

AMF recommendation 2012-16 Financial statements 2012

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

Over the past few years, and more particularly in 2009 and 2011, the AMF recommendations on financial statements have focused on crisis-related issues. Most of these issues remain on the table in late 2012, particularly because of uncertain, or even deteriorated economic outlook in some large geographical areas.

In a deteriorated economic context, corporate financial statements have in a way become a pressing concern for investors and market regulators insofar as they provide a snapshot which allows assessing the impact of the risks the company is exposed to. They also allow understanding the decisions made as part of the preparation of the financial statements, thereby providing precious information on the method chosen by the entity's management.

This is why market regulators have launched, in 2012, initiatives aimed at assessing how the IFRS accounting standards have been applied in the 2011 financial statements. Accordingly, the European Securities and Markets Authority (ESMA) conducted an analysis on the information disclosed by the financial institutions in the notes to their financial statements as regards their exposure to the sovereign risk and to the level of provisioning on Greek sovereign debt. ESMA also conducted a study on the information related to debt restructuring within the financial institutions ("forbearance"). Lastly, also on the initiative of ESMA, a survey on the application of the accounting standard IAS 36 (Impairment of assets) is currently being conducted out of a sample of more than 200 issuers. The *Autorité des Marchés Financiers* naturally contributed to this work. It has, for its part, carried out a study aimed at assessing how the recommendations it issued in 2011 had been applied by a sample of Eurolist-listed companies.

We can already state that coordination of the actions launched by the market regulators will be reinforced in 2013, at least at a European level. Indeed, on November 6, 2012, ESMA decided to identify four topics related to the application of the IFRS¹ accounting standards, which will have to be monitored by the national regulators and which will thus nurture studies for which ESMA is considering public disclosure. Given the economic and market conditions observed in late 2012, the four topics focus on information related to:

- The impairment tests on non-financial assets,
- The discount rate used for valuing post-employment benefit obligations,
- The provisions for liabilities and charges,
- Exposure to financial instruments (including sovereign debt) and the way these instruments are valued.

These topics are at the centre of the issues addressed by the AMF this year. However, the AMF decided not to limit its recommendations to these four topics. Indeed, many companies sell or discontinue activities either to reduce their debt levels or to improve the allocation of financial resources between their activities. Consequently, we thought it might be useful to draw attention to certain specificities of the accounting standard IFRS 5 which deals with these topics. Lastly, the AMF identified some situations under which it considers it useful, as the IFRS accounting standards stand currently, that companies give further details on the accounting method they choose.

¹<http://www.esma.europa.eu/system/files/2012-725.pdf>

Impairment tests on non-financial assets

In early 2011, almost half of the CAC 40-listed companies had a market capitalisation that was less than their equity. In late 2010, this was the case for only one third of them.

It should be noted that such a gap does not necessarily result in the goodwill and other tangible and intangible assets being impaired. Conversely, it provides an indication that impairment may be required and should accordingly lead companies to carry out impairment tests. However, in 2012, it appeared that, for some companies, the difference between their market value and equity had been widening. Consequently, the AMF wishes to draw issuers' attention on the importance of these impairment tests and on the quality of the information provided in the notes attached to the financial statements. An important aspect of the information provided in the notes deals with the method for carrying out the impairment tests.

In a very uncertain economic context, management's judgement about these tests is required. This judgement most often relates to the estimates adopted during the business plan period (margin rate, activity growth rate, discount rate...) and to the determination of the terminal value (perpetual growth rate). Most of the time, companies restrict themselves to providing information on the discount rate and perpetual growth rate, as they fear they might disclose sensitive information that could be used by their rivals. Given the current context, the AMF is encouraging issuers to release qualitative information that will help understand how the operating estimates may change during the business plan period. In particular, it seems important to provide information on the targeted operating path. For businesses which have suffered losses or operate on a sector that has fallen into recession, this could take the form of an indication on the time horizon at the end of which recovery is anticipated.

Information on the sensitivity of the impairment test results to changes in the key estimates and on the safety margins that companies have after the test is also important information. As regards the sensitivity of the impairment test results, only a small number of companies released information on the sensitivity to the operating estimates of the business plans in 2011. This is due to the fear of revealing confidential information. Consequently, the AMF refined its recommendation in order to invite companies to give information on the changes in the turnover growth rate or operating margin rate, without disclosing them.

Discount rates

Discount rates shall be taken into account when valuing the assets and liabilities. In the case of longer forecasting horizons, valuations are highly sensitive to changes, even small ones, in the discount rate. Now, risk aversion, which usually characterises financial markets, leads to extremely low reference rates (risk-free rate for impairment tests as per IAS 36 or high-quality corporate bond rate for pension liabilities). This is why the AMF encourages issuers to detail the method for determining the discount rate in the notes attached to their financial statements. As regards the rates used for valuing the assets, issuers shall ensure that the discount rate is coherent with the risks taken into account in the future cash flows.

