CLOSING OF THE 2022 FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS EXAMINATION WORK

References: Article 223-1 of the AMF General Regulation

These recommendations are intended primarily for companies preparing their financial statements in accordance with the IFRS (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, companies must apply the decisions of the IFRS IC as soon as reasonably possible, whilst having sufficient time to implement the changes of accounting principles that might result. In 2022, the IFRS IC published several decisions that could affect certain French 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 will be adapted to the relative importance of the topic. On the European level, ESMA has identified common priorities² relating to the preparation of the 2022 annual financial statements and of financial information more generally:

- With regard to the 2022 financial statements:
  - the link between climate risks and the financial statements;
  - the direct and significant impacts of the Russian invasion of Ukraine;
  - the effects of the macroeconomic environment;
- With regard to non-financial information:
  - governance of non-financial data;
  - information provided for taxonomy;
  - climate risks.

These AMF recommendations carry over the ESMA recommendations. 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.

¹ https://www.ifrs.org/news-and-events/updates/ifric/
As regards non-financial aspects, a loose translation into French of the ESMA recommendations is available on the AMF website. Companies are also invited to refer to the AMF’s 2021 CSR Report3 and to its 2022 report4 scheduled for publication in November 2022.

At the end of September 2022, the French Accounting Standards Authority (ANC) published a decision by its Board advising that notices issued by the French National Accounting Council (CNC) were no longer valid.5 Some of these notices may have formed elements of policy on accounting treatments under French standards or IFRS; changes in regulations and a deeper understanding of practices have led the ANC Board to re-examine these old texts.

**Coming into effect of IFRS 17 on insurance policies**

As of 1 January 2023, insurers and financial conglomerates preparing financial statements under IFRS will apply IFRS 17 and present their restated comparative 2022 financial statements. As part of this first-time application of IFRS 17, the AMF reminds companies that they must provide known or reasonably estimated qualitative and quantitative information (IAS 8.30) in their 2022 financial statements to enable readers to understand the extent of the impact of the first-time application. The AMF also encourages these companies to take the ESMA and AMF statements on the subject into consideration.5 Some insurers and financial conglomerates will also apply IFRS 9 on financial instruments for the first time. As a reminder, ESMA and the AMF had published news releases on the information to be provided prior to and at the time of application of this standard, which are applicable.7

In this regard, the ANC has updated its recommendation on the format of consolidated financial statements for institutions in the banking sector.8 The implementation of IFRS 17 has resulted in the mandatory creation of asset, liability and income statement items relating to insurance activities. In this recommendation, companies can choose how to present their insurance-related financial investments on the balance sheet: they can be presented either as a separate item on the asset side of the balance sheet (and broken down by accounting category in the notes (IFRS 7.8)), or in the accounting categories for banking activities on the asset side of the balance sheet (with specific information in the notes to distinguish the insurance-related financial investments within each accounting category (IFRS 7.8)). To be consistent with the option chosen for the balance sheet, institutions will present their net income from insurance-related investments on a separate line item in the income statement9 or by breaking down the various net banking income (NBI) items. Lastly, the cost of credit risk on insurance-related financial investments will be presented as a separate line item in NBI for companies that have chosen to apply this recommendation.

The AMF points out that for financial conglomerates that distribute insurance products on behalf of their insurance subsidiaries, internal commissions for distributing and managing insurance products must be restated in the consolidated financial statements of the bank insurance group so that the information on the contractual service margin required by IFRS 17 reflects the costs incurred by the network at the group level, if significant.

See ESMA ECEP statement introductory section on Insurance Contracts

**Other AMF publications related to financial statements**

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2. Which will focus on taxonomy and connectivity
7. As a reminder, IAS 1.82 requires interest income calculated at amortised cost to be presented separately in the income statement.
The AMF has updated the Table of Contents listing all of its recommendations on IFRS financial statements (2006 to 2021) which are still applicable at present. This document facilitates access to the prior recommendations through clear indexing by theme.10

10 https://www.amf-france.org/fr/reglementation/doctrine/doc-2018-06?from=b3f21baf-0d59-4443-9728-121437da7905|a13796ae-7a00-4c69-8327-80649af96284|09bc0e1e-cf0e-4786-9607-b0c52c0dee3f|e033c3c1-58c6-4c38-b2ef-f117ecb7843b
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1. FINANCIAL STATEMENTS EXAMINATION WORK

The AMF presents below a summary of its examinations of financial statements completed between October 2021 and September 2022 (59 issuers comprising 46 universal registration documents and 13 annual financial reports), and the main topics that gave rise to the AMF’s work and comments.

1.1. Ex-post examination of financial statements

1.1.1. Selection of issuers and type of examination

The companies to be examined are selected, in accordance with ESMA guidelines, using a multi-criteria method that combines selection by risk, by rotation and on a random basis. In its risk analysis, the AMF considers market criteria (market 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 and climate risks, for example). The AMF also uses a rotation approach, which varies depending on the sub-fund, to ensure that the financial statements of issuers in a given compartment are reviewed at least once over a given period.

In 2022, 56% of the selected companies had been so on the risk criterion:

Of the examinations carried out over the period, 63% were unlimited scope examinations (an examination of the whole financial statements). Focused examinations (on one or more specific topics) over the period mainly focused on the impacts of financial difficulties, significant impairment of non-financial assets, significant acquisitions or disposals, the impacts of the war in Ukraine and climate-related issues in the financial statements.

1.1.2. Recommendations and areas for improvement

In its end-of-examination letters, the AMF makes recommendations and suggests areas for improvement. Recommendations are systematically followed up at the following annual closure of accounts, while areas for improvement generally cover topics that are not material at the time.

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12 The figures published by ESMA in its activity report relate to the recommendations only.
AMF Recommendation – DOC-2022-06 – Closing of the 2022 financial statements and financial statements examination work

The average number of recommendations and areas for improvement per examination remains stable at 4 per company. The vast majority of recommendations and areas for improvement relate to requests for supplementary or complementary information and changes to accounting principles and methods in the notes.

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

| A: Presentation of financial statements (IAS 1, IAS 8) |
| B: Cash flow statement (IAS 7) |
| C: Leases (IFRS 16) |
| D: Impairment tests (IAS 36) |
| E: Income taxes (IAS 12) |
| F: Operating segments (IFRS 8) |
| G: Financial instruments, fair value (IAS 32, IFRS 7, IFRS 9, IFRS 13) |
| H: Revenue (IFRS 15) |
| I: Other (IAS 37, IAS 33, IFRS 3, IAS 2, IAS 38, etc.) |
Overall, over the period October 2021 to September 2022, 92% of the recommendations relate to a request for supplementary or complementary information in the notes.

Breakdown between recommendations and areas for improvement issued in the period 2021-2022

**Presentation of financial statements (IAS 1, IAS 8) (9% 2021-22 vs 9% 2020-2021)**

These points mainly concerned the following topics:
- a. Clarifying the wording of subtotals and their definition, including the distinction to be made between operating items considered current and non-current (55%);
- b. Specifying the assumptions underpinning the going concern principle when their going concern involves material uncertainty (15%);
- c. The importance of commenting on certain significant items or changes (20%).

The AMF also reminded companies not to use the term “pro-forma” for situations other than those defined by the Prospectus Regulation (see below). It also asked that no more references be made to wording from standards that are no longer applicable (such as the categories of financial instruments in IAS 39) (10%).

