tests as at 31 December 2020. Within the CAC 40, more than 90% of companies performed additional tests on tangible and intangible assets with a finite useful life due to the existence of indicators of decline in value (in addition to the required annual tests at the level of the CGUs or CGU groups containing goodwill and intangible assets of indefinite useful life and intangible assets in progress).
Moreover, with regard to the operational assumptions, around 60% of companies added information on the assumption of return to an economic situation considered normal, indicating a year or a range depending on the business or the country. The return of business to normal is variable and largely depends on the sector of activity. 2022 seems to constitute a pivotal year for a large number of companies.

Likewise, sensitivities to reasonably possible variations of the key assumptions were adapted:



However, on the whole, changes in the assumptions between the half-year closing of the financial statements and the annual closing for 2020 were seldom described and substantiated, even if specific tests had been performed.

For some companies which returned to growth, the question of the reversal of certain impairment charges could be raised. First, the company must determine whether there is an indicator that an impairment loss recognised in prior periods for an asset other than goodwill could no longer exist or could have decreased. The standard provides a (non-exhaustive) number of indicators, which mainly reflect indicators of decline in value. Moreover, the standard specifies that a reversal should not be recognised due to the mere effect of the passage of time (IAS 36.116) and that an impairment loss can only be reversed in the event of a change in the estimates used to determine the recoverable value since the recognition of an impairment loss (IAS 36.114).

Finally, in the current context, the assumptions used for commodity prices, and possibly the inflation rate, are acquiring importance in some sectors.

Recommendation

The AMF recommends that companies continue to increase transparency in the presentation of the key assumptions, particularly the operational assumptions, used in the impairment tests. It seems especially important in the current context to explain changes in the key assumptions used since the last test performed, in light of changes in the companies' economic and financial situation and external evidence.
In the current volatile environment, the AMF stresses that new assumptions, such as commodity prices, may be key.
The AMF encourages companies to think about the changes to be made to the sensitivity tests (use of new assumptions, increase in variations considered reasonably possible, identification of threshold values above which an impairment charge should be recognised).

Cf. ESMA ECEP Section 1.1 Impact of covid-19 pandemic, Recovery from covid-19, paragraphs 1-2

3.2. Liquidity risk management, cash holdings and financing operations

Due to the crisis and the increased liquidity risk faced by some companies, the information presented with regard to this risk remains especially important.

3.2.1. Liquidity risk and going concern concept

In January 2021 the IASB published an educational document summarising the provisions of the IFRS and the decisions of the IFRS IC relating to the going concern concept.[18] This educational document, to which companies may usefully refer, stresses that information on the judgments expressed by the company is expected whenever the company has had major doubts regarding its ability to continue its business in the twelve months following the closing of the accounts, even when the residual uncertainties have become immaterial after an analysis of the measures adopted or to be adopted. The document recaps the significant factors adopted to assess the going concern concept and stresses the importance of taking into consideration, in a context of crisis and lack of visibility, a broader range of factors than usual (e.g. the effects of shutdowns or temporary restrictions on the level of business, potential business restrictions imposed by governments in the future, the continuity of state aids or not, etc.). It is also specified that the analysis should be performed at least over the period of twelve months following the balance sheet date but that the analysis is not necessarily limited to twelve months. Moreover, IAS 10.14-16 specifies that a deterioration in the operating result and financial situation after the balance sheet date may indicate a need to examine whether the going concern assumption is still appropriate. Likewise, events or circumstances requiring the disclosure of information may occur after the balance sheet date.
As mentioned in the section concerning its examinations, for certain companies the AMF stressed the importance of presenting the available credit lines and the most up-to-date possible operational information (business trend, reorganisation plan, etc.).

Recommendation

In line with the 2020 AMF recommendations which remain applicable regarding liquidity risk, the AMF invites companies to continue their efforts for transparency on this subject with regard to the key judgments on both the going concern assumption, debt and liquidity risk (renegotiations and new financing, covenants, etc.), as well as cash equivalents and comments on the cash flow statement.

Companies for which the closing of the financial statements on a going concern basis required a specific analysis are encouraged to take into account the IASB educational document of January 2021 on this subject and to ensure that the information provided is specific and up-to-date on the date of closing the accounts.

Cf. ESMA ECEP Section 1.1 Impact of covid-19 pandemic, Longer-term impact of covid-19, paragraphs 1-2

3.2.2. Factoring and reverse factoring

In a context of pursuit of liquidity and optimisation of cash flows, factoring and reverse factoring transactions can acquire importance.