As regards the discount rate on staff-related liabilities (in particular those related to pensions), the accounting standard IAS 19 fails to define the notion of high-quality corporate bond. A common practice drawing on a former position of the SEC consists in using the rates applied on AA-rated or above corporate bonds.

This issue has been before the IFRS interpretations committee (IC) and the latter could provide clarification in the coming months. Just like ESMA, the AMF is calling on issuers to use the same methods as in 2011, pending clarification by the IFRS IC.

Provisions for liabilities and charges

The AMF calls for greater transparency when detailing the method and assumptions for determining the amount of the liabilities.

The accounting standard IAS 37 requires that all the provisions for liabilities and charges be presented by category. The AMF highlights the importance of adjusting the categories to the line of business and to the situation of each company by avoiding too generic wording or avoiding including significant amounts in the category “others”. Moreover, the AMF is encouraging issuers to ensure that the categories presented in the notes to the financial statements are coherent with the information on the risks and litigations disclosed in the documents communicated to the market participants. As such, it may be useful to specify whether a litigation has been provisioned or, if not, if it is considered as a contingent liability.

Lastly, the AMF reminds issuers on the information required under IAS 37 as regards the contingent liabilities (estimate of the financial implications, description of the uncertainties on the amounts liable to be disbursed or the schedule of disbursements).

Financial assets

The AMF recommendations on financial assets are mainly aimed at financial institutions, in particular as regards sovereign exposure and debt restructuring. However, they also apply to other sectors when the entities have large portfolios of financial instruments or sell assets (debt securitisation for instance).

As regards exposure to sovereign debts, the AMF encourages issuers to provide more detail information on the countries considered to be high-risk countries. Such information should focus on:

- Reconciliation by countries with details on the causes for these changes,
- The maturity of the exposures,
- The way the assets have been valued and the method for determining levels of fair value,
- The impact of the deferred profit sharing assets on the impairment of assets in the insurance business,
- The characteristics, the values and the direction of the positions (long or short) on credit default swaps.

This information shall be supplemented with material information on the exposure to non-sovereign risk (companies, banks, local authorities etc...) in the countries concerned.

As regards loan restructuring, the AMF recommends that issuers give details on their accounting method. When renegotiations are of material importance, it is relevant that companies provide information on the volume of the loans concerned. As regards loan restructuring, improved information on the risks and impacts linked to these operations is relevant. It is relevant to provide qualitative and quantitative information to segregate unimpaired restructured loans from impaired loans in order to assist the reader in understanding the link between credit risk analysis and impairment criteria.

All the companies carrying financial instruments at fair value shall be vigilant when it comes to determining the levels of fair value in a context where the number of transactions increases on certain markets, which may lead to reconsidering the categorisation previously determined.

Entities holding available-for-sale-equities are required to specify the method for long-term impairment. In order to help the reader identify the financial instruments which have not yet been impaired, companies may break down the unrealised losses carried in equity, by duration and scale and expressed in percentage.

As regards the transfer of assets, the AMF underlines that the provisions of IFRS 7 governing the description of the nature and risks associated with financial instruments not fully derecognised have not always been complied with. However, in 2012, new requirements came into force, in particular as regards the characteristics and risks associated with financial instruments fully derecognised. Accordingly, issuers are invited to pay particular attention to this information.

Users of the financial information shall be able to establish a link between the information provided in the financial statements and the information provided in the other financial disclosures (news release, presentation of the results to the analysts...). In their financial communication, companies attach importance to putting into perspective the flagship themes of the period covered by the financial statements while this is not particularly the case in the notes attached to the said statements. However, this perspective is consistent with the principle of materiality of the IFRS accounting standards, which requires that more weight be given to the information of material importance and relevant to the reader.

A clear and hierarchical presentation of the main topics of the period gives a more relevant vision of the financial statements and is consistent with the presentation of the financial statements, thereby avoiding widening the gap between the information provided in the financial communication and the data extracted from the accounts.

The AMF invites issuers to look at the financial statements as the main medium for delivering financial information. Accordingly, and similarly to what is done in the financial disclosures, it would be relevant that the presentation of the main issues addressed in the notes be more legible (by prioritising the problematic issues and by focusing on the principles specific to the company).

The explanations provided hereinafter include, on the one hand, text reminders when the AMF identified shortcomings in the application of these texts and, on the other hand, recommendations which, given the current context, seem to be meeting the principles set forth in the standards. Depending on the sector in which the issuer operates, the level of complexity of the issuer's operations and transactions, these recommendations may likely not be applicable. This may be the case for small- and midcaps.