**Cash flow statement (IAS 7) (7% 2021-2022 vs 6% 2020-2021)**

The main comments concerned the importance of cross-referencing to the notes to the financial statements to better understand the main flows in the cash flow statement and the reconciliation between the cash flow statement and changes in debt.

Other points related to requests to clarify the nature and characteristics of significant cash equivalents held and the judgements made in classifying them.

**Leases (IFRS 16) (9% 2021-2022 vs 9% 2020-2021)**

Most of the points raised again related to the presentation of the nature and characteristics of significant leases and the key assumptions used in the valuation of lease liabilities and rights of use (lease term, discount rate, etc.).

Other points included the maturity analysis of lease liabilities, details of the impacts of leases on the income statement and on cash outflows (including information on cash outflows for the period and future periods not included in the valuation of lease liabilities), and information to understand the characteristics and amounts of rent concessions obtained.
The recommendations and areas for improvement expressed mainly concerned:

- a. The presentation of the key assumptions used for goodwill and other significant intangible assets when these are tested separately (operational assumptions, discount rate and growth rate);
- b. The presentation of sensitivity analyses to all key assumptions (operational and financial).

The AMF asked companies to explain changes in the key assumptions used since the last test, in light of changes in their economic and financial situation and external evidence.

The AMF recommended that a sensitivity analysis be disclosed, including in the case of partial impairment over the financial year, and that any sensitivity analyses performed take into account recent variations incurred (extending the interval considered as a reasonably possible variation of the key assumptions).

The AMF also asked companies to present the indicators of impairment taken into account by management when performing impairment tests.

A significant proportion of the recommendations and areas for improvement concerned financial instruments (20%).

This year, the AMF often asked companies using significant deconsolidating factoring programmes (or reverse factoring operations) to clearly disclose in their financial statements the characteristics of their programmes, the accounting analysis and the amounts involved (67%).

The other topic that gave rise to recommendations (33%) was the analysis of debt renegotiation to determine whether it is a contract extinguishment or amendment under IFRS 9.

The AMF also asked for additional information to be provided in the financial statements on the application of hedge accounting (the method used to calculate the hedge ratio and determine the sources of hedge ineffectiveness in accordance with IFRS 7.22B(c)).

Lastly, the AMF requested that companies disclose the amounts of gross value and impairment of trade receivables broken down by age.

The recommendations and areas for improvement issued in relation to revenue recognition (8%) mainly consisted of asking companies to:

- a. Specify their accounting principles and methods in relation to the specific features of their businesses.
AMF Recommendation – DOC-2022-06 – Closing of the 2022 financial statements and financial statements examination work

<table>
<thead>
<tr>
<th>Area</th>
<th>Specific Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of performance obligations, principal-agent analysis</td>
<td>b. Present the contract asset and contract liability balances separately (either on the balance sheet or in the notes), and quantify and comment on the transaction price allocated to unsatisfied performance obligations, along with any significant changes in the contract asset and contract liability balances. Lastly, the AMF paid particular attention to the consistency between the information provided outside the financial statements and the breakdown of revenue in the accounts.</td>
</tr>
</tbody>
</table>
| Other (IAS 37, IAS 33, IFRS 3, IAS 2, IAS 38, etc.) (24% 2021-2022 vs 25% 2020-2021) | The other recommendations and points for improvement mainly concerned the information to be provided on:  
a. The nature of significant provisions (IAS 37 – 13%): the AMF asked for an explanation of the nature of the changes and the methodology for determining provisions for expenses by type of provision;  
b. Investment properties (IAS 40 – 8%): the AMF asked for a breakdown of properties under construction or development valued at fair value and those valued at cost. The AMF also asked companies to ensure that the key assumptions used in the valuation of investment properties are described in sufficient detail (completeness of the key assumptions disclosed and relevance of the level of granularity);  
c. The amount of research and development expenditure recognised as expenses (IAS 38 – 21%);  
d. Share-based payments (IFRS 2 – 8%): the AMF asked for additional information and clarification on the disclosed key assumptions used to measure the fair value of the instruments;  
e. The calculation of basic earnings per share (IAS 33 – 25%): the AMF pointed out that when presenting diluted earnings per share, the standard requires that the number of shares used for the calculation be specified, and that this number be reconciled with the number of shares used to calculate basic earnings per share. The AMF also requested that, in addition to basic earnings per share, diluted earnings per share be presented for all periods reported, in accordance with IAS 33.66;  
f. Business combinations (IFRS 3 – 13%): the AMF asked for additional information on the main assets and liabilities acquired and on the revenue and net income of the acquired company. |
Breakdown between recommendations and areas for improvement issued in the period 2021-2022

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)  I: Other (IAS 37, IAS 33, IFRS 3, IAS 2, IAS 38, etc.)
E: Income taxes (IAS 12)

1.1.3. European Single Electronic Format (ESEF)

Review of the 2021 filing season

Companies listed on a regulated market and subject to the Transparency Directive published their Annual Financial Reports (AFRs) for financial year 2021 in XHTML format and, if applicable, marked up the primary statements of the IFRS consolidated financial statements with the ESEF taxonomy for the first time on a mandatory basis.

The AMF found that there was widespread compliance with the electronic format and is pleased with the quality of the filings and the tagging, which are generally satisfactory. 30% of AFR filings required one or more corrections (for example, following the filing of a document in PDF format). The procedure for filing documents with the AMF using ONDE is available on its website. Overall, the AMF found that the European electronic format had no impact on the filing dates for AFRs and URDs that include an AFR.

As part of its financial statements examination work, the AMF now includes ESEF-related controls and, if necessary, recommendations and areas for improvement on this subject in its end-of-examination letters.

Some useful reminders

Through its own examinations and the tests carried out at the request of certain companies (350 tests for some 200 issuers), the AMF has identified certain points to watch out for when using the mandatory tags and performing tagging in the primary statements:

- **Tagging completeness** (ESEF Reporting Manual, Guidance 1.8): The AMF reminds companies that all figures (in currency) in the primary statements must be tagged. This includes footnotes or table footnotes, including when these notes are presented in tabular form. This requirement does not apply to ratios or percentage changes, although these may be tagged if desired.

- **Missing calculation relationships** (point 6 of Annex IV of the RTS): In a number of cases, sub-totals are not identified as such, which prevents the tools from performing the associated consistency checks. Issuers should therefore ensure that calculation relationships for these sub-totals are created in all cases where they are possible.

- **Use of extensions** (ESEF Reporting Manual, Guidance 1.3.1): Extensions need to be created in cases where there is no corresponding element in the ESEF taxonomy (taking into account the entire taxonomy presented in Annex III of the RTS, not just the elements commonly associated with primary statements). Materiality should be considered in order to assess whether the element to be tagged matches an element in the

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taxonomy (e.g. a line showing revenue from the sale of goods and services, if these are non-material, may be tagged with the element Revenue from ordinary activities arising from the sale of goods).

- **Anchoring of extensions** (ESEF Reporting Manual, Guidance 3.3): As a reminder, extensions created by an issuer (with the exception of elements corresponding to subtotals) must be anchored to a larger element in the core taxonomy. The AMF found that there was general compliance with this rule. In some cases, however, the anchoring appears to be too broad, since the anchoring must be to the element “whose meaning and/or accounting scope is immediately broader”. Thus, for a statement of financial position element, anchoring to the Assets or Liabilities element is not specific enough.