[18] *IASB – January 2021 – Going Concern, a focus on disclosure*

With regard to reverse factoring, in December 2020 the IFRS IC finalised its decision on the factors to be taken into account in order to determine whether debts undergoing reverse factoring should be considered as trade payables or financial liabilities.[19] In its decision, the IFRS IC also addressed the question of the classification of associated flows in the cash flow statement and stressed the importance of the information in the notes, *inter alia* with regard to liquidity risk, due to the concentration of debt with a financial institution and the shorter payment periods to which suppliers have become accustomed as a result of these transactions.

Recommendation

For companies significantly concerned by factoring and reverse factoring programmes, the AMF recommends describing the programmes (context and reasons for implementation, characteristics and conditions), the amounts involved, the analysis performed and the accounting classification adopted on the balance sheet and in the cash flow statement. Furthermore, the AMF recommends supplementing the information on liquidity risk, such as the dependence on such programmes.

As regards reverse factoring, as stressed by the IFRS IC in its decision of December 2020, the AMF invites companies, in particular, to consider presenting the debts involved in the programme on a separate line item in the balance sheet, based on their amount, their nature and their maturity date, and to provide an explanation for the impacts of these transactions in the cash flow statement.
For companies that have classified the debts in question as financial liabilities on the balance sheet and analysed the corresponding flows as financing cash flows, the AMF recommends mentioning this factor as of the cash flow statement (e.g. in a footnote or on a separate line item) in order to ensure the reader's satisfactory understanding of changes for the period.

Cf. ESMA ECEP Section 1.1 Impact of covid-19 pandemic, Longer-term impact of covid-19, paragraph 3

3.2.3. Government aids and measures

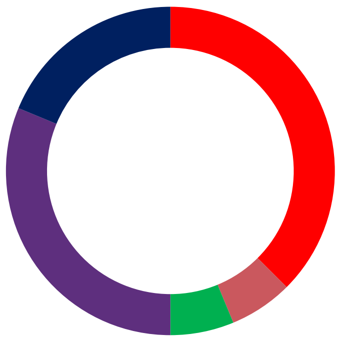
IAS 20.39(b) requires that the nature and extent of the government grants recognised in the financial statements be presented in the financial statements, with an indication of the other forms of public aid from which the entity directly benefited.

Moreover, the ANC has updated its recommendations and observations as regards the consequences of the Covid-19 pandemic in the accounts and statements drawn up from 1 January 2020, particularly with regard to government aids.[20] Issuers may usefully refer to them.

Analysis of the information provided by the 30 companies of the SBF 120 operating in sectors severely affected by the crisis[21] shows that around 40% of them received government aids:

[19] Cf. IFRS IC Update decision, December 2020
[20] ANC - Recommendations and observations relating to consideration of the consequences of the Covid-19 event in the accounts and statements drawn up from 1 January 2020 (9 July 2021)
[21] *The sectors in question were the hotel and tourist industry, transport, restaurants and catering, aeronautics and aerospace, real estate, the automotive industry and retail industry (excluding luxury goods).*

Typology of government aids

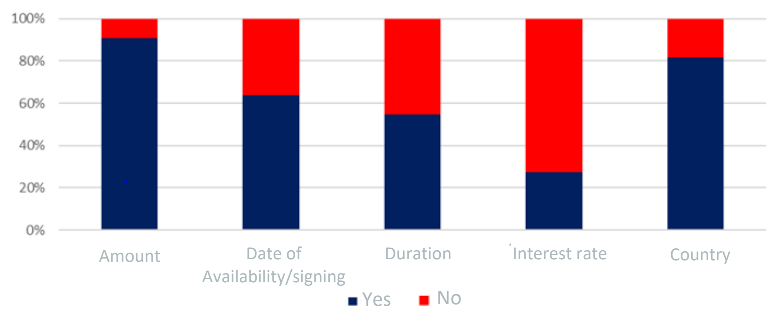


Breakdown of aids obtained:

- State-guaranteed loan: **38%**
- Reduction in payroll charges or short-time working: **31%**
- Other, including advances: **19%**
- Aid from the Civil Aeronautic Research Council: **6%**
- Euro Commercial Paper from the Bank of England: **6%**

These companies gave the following information:

Information on the characteristics of government aids



<u>Recommendation</u>

The AMF recommends that companies materially concerned by government aid measures specify, for each major type of aid (loans, exemptions from charges or taxes, compensatory measures, etc.) and, where applicable, by geographic region, the characteristics of the aids obtained, the accounting treatment (in particular for state-guaranteed loans in the event of an extension), the classification adopted in the financial statements (both on the balance sheet and in the income statement) and their impacts (also in the cash flow statement). With regard to liquidity risk, companies are also invited to specify expected changes concerning these aids (curtailment, repayment, capping, etc.) and the related uncertainties, indicating planned growth drivers.