- **Tagging of null data** (ESEF Reporting Manual, Guidance 2.2.5): Null data must be tagged, as is the case for all figures in the primary statements. Even if dashes or empty cells are not strictly speaking figures, it is recommended that they be tagged when they are equivalent to zero (which is generally not the case in the statement of changes in equity). This makes it easier to make comparisons between years, as the data may not be zero/null every year.

- **Mandatory tags** (ESEF Reporting Manual, Guidance 1.3.3): The mandatory tagging elements in Table 1 of Annex 2 of the RTS only apply when the information is included in the financial statements (or another part of the AFR) (see Annex II of the Regulation, paragraph 2). Accordingly, issuers do not need to create tables or lists containing this information with the wording “Not Applicable” for the sole purpose of tagging these elements.

**Block tagging**

The ESEF obligations cover block tagging (applying markups to whole sections) of the notes to the IFRS consolidated financial statements for financial years beginning on or after 1 January 2022. Companies that face difficulties in carrying out this new obligation are invited to contact the AMF. Issuers can also refer to the Reporting Manual published by ESMA, which was recently updated to take account of this change. The AMF has provided a French translation of this manual on its website. This reporting manual is a useful tool to assist issuers in applying the ESEF obligations, but it is not mandatory like the RTS.

In recent years, French issuers have done a great deal of work to improve the readability and relevance of their financial statements. It is therefore important that this block tagging does not impact the quality of the notes. Lastly, the AMF proposes that companies wishing to do so perform tests prior to submission, and encourages them to work as early as possible with their auditors in order to solve any problems before publication of their AFR or URD.

Issuers may refer to the dedicated areas on the ESMA and AMF websites which address the issues relating to this obligation (scope of application, reference texts, checklist to be complied with, etc.).

### 1.2. Practical cases

In addition to the findings of the reviews presented above, these practical cases aim to illustrate in a more specific and detailed way the representative cases found during this year’s examinations.

#### 1.2.1. Leases

During its reviews, the AMF noted that the presentation of information on changes in lease assets and liabilities was inconsistent and that the information presented in the financial statements did not always make it clear where the significant changes in rights of use and lease liabilities for the financial year came from.

For companies where these changes were material, as some companies presented, the AMF stressed the importance of specifying the origin of the movements recorded over the period, distinguishing them by type (new contracts, contract amendments, expiration or termination of contracts, impairment of rights of use, foreign exchange differences). Presentation in tabular format was encouraged.

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14 RTS, Annex IV, point 9.a)
15 For example: change of company name
16 Dedicated email address (also for tests): esefbrl@amf-france.org
18 Dedicated page on the ESMA website
19 Dedicated page on the AMF website
The AMF also found it difficult to reconcile changes in lease liabilities with the movements presented in the cash flow statement and therefore asked the issuers concerned to make it easier to reconcile them, using cross-references and explanatory notes. As lease obligations are part of the liabilities of financing activities, some specific information on movements is required.

1.2.2. Concept of significant influence

The AMF had discussions with companies on their analysis of the existence of significant influence. If an investor holds less than 20% of the voting rights in an entity, it is presumed that it significant influence does not exist, unless it can be clearly demonstrated that it does. IAS 28 lists five situations that usually indicate the existence of significant influence: (a) representation on the board of directors or equivalent, (b) participation in the policy-making process, including decisions about dividends and other distributions, (c) material transactions between the entity and the investee, (d) interchange of management personnel, and (e) provision of essential technical information. The objective is to demonstrate that the company participates in “the financial and operating policy decisions of the investee” (IAS 28.3), in other words operational policy (sales, marketing, production, human resources, acquisitions and disposals, etc.) and financial policy (dividends, debt issuance, cash management, etc.). For example, the ability of an entity to influence dividend policy alone will not necessarily affect an entity’s operating policy, particularly if the entity can use financing to pursue its strategy.

Furthermore, in the course of these examinations, it was generally found that the entity’s presence on the board of directors (or equivalent governing body) is a relevant indicator for demonstrating the existence of significant influence.

In its discussions with the companies concerned, the AMF reiterated the importance of ensuring that the financial statements are particularly transparent and instructive by disclosing the main reasons for recognising the existence of significant influence or for concluding that there is no significant influence when the analysis required particular judgement.

1.2.3. Onerous contracts

The AMF reviewed the accounting principles relating to onerous contracts where these were material at the group level. It found that there was a variety of practices for determining the cost of fulfilling contracts and a lack of information on provisions for onerous contracts.

The entry into force on 1 January 2022 of an amendment to IAS 37 (Onerous Contracts — Cost of Fulfilling a Contract) should reduce the variety of practices observed. The contract fulfilment cost used to determine whether a contract is onerous must include not only (a) the incremental costs of fulfilling the contract (e.g. direct labour and raw material costs), but also (b) the allocation of other costs directly related to fulfilling the contract (e.g. the allocation of depreciation of a tangible asset used to fulfil the contract, for example, or costs related to managing and supervising contracts).

During its reviews, the AMF pointed out that issuers need to specify the main judgements made to identify onerous contracts and to calculate, if need be, the amount to be provisioned, and in particular the way in which the expected economic benefits of the contract were determined.

1.2.4. Operating segment aggregation

The AMF found that the information provided in the financial statements was, in most cases, not sufficient to determine whether the company had aggregated operating segments and what analysis it had carried out. IFRS 8.12 requires certain criteria to be met before aggregating operating segments (including similar long-term economic characteristics illustrated in the standard by similar long-term average gross margins20 and the similarity of each of the criteria described in paragraphs (a)-(e)). In addition, IFRS 8.22(a) and (aa) require disclosure in the notes of the “factors used to identify the entity’s reportable segments, including the basis of organisation” and “a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics”.

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20 Decision EECS/0122 10 – Identification of segments for IFRS 8 reporting purposes (p. 17)
Accordingly, the AMF asked companies to state whether the entity has aggregated any operating segments and the analysis that led to significant aggregations, particularly with regard to similar long-term characteristics.

1.2.5. Impairment testing of non-financial assets

The AMF noted that the information provided by companies on how cash-generating units (CGUs) are defined was not always clear. In its examinations, the AMF often asked companies about the CGUs identified in accordance with the standard’s definition (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, IAS 36.6). Assets other than goodwill are to be tested at the CGU level if testing the individual asset is not practicable. In some cases, the AMF also had to remind companies of the analysis they need to perform to determine the level at which goodwill impairment tests should be carried out, particularly when there are significant changes in CGUs. This involves determining the lowest level at which goodwill is monitored for internal management purposes, and then performing goodwill impairment tests at that level. Furthermore, testing can only be performed at the level of a group of CGUs if the group of CGUs is no larger than an operating segment, represents the lowest level at which goodwill is monitored and is expected to benefit from the synergies of the aggregation. Furthermore, one of the decisions published by ESMA in May 2022\(^2\) concerns the performance of the impairment test on a CGU containing a right of use.

1.2.6. Government-backed loans and off-balance sheet information

The AMF noted that several companies stated in their off-balance sheet commitments that they had received a guarantee covering their government-backed loans. The AMF pointed out that these guarantees are granted to the lenders and not to the companies. Therefore, even though mentioning them is useful, they do not constitute commitments received by the company and cannot be referred to as such in the financial statements.