Cf. ESMA ECEP Section 1.1 Impact of covid-19 pandemic, Government support measures

4. FINANCIAL INSTITUTIONS

The following recommendations supplement the 2020 recommendations which also partly concerned credit risk and the required information in financial statements.

4.1. Impairment model

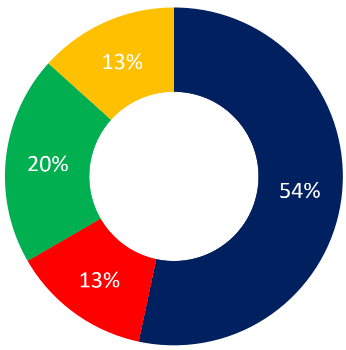
The health crisis put the expected credit loss model to the test, entailing adaptations and modifications of certain factors and assumptions adopted, and the implementation, in some cases, of post-model adjustments.

4.1.1. Model and post-model adjustments

IFRS 7.35G(c) requires that information be provided concerning any change relating to the estimation techniques or major assumptions used during the period of presentation of the financial information, and the reasons for those changes.
The expected credit losses must reflect an objective amount based on probabilistic weightings, determined by assessment of a range of possible results (IFRS 9.5.5.17(a)). They must take into account reasonable and justifiable information on past events, current circumstances and forecasts of the future economic environment (IFRS 9.5.5.17(c)).

In response to the health crisis, all the banks revised their model for determining expected losses to allow for new uncertainties. The graphs below present certain information resulting from the analysis of the information published in their financial statements by a sample of 15 banks[22] concerning the adjustments made to their credit risk impairment models.

Nature of adjustments described



Information provided by the sample concerning

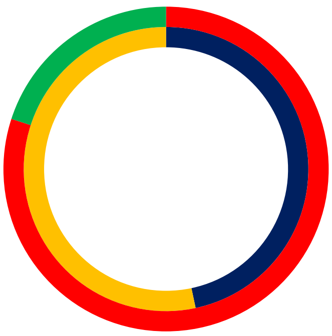
- Model adjustments and post-model adjustments (**54%**)

- Post-model adjustments only (**20%**)

- Model adjustments only (**13%**)

- No information (**13%**)

Detail of information provided



The companies giving information on the adjustments made indicated:
- The sectors concerned by the adjustments: **47%** (mainly vulnerable sectors and individuals)

- The main geographic regions concerned: **20%**

- Explanations of the adjustments: **53%** (e.g., allowance for uncertainties due to persistence of the health crisis, attenuation of the impacts of the support measures on certain portfolios in order to better assess the credit risk)

- Quantified impact of the adjustments: **80%**

Recommendation

The AMF encourages companies to explain each significant model and post-model adjustment. These explanations shall make it possible to understand the extent and nature of the adjustments and their changes as well as their

[22] *11 European and 4 French banks*

trend (for example, certain 2020 post-model adjustments may have been taken into consideration in the model in 2021).

The AMF recommends that companies expand on the information presented in the financial statements regarding the calculation of expected losses by presenting specific information on each type of significant adjustment (post-model and, when possible and appropriate, model - including adjustments to the input data) including:
- The impact detailed by significant type of adjustments;
- The financial instruments (for example, real estate loans, consumer credit, etc.), exposures, and the sectors and regions concerned;
- Rationality (remediation of limitations of the model to allow for certain risks, consideration of the most recent observable macroeconomic prospects, etc.);
- The classification stages[23] involved, and whether these adjustments have an impact on the stage classification of certain instruments.

Lastly, the AMF expects that companies continue to think about how to adapt the sensitivity analyses provided in the financial statements in order to take into consideration the significant adjustments made. They could also indicate the analysis performed to determine the sensitivity analyses to be presented.

Cf. ESMA ECEP Section 1.3 ECL disclosures of credit institutions, management overlays

4.1.2. Prospective information presented

IFRS 7.35G(b) requires presenting the prospective information taken into account in determining expected credit losses, including the use of macroeconomic information.
Due to the health crisis, all the banks in the sample enriched the information presented concerning the macroeconomic variables adopted and how the macroeconomic scenarios were defined and weighted. These recommendations are in line with the 2020 recommendations (cf. paragraph 5.2 of the 2020 recommendations).

Recommendation

The AMF acknowledges the efforts made by the banks to increase the information disclosed about the prospective factors adopted in calculating the expected losses. It encourages the companies to continue their efforts regarding the transparency of information beyond the context of the health crisis. It also invites the companies to specify the definitions and weightings, and explain the changes in the macroeconomic scenarios adopted.
The AMF also recommends that companies continue to develop the quantitative information provided based on the macroeconomic assumptions adopted for each scenario, specifying the main sectors and regions concerned.
Lastly, the AMF stresses the importance of providing more granular sensitivity analyses to measure the sensitivity of the scenarios' weighting to the amount of the expected losses recognised and possibly to the stage classification. It is important that the reader be able to make a link between the sensitivity analyses and the amount of the expected losses recognised.

Cf. ESMA ECEP Section ECL disclosures of credit institutions, Forward-looking Information

The sensitivity analyses presented are, in particular, sensitivity to a change in the weightings of the scenarios adopted, and sensitivity to the application of more pessimistic scenarios or to changes in the underlying assumptions. A particularly appropriate presentation of the scenarios' sensitivity to weighting used by some companies is to present the sensitivity of certain key indicators in the case of a 100% weighting of each scenario.

4.1.3. Significant increase in credit risk

Pursuant to IFRS 7.35F, a company must explain, inter alia, how it determined whether the credit risk of the financial instruments has increased significantly since their initial recognition, whether the financial assets are failing financial assets classified in bucket 3, and the definitions adopted for the concept of failure (explaining the reasons why they were adopted). It should also indicate, when it has used this measure, how it determined

[23] The stage corresponds to the bucket concept (IFRS 9.BC5.111) and distinguishes between outstanding credit i) for which the expected losses are calculated in a 12-month time frame (credit classified in bucket 1), ii) credit which has sustained a significant increase in the credit risk, and for which the expected losses are calculated at maturity, without being considered in default (credit classified in bucket 2), and iii) impaired credit (credit classified in bucket 3).

whether the credit risk of the financial instruments is low (see IFRS 9.5.5.10 and B5.5.22-24), the categories of financial instruments to which this conclusion applies and, if applicable, the credit quality threshold adopted. Lastly, the company must explain, where applicable, how and why the presumption of a significant increase in credit risk was refuted when the maturity date of the financial assets has been exceeded by more than 30 days.
IFRS 7.35G(a) requires presenting the foundations of the estimation assumptions and techniques used to determine whether the credit risk of the financial instruments has increased significantly since their initial recognition.

All the banks in our sample indicate in their 2020 financial statements that they have adapted their approach to assessing a significant increase in credit risk (change of certain thresholds).
Moreover, some banks have described how the support measures had been taken into account (almost half of them). When information was given, the banks indicated, for example, that they had individually monitored exposures benefiting from support measures or had adjusted the probabilities of default for exposures that had benefited from support measures.

Recommendation

The AMF recommends that companies develop the information presented regarding the assessment of a significant increase in credit risk by specifying the following aspects:
- Criteria used to determine the significant increase in credit risk, particularly with respect to thresholds of deterioration of the probability of default, distinguishing this information for each portfolio if significant differences exist;
- Probation periods adopted before retransfer between each stage by main type of instruments;
- Potential impacts of the support measures granted (and their scheduled curtailment where applicable) on the stage classification of the financial instruments, and the analysis performed: significant judgments used to take into account these support measures given or expected, recent trends observed concerning delays and defaults on payments, the new types of indicators used or the changes applied to certain indicators (reduction of thresholds, parameters refined to compensate for the lower reactivity of indicators due to delays or defaults on payments), and the level to which the analysis was performed (by counterparty, sector, type of financial instruments). For example, a company could indicate how it considered the extension of maturity requested by a company for its guaranteed loans, notably state-guaranteed loans;
- The approach and the criteria used to group instruments for analysis of the significant increase in credit risk.

The AMF recommends indicating how the macroeconomic scenarios are taken into account in assessing a significant increase in credit risk, and in particular the stage classification.

Cf. ESMA ECEP Section ECL disclosures of credit institutions, changes in credit risk (stage transfers)

4.2. Credit quality

IFRS 7.35B(c) requires the presentation of information on the quality of credit risk inherent in financial assets and loan commitments, including for major credit risk concentrations.
Pursuant to IFRS 7.35H and B8E, the reconciliation of the loss allowance between opening and closing must be given by class of financial instruments. Loan commitments and financial guarantee contracts must be presented separately. Explanations of changes are also expected (IFRS 7.B8D): for instance regarding the composition of the portfolio, the volumes of financial instruments purchased or originated, or else the magnitude of expected credit losses.