1.2.7. Classification as non-current assets held for sale

The AMF paid particular attention to the analysis of whether non-current assets (or disposal groups) should be classified as held for sale (IFRS 5).

IFRS 5.7 and 5.8 set out the cumulative conditions for such a classification to be made. The non-current asset must be available for immediate sale in its present condition and the sale must be highly probable. The sale is considered highly probable when management is committed to a plan to sell, an active programme to locate a buyer and complete the sale has been initiated and the price is reasonable in relation to current fair value. The standard requires that the sale be expected to take place within 12 months (unless the standard provides otherwise).

For both proposed sales and distributions to owners, the facts and circumstances put forward by companies to justify that the criteria for classification for sale are not met are varied. In some cases, these include administrative approvals that have yet to be obtained (from competition authorities or local regulators, for example) and uncertainties about the time frame for disposal.

Analysis that concludes that an asset is not classified as held for sale may raise questions among readers, especially in cases where the sale is finalised shortly after the closure of accounts. The AMF reminded companies that, without waiting for restrictions to be lifted, it was necessary to assess whether lifting them was highly likely, and that this analysis was specific to each case (administrations, countries concerned, size and location of the discontinued operations, market situation of the potential buyers). For example, the likelihood of obtaining agreement from a competition authority might have a greater degree of uncertainty than a regulatory authority having to rule on the financial information that will be made available to the markets. For material transactions, the AMF asked companies to provide details of the facts and circumstances used in their analysis to determine whether or not the criteria for classification as non-current assets (or groups) held for sale were met.

1.3. Examination of prospectuses

1.3.1. Planned initial public offerings

The financial statements of 30 companies were examined within the framework of draft prospectuses for initial public offerings between October 2021 and September 2022. Of these companies, 15 were listed on Euronext and 15 on Euronext Growth.

These 30 examinations gave rise to:

- 16 new financial statements;
- 18 pieces of additional information on the financial statements in the prospectus, either in the form of an additional note to the financial statements or additional information in other parts of the prospectus;
- 19 recommendations for the next financial statements.

The main accounting issues discussed with companies at the time of their initial public offerings were the method of recognising revenue in relation to their activities, leases, cash and financing transactions, segment reporting, the recognition of deferred tax assets and impairment tests on non-financial assets. The AMF also examined other points such as acquisitions during the period, impairment of trade receivables and inventories, assets classified as non-current assets held for sale or discontinued operations, and provisions for pensions.

In the case of prospectuses for initial public offerings, it is important to note that the AMF cannot review the financial statements until they have been approved by the company’s competent body (board of directors or management board) and the audit procedures have been completed or almost completed. If the financial statements are modified as part of the work on the prospectus, they must be reapproved by the competent body.

1.3.2. Pro-forma information

The AMF reviews the pro-forma financial information presented in the information documents relating to mergers and acquisitions or in prospectuses for the issuance of equity or bond securities refinancing a significant acquisition. Over the study period, the AMF examined three documents containing pro-forma financial information (five in the previous period).

The AMF reminds issuers that pro-forma information is required in the event of an acquisition, disposal, spin-off, carve-out, merger or partial asset contribution if the transactions carried out or planned significantly change (i.e. a change of more than 25% in one or more indicators of the size of the issuer’s business) the financial statements of the entities concerned, either in a prospectus or in a universal registration document.

Even though these are not, strictly speaking, financial statements prepared in accordance with IFRS, this pro-forma financial information is based on IFRS principles that will subsequently be used in the issuer’s consolidated financial statements. As such, the AMF pays particular attention to the accounting treatments applied in this information.
The AMF reminds issuers that pro-forma information may not reflect transactions that are not directly related to the operations that the issuer is restating in the pro-forma information (e.g. restructuring).

The AMF also reminds companies that they must present pro-forma financial information only for the last financial year ended and/or the last interim period (see ESMA guidelines, paragraph 101). Thus, it is not possible, under these guidelines, to present pro-forma financial information covering several annual periods. Lastly, the AMF points out to companies that voluntarily choose to produce pro-forma information in a universal registration document or a prospectus that such information must be reviewed and reported on by their statutory auditors.
2. LINK BETWEEN FINANCIAL AND NON-FINANCIAL

The AMF is pleased to see that, despite the backdrop of rapid changes in the regulatory framework and investors’ expectations, the information published by companies in their 2021 financial statements on the link between the impact of climate change and their financial statements has increased significantly. In 2021, in a sample of 27 companies, more than three quarters made at least one reference to the impact of climate change in their financial statements.

This subject was central to the ESMA and AMF recommendations for the 2021 financial year-end and, while not all the topics developed in these recommendations are included this year, they are still applicable (see greenhouse gas emission allowances, green financing, etc.). To accompany these changes, the AMF published an initial overview of the information provided by issuers in their 2020 financial statements in December 2021. This report will be reissued in autumn 2022 to examine the changes in the information provided. The initial findings of this report are presented below and contribute to the recommendations for the 2022 financial year-end.

As with all information provided in the financial statements, the concept of materiality also applies to the information provided on the financial effects of climate risks and opportunities, along with the commitments made. Therefore, the level of information provided will be adapted to the company’s particular circumstances and the materiality, both quantitative and qualitative, of the topics.

2.1. Governance

Given this context, companies have organised or are in the process of organising their governance so that it is consistent with their climate goals and their needs to meet regulatory requirements.

Recommendation

The AMF recommends that companies continue to increase the involvement of their governance bodies and audit committees in analysing the effects of climate change on their activities, in preparing and monitoring sustainability information communicated to the market, and in ensuring that the information presented in the financial statements is consistent with the company’s other communications (in particular with the non-financial information statement (NFIS)).

2.2. Link between financial statements and other financial information: “connectivity”

2.2.1. General link between climate change and financial performance

The AMF is pleased with the increase in information related to the impact of climate change in the financial statements. Thus:
- 81% of our sample expressly state that they considered the impact of climate change on their business when preparing their financial statements; however, almost all of them state that there is no material impact at this stage.
- 52% mention the impact of climate change among the key judgements for the financial year (this was 17% in 2020).
- 26% have a specific note on the subject. As for the others, there are almost never any links between the various notes in the financial statements mentioning climate risk issues.

However, although visible efforts are made to provide information specific to the entity, little or no information is provided on the type of analysis performed and the assumptions taken into account.

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22 Sample of 27 French companies and banks (including 22 from the SBF 120 and five SMEs) operating in an emissive sector as defined by the European taxonomy or participating in the financing of emissive activities, some of which have made a commitment to carbon neutrality.
Furthermore, for 18.5% of the sample, the impact of climate change is a key audit issue for a specific area such as impairment testing or provisions (this proportion is similar to the previous year).

**Recommendation**

The AMF recommends that companies whose exposure to climate risks and commitments to combat global warming are likely to have a material impact provide more details on the judgements and assumptions used to assess the effects, or lack thereof, of climate change risks in their financial statements (on financial performance and the valuation of the company’s assets and liabilities).

To make it easier to understand the work and analysis carried out to assess the financial impacts of climate issues, the AMF recommends that companies group all this information together in a specific note or establish an explicit link between the various notes to the financial statements covering this topic.

See ESMA ECEP Climate-related matters section, Consistency between IFRS financial statements and non-financial information, paragraphs 3 and 4

For example, the AMF recommends that companies specify more clearly the time frames over which the judgements and conclusions regarding the impact or lack of impact are based and the climate change scenario(s) used for global warming.

### 2.2.2. Connectivity in relation to commitments to contribute to carbon neutrality and identified risks and opportunities

In 2021, most companies examined reported on their ambitions both to contribute to carbon neutrality and to improve their own resilience to the effects of climate change. These ambitions are in part accompanied by short-, medium- and long-term alignment trajectories, for example with the Paris Agreements. In general, the financial statements for the year ending 31 December 2021 do not provide much information on the analysis conducted to arrive at conclusions on how and to what extent the commitments made by companies do or do not impact their financial performance.

For example, most of the companies in our sample provide figures outside the financial statements on their involvement in research into solutions to decarbonise the atmosphere or reduce the emissions from their products and services and, at this stage, 7% of them provide a quantified assessment of the estimated research and development costs to meet their carbon neutrality goal in their financial statements. Amounts may not be provided because they are not material at this stage.

**Recommendation**

The AMF recommends that companies ensure that the judgements and estimates used and described in the financial statements are consistent with the consequences of the risks and opportunities related to climate issues described in the management report and other information.

See ESMA ECEP Climate-related matters section, Consistency between IFRS financial statements and non-financial information, paragraph 2

The AMF noted that climate change is considered, in the risk factors, as a market risk for 26% of our sample, a transition risk for 55% and a physical risk for 67%. Conversely, for the vast majority of these companies, the analysis of the financial impacts of these risks is not mentioned in the financial statements.

**Recommendation**

It seems important to expand on information that provides an understanding of how the company’s commitments and objectives (planned steps and milestones, actions taken) have been taken into account and analysed when preparing the financial statements, thereby better justifying the conclusions drawn regarding financial impacts, especially for companies that announce ambitious carbon neutrality strategies within a short time frame.

See ESMA ECEP Climate-related matters section, Consistency between IFRS financial statements and non-financial information, paragraph 3

For example, particular attention may be paid to the consistency between information provided outside the financial statements (including risk factors) and risk information provided within the financial statements. The existence of a risk does not necessarily have a financial impact but, where these matters are material to the
company, additional explanations may be necessary to understand the work involved in arriving at the conclusion regarding impacts (estimates made, time frame used).

### 2.3. Climate impacts and impairment tests

The AMF and ESMA have paid particular attention to how companies reflect the impact of climate change in their impairment test assumptions (operational and financial). None of the companies in our sample treated climate change as an indicator of decline in value or performed specific impairment tests in addition to the tests required annually.

The main findings of the study are as follows:

![Graph showing the percentage of companies that did not state whether impairment test assumptions were changed, indicated that they have modified the tests without further clarification, or stated which key operational and/or financial assumptions were changed.]

In our sample, 9% presented an analysis of the sensitivity of recoverable amounts to a change in key assumptions directly related to climate change. For example, taking into account their specific circumstances and analysis, one company considered it relevant to include a sensitivity to the expected financial impacts of a +2°C scenario and another limited the time frame of future cash flows to 20 years. These sensitivity tests lead to non-material impairments in 6% of cases.

Despite the improved understanding of the link between the impact of climate change and asset valuation, it is often difficult to understand exactly how companies’ future cash flows will be affected by their exposure or commitments, whether in terms of revenue, investments, increases in the cost of certain key commodities, increases in liabilities or even opportunities. Indeed, recoverable amounts from cash generating units (CGUs) or groups of CGUs could be impacted by lower than expected income (as a result of a change in consumer habits, for example) or increases in the costs of meeting emissions targets by 2050 or earlier. Similarly, while climate change may not have a significant impact on cash flows in the short to medium term, it could have a material impact in the long term and therefore needs to be reflected in the terminal value and the growth rate used.

**Recommendation**

The AMF recommends considering whether there are indicators of impairment due to climate change that require impairment tests to be performed on certain assets or CGUs, in addition to the tests required annually on goodwill and other intangible assets with indefinite useful lives.

The AMF encourages companies affected to consider the most appropriate way to reflect climate risks and commitments in impairment tests (cash flows, discount rate, growth rate and, more generally, terminal value).

The AMF also recommends that companies increase the level and detail of the information provided on the main judgements and estimates used and on any changes made to the impairment test methods by explaining, where applicable, the new assumptions used and the quantified extent of the changes.
When key assumptions have not been changed even though the company is in a sector that is particularly sensitive to the impact of climate change, changes in customer behaviour and regulations in this area and/or has made significant commitments to reduce greenhouse gas emissions, the AMF recommends that companies explain why they believe that their exposure to the consequences of climate change is not likely to impact their impairment test assumptions (business plans and/or terminal value).

Lastly, as climate risks may also affect sensitivity analyses, the AMF recommends that companies consider the appropriateness of adapting the key assumptions and ranges used in these tests to the risk factors and opportunities taken into account in the impairment tests.

See ESMA ECEP Climate-related matters section, Impairment of non-financial assets

As part of the explanations given, companies may state, for example, whether and how climate change risks have been reflected in the flows (e.g. increased cost of certain supplies and/or operating costs, expenditure to meet the company’s decarbonisation targets, climate scenarios used, external sources used, new key assumptions related to energy prices, etc.), the discount rate (e.g. factoring in climate risks using a risk premium) and/or the growth rate or terminal value (e.g. reduced or zero growth beyond a certain period).

2.4. Specific points for attention

2.4.1. Provisions, deferred taxes, share-based payment plans

Given the growing number of climate-related regulations, including those that may not be restrictive enough to impose a legal obligation, choosing to comply with them may amount to a legal or implicit commitment requiring the recognition of a provision\(^{24}\) or additional provision (for example, changes in legislation affecting the estimated costs involved or speeding up the completion of work).

Beyond this, and more generally, it is relevant for companies to assess the extent to which the impact of climate change and its associated commitments are likely to impact their financial statements, including the recoverable value of deferred tax assets or the expense of share-based payment schemes in the case of performance criteria based on climate targets.

Recommendation

The AMF recommends that companies whose exposure to climate risks is likely to have a material impact consider the effects of climate change, new regulations and commitments they have made on the amount of provisions (decommissioning, restoration work, new risks), contingent liabilities, deferred taxes and share-based payments, for example.

See ESMA ECEP Climate-related matters section, Provisions, contingent liabilities and contingent assets

For example, companies may highlight significant environmental regulatory requirements that have been analysed and that have implications for their performance and financial statements.

2.4.2. Projects set up to meet carbon footprint targets

To meet their carbon footprint targets and commitments, an increasing number of companies are considering projects to reduce or offset their greenhouse gas emissions through specific agreements or partnerships.

Prominent among these considerations is the use of green power purchase agreements (PPAs) or virtual power purchase agreements (VPPAs). In these agreements, a company commits to purchase green energy (solar or wind

\(^{24}\) See IFRS IC decision of June 2022 on the obligations to recognise liabilities when selling vehicles (produced or imported) whose CO\(_2\) emissions exceed the legal thresholds of certain countries or geographical areas (https://www.ifrs.org/news-and-events/updates/ifric/2022/ifric-update-june-2022/#3)
power) at a fixed price, or to pay the difference between the fixed contract price and the energy spot price, over a fixed period of time.

Depending on the facts and circumstances (e.g. with or without physical delivery or whether the solar farm or wind turbine is on the company's site or not), these agreements raise various accounting issues.