To enable users to understand the effect of collateral held as security and other credit enhancements on the expected credit losses, the financial statements shall present, for each category of instruments, the maximum exposure to credit risk without taking into account collateral held as security or other credit enhancements. It is also recommended to describe the collateral held as security and other credit enhancements (nature and quality, in particular) and to provide relevant quantitative information (IFRS 7.35K).

67% of the banks in our sample provided information concerning the exposures impacted by the pandemic, detailing exposures to SMEs (40%), by type of clients (households, non-financial companies, etc.) or by activity (retail clients, manufacturing companies, commercial real estate, etc.). However, this information was not detailed by geographic region.

Recommendation

The AMF invites companies to continue to develop information relating to exposures and impairments related to credit risk, e.g. by impairment stage, and to comment on significant changes.

In particular, the AMF recommends that companies present these exposures and impairments with a sufficient level of disaggregation to enable the reader to understand the concentration of credit risk.
Thus, it is important to provide breakdowns of exposures and credit losses which make it possible to measure the credit quality of these financial assets. For example, the breakdowns could be performed by internal ratings, by sector, geographic region, product type (large clients, SMEs, mortgage loans, consumer loans) and by stage.
Moreover, the identified categories of probability of default should be sufficiently detailed to provide useful information on credit risk, especially for the most risky categories.

In order to provide readers with sufficient visibility, the AMF recommends providing reconciliations of transactions for the period, for exposures and impairments, at the company level and by type of assets having similar risk characteristics (for example large clients and retail clients, then mortgage loans and consumer loans, etc.).

The AMF recommends providing sufficiently detailed information on collateral and other credit enhancements.

The AMF also stresses the importance of explaining changes for the period and of being consistent between, on the one hand, the quantitative information given concerning exposure to credit risk and impairments and, on the other hand, the explanations and comments provided on this subject in the accounts and other financial communication materials such as the management report.

Cf. ESMA ECEP Section ECL disclosures of credit institutions, Transparency on changes in loss allowances, credit risk exposures and collateral

For example, it could be useful to describe in detail, for certain portfolios such as mortgage loans or structured financing, the collateral and credit enhancements by level of collateralisation (through the loan-to-value ratio).

4.3. Impact of environmental risks on the calculation of expected credit losses

IFRS 7.32A recommends disclosing all additional information which would enable users to have an overall view of the nature and extent of the risks arising from financial instruments.

In the context of climate change and its impacts on the economic activity of certain sectors, to which can be added the resurgence of European incentives for eco-responsible financing, the consideration of environmental risks represents a challenge for the financial sector.

Recommendation

The AMF invites companies to reflect on how to approach climate and environmental risks in calculating expected credit losses.
When this is material, the AMF encourages companies to indicate in their accounts whether environmental risks are taken into consideration in the management of credit risk, and the significant judgments and uncertainties pertaining thereto.
When these risks are assessed in calculating the expected credit risk, the AMF also invites companies to specify how they are assessed, the amount of assets potentially exposed to environmental risks and their level of concentration, and the impacts on the financial statements.

Cf. ESMA ECEP Section ECL disclosures of credit institutions, Effect of climate-related risk on the ECL measurement

Companies could, for example, indicate how environmental risks were taken into consideration in calculating the expected credit losses (e.g. by taking them into consideration in the rating system or by calibrating certain parameters to factor in longer-term risk indicators, or by building a dedicated macroeconomic scenario).

4.4. Refinancing programme of the European Central Bank (ECB)

In 2019, the ECB launched a third series of Targeted Longer-Term Refinancing Operations (TLTROs). In April and then December 2020, in line with the spreading health crisis, the ECB revised the conditions of these operations.

Due in particular to successive revisions, the accounting treatment of these operations was the subject of a case referral to the IFRS IC by ESMA, and the publication of a provisional decision in June 2021.
In January 2021, ESMA published a statement requesting that materially concerned companies provide detailed information in their financial statements on the accounting analysis performed and the resulting impacts.

Recommendation

In line with the ESMA statement of 6 January 2021,[24] the AMF invites companies materially concerned by these refinancing operations to present in a clear and detailed manner the accounting analysis performed, the accounting treatment adopted, the amounts at stake (including financial liabilities at closing and the interests pertaining thereto) and the related risks (achievement of the conditions associated with TLTRO 3 refinancing).
The AMF invites materially concerned companies to monitor the finalisation by the IFRS IC of its decision and to take into account the clarifications provided by said decision.

[24] *ESMA – ESMA promotes transparency for TLTRO III transactions*