For agreements without physical delivery, the agreement is recognised at fair value through profit or loss.

For agreements with physical delivery of energy, the issue of controlling and consolidating the structure in which the project is held arises.

If it is determined that the structured entity should not be consolidated by the green power purchaser, the issue is whether there is a lease (which could be the case if the purchaser has exclusive use of the assets held in the structured entity or benefits from all of the green power produced and can decide on the use of the asset) or an in-substance purchase of the asset.

Lastly, where the agreement is not considered to be a lease or an in-substance purchase of the solar farm or wind turbine, it must be analysed to determine whether it qualifies as an own-use power purchase agreement (i.e. entered into for the buyer’s own normal business purposes) or as a derivative financial instrument.

Other issues may arise such as the ability to record supply agreements as part of a hedging relationship, the recognition of an embedded derivative for agreements that qualify as own-use agreements or the method of calculating the fair value of the agreement.

Recommendation

When considering the implementation of structuring arrangements to achieve commitments to reduce or offset a company’s carbon footprint, it is important to analyse the accounting treatment of the related agreements in advance.

When entering into this type of major new agreement, the AMF recommends that companies specify in their financial statements the characteristics of the agreements, the accounting analysis performed and the financial impacts identified.

See ESMA ECEP Climate-related matters section, Power purchase agreements

2.4.3. Factoring environmental risks into expected credit losses

The AMF notes that the information provided by financial institutions on the consideration of climate risk in the assessment of expected credit losses is still not highly developed, probably because of a lack of data, the complexity of modelling these elements and the time lapse before the associated risks become a reality.

Nevertheless, the amount of public data available to help with factoring climate exposures into risk analysis is increasing.

Recommendation

The AMF recommends that financial institutions continue to work on including climate data in their estimates of expected credit losses and increase the information they provide on this subject.

Companies could, for example, state whether environmental risks are taken into account in the rating system, by calibrating certain model parameters, building one or more dedicated macroeconomic scenarios or making post-model adjustments. With regard to their work, the information that could be presented is, for example, a breakdown of exposure to climate risk by sector, details on whether or not climate risks are taken into account in the probability of default and/or losses in the event of default.
3. SIGNIFICANT DIRECT IMPACTS OF THE WAR IN UKRAINE

The war in Ukraine has had significant direct impacts on some companies and significant indirect impacts on the vast majority of companies. There is still a considerable lack of visibility on how the war and its impact on the economy will unfold, requiring greater transparency in terms of the analysis carried out and the assumptions made.

These recommendations are in line with ESMA’s statement, echoed by the AMF, on the impact of Russia’s invasion of Ukraine in preparation for the 2022 half-yearly financial statements. All the points for attention highlighted in these statements remain relevant, including impairment testing of non-financial assets, credit risk assessment of financial assets (including trade receivables) and the analysis of events after the reporting period.

3.1. Presentation of the impacts of Russia’s invasion of Ukraine

IAS 1.45 establishes the principle of consistent presentation of financial statements. Therefore, as with the presentation of the impacts of the COVID-19 pandemic, it is essential for the proper understanding of performance and for comparability purposes that the income statement headings and subtotals continue to be left unchanged in order not to isolate certain identified impacts of the war in Ukraine. As the impacts are pervasive, a separate presentation could not claim to be comprehensive and could be misleading.

**Recommendation**

The AMF recommends that direct and indirect impacts of the war in Ukraine not be classified as non-current income and expenses, whether the amounts involved are material or not (except for material impacts on income and expenses usually classified as non-current by the company, such as goodwill impairment or restructuring costs).

The AMF considers that classifying these items in such a way makes it difficult to understand the company’s performance. Furthermore, presenting the information in this way may affect the company’s key metrics and ratios used in certain contractual agreements (e.g. financial covenants) or the indicators used to determine certain compensation.

The AMF invites all companies disclosing, in their notes to the financial statements, specific impacts considered to be related to the war, to specify the methodology they used to identify them (types of income and expenses) and calculate them (in relation to historical data, incremental impacts, etc.).

These points for attention also apply to other performance indicators presented in other financial communication materials (management report, for example).

See ESMA ECEP statement, Direct financial impacts of Russia’s invasion of Ukraine section, Presentation of the impacts of Russia’s invasion in the financial statements.

3.2. Classification as non-current assets (or groups) held for sale and discontinued operations

Following Russia’s invasion of Ukraine, the AMF notes that some issuers have announced their intention to cease operations in Russia: most of the CAC40-Next20 companies that reported having significant operations in Russia, Ukraine and Belarus have announced plans to discontinue their operations.

A non-current asset is classified as held for sale if its book value will be recovered mainly through a sale transaction and not through continuing use. This is the case when the asset is available for immediate sale in its present condition and the sale is highly probable. A sale is considered highly probable when management has committed to a plan to sell, an active programme to complete the sale has been initiated and the sale is expected to take place within 12 months.

The standard gives some guidance but does not elaborate on the concept of a high probability of sale within 12 months and therefore an analysis must be carried out. Firstly, the sale must meet the criteria for a loss of control.

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(see below). Secondly, the analysis must consider many factors to determine whether the classification criteria have been met, including market conditions, legal constraints and the number and quality of potential buyers. It is important to analyse all these factors to assess whether or not the sale is considered highly probable, including the legal compliance of the proposed transaction with international and Russian laws and sanctions. For example, is the likelihood of obtaining certain permits highly probable? Are the potential buyers considered sufficiently reliable in terms of financial standing or reputation?

The standard states that a group of assets classified as held for sale is a discontinued operation (implying presentation on a specific line in the income statement and cash flow statement, including a restatement of the comparative period) when it has been a cash-generating unit or group of cash-generating units and represents a separate major line of business or geographical area of operations (IFRS 5.32). The standard does not provide further guidance on how this last concept should be understood, which may lead to different practices. A separate major line of business or geographical area may, for example, be all or part of an operating segment as defined by IFRS 8. Thus, a review of previous financial communications and segment reporting may help in this analysis (specific previous communication on Russia, classification or not of similar sized lines of business as discontinued operations in the past).

Furthermore, in the case of a main and distinct line of business that is to be discontinued (and not sold), it is appropriate to wait until it is actually discontinued (cessation of operations) before presenting it separately in the income statement and cash flow statement. This means that no reclassification is to be performed OR carried out in the balance sheet when the decision to discontinue is made.

Recommendation

<table>
<thead>
<tr>
<th>The AMF recommends that companies that have announced a withdrawal from Russia should explain in their financial statements the analysis that led, or not, to a classification of assets as held for sale. It may also be worth mentioning the progress made in the sale process, existing constraints and the expected time frame for the sale.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The AMF recommends that care be taken to explain the consistency between announcements of the withdrawal from Russia and the classification of assets as held for sale.</td>
</tr>
<tr>
<td>In assessing the concept of a separate major line of business or geographical area for the purpose of determining whether or not to classify an operation as discontinued, the AMF recommends examining the company’s segment reporting and financial communications (e.g. past communications presenting the performance of Russia). The AMF invites companies to explain the analysis carried out and that any analysis for Russia be consistent with analysis that may have been carried out previously for other sales or discontinued operations.</td>
</tr>
</tbody>
</table>

See ESMA ECEP statement, Direct financial impacts of Russia’s invasion of Ukraine section, Discontinued operations, non-current assets and disposal groups held for sale

3.3. Control analysis

The various government sanctions and measures, and more generally the consequences of war, may require a company to reassess the control it has over its investments in Ukraine and Russia as part of its continuous assessment process (IFRS 10.B80-B82). The deterioration in the local business environment and temporary lack of access to certain information do not by themselves mean that control has been lost. Similarly, the mere intention to withdraw from a country is not sufficient to conclude that a loss of control has occurred, just as restrictions on the use of cash in a subsidiary do not result in a loss of control (IAS 7.48 and IFRS 10.BC221).

A loss of control leads to the recognition of income from deconsolidation and the transfer to profit or loss of recyclable other comprehensive income even when the investment is not legally disposed of (IFRS 10.B98). A subsequent regaining of control would lead to recognition of a business combination and fair value measurement of the assets and liabilities under IFRS 3, even if no consideration was transferred.

The AMF notes that most of the CAC40-Next20 companies that reported having significant operations in Russia announced a withdrawal or suspension of their operations, but that this withdrawal may well be temporary because, for example, one or more redemption options exercisable in the future were put in place at the same time as the sale of most (or even all) of their investments in Russia.

A detailed analysis of these arrangements that grant the investee potential voting rights is required to determine whether these rights are substantive and whether they give the investor the ability to direct the relevant activities of the entity. To do this, the standard requires an analysis of all the facts and circumstances, including...
whether the potential rights can be exercised in a timely manner (i.e. when decisions about the relevant activities need to be made), whether there are any obstacles (economic or otherwise) to the investor exercising the rights, and generally the purpose and design of the instrument conveying the potential voting rights and any other relationship between the investor and the investee (IFRS 10.B48). The role (de facto agent or principal) of the new investors within the meaning of IFRS 10.B73-75 should also be considered.

The standard requires a reassessment of control when facts and circumstances change (IFRS 10.7 and B80-85). Thus, over the life of the instrument granting potential voting rights, it may be necessary to reconsider its impact on the control analysis.

In cases where it has been determined that the potential voting instrument does not provide access to the returns associated with the legal ownership of the underlying securities, the instrument is measured at fair value through profit or loss at each financial closing. When the instrument is initially set up, its fair value is potentially nil but, if the economic outlook for Russia and the company improves, this fair value could be significant in future years.

**Recommendation**

The AMF stresses the importance of conducting a specific and detailed analysis before concluding that control has been maintained or lost.

The AMF recommends that the financial statements include a sufficiently detailed and specific account of all the facts and circumstances that led to the conclusion that control was maintained or lost (changes in governance, restrictions on access to and use of assets, etc.).

When a sale involves setting up instruments with potential voting rights, the AMF reminds companies of the importance of carrying out a detailed and comprehensive analysis of all the characteristics of these instruments to determine whether they play a part in the ability to direct the relevant activities of the entity and thus control it. The AMF recommends that the financial statements provide details of the characteristics of these instruments (exercise window, price, other conditions), their impact and the analysis conducted concerning control.

See ESMA ECEP statement, Direct financial impacts of Russia’s invasion of Ukraine section, Loss of control, joint control or the ability to exercise significant influence

### 3.4. Impact of the Russian invasion of Ukraine on insurance policies

Insurance pay-outs to be received in respect of claims for losses incurred as a result of the war (seized or destroyed assets or compensation for business interruption, for example) are recognised when such income is essentially certain in principle based on contractual terms including exclusion clauses. Uncertainties about the amount of the compensation to be received are reflected in the valuation of the reimbursement asset (IAS 37). Where the insurance policy relates to financial assets, the compensation to be received from insurance claims is taken into account in expected credit losses or as a separate asset to reduce expected credit losses.

**Recommendation**

When analysing the accounting for insurance claims to be received in relation to Russia’s invasion of Ukraine, the AMF recommends that companies carry out a specific analysis of exclusion clauses to ensure that they do not result in a risk of non-payment of claims in these specific circumstances.
4. MACROECONOMIC CONDITIONS

Current macroeconomic conditions (inflationary pressures, rising interest rates, commodity and energy costs, shortages, exchange rate volatility) may increase economic uncertainties and affect companies’ financial statements.26

In an environment where commodity prices, particularly energy prices, are rising sharply, investors have greater expectations in terms of understanding the effect of these increases on company performance and exposure, and the means to mitigate them.

Recommendation

For companies that are significantly affected, the AMF stresses the importance of adapting the information provided in the financial statements to the impacts of the current macroeconomic environment and uncertainties (going concern, rising costs, particularly of raw materials and energy).

See ESMA ECEP 2022 Macroeconomic environment section, paragraph 1

In this regard, companies are encouraged to specify the impacts, their exposures, the implementation of hedging (see below) and the existence and effects of government measures to limit energy prices (e.g. the ARENH mechanism, providing regulated access to France’s historic nuclear energy), where applicable.

4.1. Post-employment benefits and inflation

IAS 19.66 requires the present value of post-employment benefit liabilities to be measured using an actuarial valuation method. The actuarial assumptions used are unbiased if they are neither imprudent nor excessively conservative (IAS 19.77). IAS 19.144 requires an explanation of the key actuarial assumptions used to determine the present value of defined benefit obligations.

The AMF reminds issuers that the approach used to determine key actuarial assumptions that take inflation into account must be consistent and constant over time.

The AMF emphasises that the sensitivity analysis should show how reasonable changes in actuarial assumptions would have affected the amount of the defined benefit obligation, distinguishing between the sensitivity of each actuarial assumption (IAS 19.145) and using sufficient variability for the current context.

Furthermore, current market conditions require particular attention to be paid when estimating the fair value of pension plan assets (equities and fixed rate bonds in particular).

Recommendation

In view of the current economic environment and when the amounts are significant, the AMF recommends that companies provide information on the key actuarial assumptions used and their sensitivities, particularly those related to inflation (e.g. relating to salary or benefit increases or the choice between a life annuity with a fixed annual increase and a lump sum upon retirement).

Furthermore, the AMF recommends that companies explain and detail the reconciliation of defined benefit obligations between the beginning and end of the financial year, distinguishing between each type of significant adjustment in value due to changes in the underlying assumptions.

See ESMA ECEP 2022 Macroeconomic environment section, Employee benefits

4.2. Impairment tests

The AMF reminds issuers that the volatility of inflation rates and interest rates is a factor that should be taken into account when determining the existence of an indicator of impairment. Increases in interest rates or market yields over the medium to long term are likely to affect the discount rate used in calculating the value in use of an asset (IAS 36.12(c)). Inflation may have an impact on costs and sales volumes. This is especially the case where the 2021 sensitivity analyses showed a risk of impairment if there were a reasonably possible change in these key assumptions.

See also the IOSCO news release: https://www.ioasco.org/news/pdf/IOSCONEWS5670.pdf
When the recoverable amount of cash-generating units is based on value in use or fair value determined using market parameters, companies must provide information about the key assumptions and discount rate used in calculating the recoverable amount (IAS 36.134(d)(e)).

Pursuant to IAS 36.134(f), companies must disclose a sensitivity analysis of the impairment tests to reasonably possible changes in key operating and financial assumptions.

Recommendation

The AMF recommends that companies continue to increase transparency in the presentation of the key assumptions, including the financial assumptions, used in the impairment tests. It seems especially important in the current climate to explain changes in the key assumptions used since the last test performed, in light of these changes in the companies’ economic and financial situation and external evidence.

For companies with significant exposure to increases and volatility in energy, commodity or other prices, the AMF deems it is relevant to explain how these factors have been taken into account in the impairment tests performed with regard to increases in production costs, the ability or inability to pass them on to customers, and the government measures implemented to limit their impact.

The AMF encourages companies to think about the changes to be made to the sensitivity tests in terms of expanding the range of changes deemed reasonably possible in the light of current macroeconomic conditions and adding additional sensitivity analyses for changes in key assumptions.

4.3. Long-term onerous contracts and revenue recognition

In the current macroeconomic environment of rising prices, some contracts, particularly long-term contracts, may become onerous. Companies may see their margin at completion decrease due to cost increases that they are not able to pass on in full (e.g. through a review clause). In such cases, they must reconsider whether the expected economic benefits of the contract still exceed the unavoidable costs of fulfilling the contractual obligations. Furthermore, any contract that becomes onerous during the financial year must be covered by a provision for an amount equivalent to the best estimate of the expenditure required to settle the present obligation (IAS 37.36).

Recommendation

The AMF recommends that companies provide information in their financial statements on the analysis of the onerous nature of contracts and on how the amount of the provision for onerous contracts was determined.

Furthermore, as a reminder, increases in selling prices can, depending on the case, be either variable consideration (the consideration increases according to fluctuations in a particular inflation index given the application of a price revision clause in the contract, IFRS 15.84-86) or a change in the transaction price (given a contractual renegotiation, IFRS 15.87-90).

In addition, an asset for costs incurred to perform a contract can only be recognised when all the conditions of IFRS 15.95 are met. In a situation where additional costs are incurred due to increases in the price of raw materials, energy, wages, etc., the recoverability of these costs (IFRS 15.95(c)) may require particular attention.

4.4. Financial instruments

4.4.1. Reclassification

IFRS 9.4.4.1 states that an entity may reclassify financial assets only when that entity changes its business model for managing financial assets. IFRS 9.B4.4.1 adds that such changes must be very infrequent, determined by the
entity’s senior management and significant to the entity’s operations. Furthermore, these changes must be demonstrable to external parties.

If a company does demonstrate a change in its business model for managing financial assets, it must apply the reclassification of financial assets prospectively (IFRS 9.5.6.1).

**Recommendation**

The AMF emphasises that IFRS 9 provisions on reclassifying financial assets apply even in the current economic environment where market conditions are changing significantly: a single change in management intention related to particular financial assets or the temporary disappearance of a particular market for financial assets does not constitute a change in the business model (IFRS 9.B4.4.3).

If the provisions of the standard are met and the company reclassifies financial assets, the AMF reminds the company to provide the information required by IFRS 7 in the notes to the financial statements, such as the date of reclassification, a detailed explanation of the change in business model and its effects, and the amount reclassified into and out of each category (IFRS 7.12B). Additional disclosures are required in the notes to the financial statements depending on the type of reclassification made (IFRS 7.12C and 12D).

See ESMA ECEP 2022 Macroeconomic environment section, Financial instruments, paragraph 4

4.4.2. Exposure

In an environment where the cost of raw materials, interest rates and therefore the cost of debt, are rising, the analysis of exposure to the various financial risks may be more sensitive.

**Recommendation**

In the current climate, the AMF stresses the importance of providing a detailed qualitative and quantitative analysis of financial risks and the way they are managed, including:

- interest rate risk: detailed exposure by type and characteristics of the loans (fixed or variable, contractual interest rates and any interest rate hedges set up);
- liquidity risk: maturity schedule of financial liabilities by appropriately broken down maturity intervals;
- credit risk: breakdown of exposures and impairments separately and in sufficient detail, maturity schedule of gross and net past due receivables, information on possible concentrations of credit risk due to rising interest rates (e.g. variable rate loans);
- exposures to foreign exchange and commodity risk and the ways in which they are mitigated;
- sensitivity analysis of these risks: methodology, assumptions used, changes from the previous period.

See ESMA ECEP 2022 Macroeconomic environment section, Financial instruments, paragraph 1

As for credit risk, the breakdown of exposures may be detailed by credit risk category (business sectors, geographical areas, size of companies).

4.4.3. Impact on expected credit losses

Credit risk was one of the topics of the AMF and ESMA recommendations for the closing of the 2021 financial statements and ESMA also published a report on the information provided by a sample of European banks on expected credit losses; companies may find it useful to refer to this report.

The current macroeconomic environment with rising interest rates, inflation, deteriorating economic conditions and geopolitical risks may be particularly difficult to capture in expected credit loss models, given the lack of experience in modelling these variables. The same applies to certain new risks related to the rising cost, and potential shortage, of energy, which could have an impact on the ability of some companies to make repayments.

IFRS 7.35G(b) requires a description of how macroeconomic information is included in the forward-looking information used to determine expected credit losses. The expected credit losses must reflect an unbiased and
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probability-weighted amount that is determined by evaluating a range of possible outcomes (IFRS 9.5.5.17(a)). They must take into account reasonable and supportable information on past events, current conditions and forecasts of the future economic conditions (IFRS 9.5.5.17(c)).

Recommendation

The AMF encourages companies to explain how the impacts of macroeconomic changes have been taken into account in forward-looking information when determining expected credit losses (updating scenarios and their weightings, modifying the model, adjusting model parameters). It would therefore be useful to provide details on these aspects for each type of change made to the model parameters (e.g. changes to GDP projections, margin rates, inflation or the weighting of the scenarios used).

Furthermore, the AMF recommends that companies expand the qualitative and quantitative information presented in the financial statements relating to macroeconomic changes that have led to the recognition of a significant post-model adjustment to the amount of expected credit losses. It is also important that sensitivity analyses take any significant post-model adjustments into account and that explanations are provided on changes in post-model adjustments from one financial year-end to the next.

The AMF also recommends that companies specify the classification stages affected by these adjustments and describe the potential impact on the stage classification of the financial assets concerned and on the assessment of expected credit losses.

The AMF stresses the importance of providing detailed and specific information on the concentration of credit risk by sector, especially for sectors that are highly exposed to changes in the macroeconomic environment (environmental or technological risks, etc.).

See ESMA ECEP 2022 Macroeconomic environment section, Financial instruments, paragraphs 2 and 3

4.4.4. Discontinuation of a highly probable transaction being hedged in a cash flow hedge

IAS 39.88(c) and IFRS 9.6.3.3 state that in a cash flow hedging relationship, the forecast transaction being hedged must be highly probable in order to qualify as a hedged item.

If the hedged transaction is no longer highly probable but remains probable, hedge accounting is discontinued but the amount accumulated in the cash flow hedge reserve is retained.

If the forecast transaction is no longer probable, cash flow hedge accounting is discontinued and the amount accumulated in the cash flow hedge reserve is reclassified to profit or loss (IAS 39.101(c) and IFRS 9.6.5.12(b)).

Recommendation

The AMF points out that the provisions of IAS 39 and IFRS 9 are identical in cases where a cash flow hedge is no longer eligible for hedge accounting.

If the hedging relationship ceases to exist because the forecast transaction generating the hedged cash flows is no longer highly probable, and if the impact on the financial statements is material, the AMF recommends that the financial statements disclose information about the discontinuation of the hedge (discontinuation of the transaction, impact).