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1. Impairment testing of non-financial assets

1.1. Assumptions used in the impairment tests of significant goodwill or intangible assets with an indefinite useful life

Impairment testing-related issues increasingly focus on the operating assumptions used by the management and on their changes over time. The AMF notes that the vast majority of the companies disclose the discount rate and the perpetual growth rate and that an increasing number of companies also provide information on the values assigned to the key estimates underlying the business plan cash flows (the margin rate or turnover growth rate over the duration of the business plan period)

Recommendation:

In this context, it seems important that companies indicate the estimates adopted in the business plans used for impairment testing, in particular as regards the last year of the forecasts used to project the terminal value.

Without disclosing confidential information, such piece of information may be presented in the form of insights on the expected trends compared with the historic trends (Post-crisis recovery expected in year Y, margin rate increase of more than X% over the duration of the business plan compared to the historic trends of the last X years...)

IAS 36.134(d.ii) requires that, for cash generating units containing goodwill or assets with an indeterminate useful life, the notes to the financial statements present the method chosen by the management to determine the key assumptions and indicate for each assumption whether the projected value reflects past experience or if it is consistent with external sources of information. Should the key assumptions used (for instance in terms of turnover and margin growth rates) over the duration of the business plan and as regards the terminal value significantly differ from past performances, IAS 36.134(d.ii) requires that these differences be explained.

The determination of key assumptions and the granularity of the elements to be presented shall be adjusted according to the business sector in which the company operates, according to the amount of assets with an indeterminate useful life and according to the safety margins of the test.

1.2. Sensitivity of the impairment tests of significant goodwill or intangible assets with an indefinite useful life

The AMF recommendation, which was published in 2011, called on companies to show how the impairment tests are sensitive to relevant operating estimates. For period 2011, this recommendation has been followed up by half of the CAC 40-listed companies only.

Recommendation:

When reasonably possible changes in the key assumptions may result in impairment, the AMF considers it advisable that all the companies disclose information on the sensitivity of the tests to the changes in the relevant operating assumptions, whether these changes affect the operating margin, the turnover growth rate or any other parameter considered as a key parameter by the company, including when an impairment has already been posted.

A certain number of companies states that no reasonably possible change in the key estimates may result in the recoverable value of the cash generating unit being equal to the book value. However, they fail to determine what a reasonably possible change is for the said cash generating unit. This indication is a way of saying that the safety margin is important but that it is relevant only if the thresholds used to assess the reasonableness of the possible changes are quantified. When a company fails to provide information on sensitivity because no possible variation in the key estimates can result in the recoverable value of the cash generating unit being equal to the book value, the company may provide details on how it has assessed the reasonableness of the change in the key estimates in order to allow the reader to judge by itself the safety margin of the impairment test. This indication may be presented in the form of a quantification of the change in reasonable key assumptions (for instance change in the current rate of x basis points, growth rate of y basis points and/or margin rate of z%).

By nature, the possible reasonableness of a change in an assumption shall be assessed in the light of the context for each closing. The changes in this assessment shall be duly justified as required for changes in the accounting assumptions (IAS 8.34 and IAS 8.36)

1.3. Fair value less costs to sell method

The recoverable amount of a cash generating unit is the higher of the fair value less costs to sell and its value in use (IAS 36.74).

The AMF noted that a vast majority of companies just paraphrase the standard in their accounting principles, without giving any details on which basis the assets' carrying value has been justified in the financial statements.

The AMF reminds that this information shall be reported (IAS 36.134(c)) for each cash generating unit or group of cash generating units with significant amounts of goodwill or intangible assets with an indefinite useful life.

Paragraphs 25 to 27 of IAS 36 establish a hierarchy between the methods aimed at determining the fair value less costs to sell: price in a binding sale agreement, quoted price in active markets, outcome of recent comparable transactions. As regards the use of comparable transactions, Paragraph 27 of IAS 36 stipulates that the transactions used shall be recent "arm's length" transactions for similar assets within the same industry and between knowledgeable willing parties.

As a consequence, should a multiple be used to calculate the recoverable amount of a cash generating unit, it shall result from the analysis of recent transactions and shall not be merely justified by theoretical internal objectives and/or valuation methods unsubstantiated by recent transactions.

Recommendation:

When the fair value is determined by applying multiples, the AMF recommends that companies ensure that the multiples used are relevant (relevance and representativeness of the sample, the age of the transactions...)

The AMF reminds that IAS 36.134(e) requires that the method used to determine the fair value of cash generating units or groups of cash generating units with goodwill or intangible assets with an indefinite useful life be presented in the notes to the financial statements. One solution would be to present the characteristics of the sample of comparable transactions used to determine these multiples.

2. Discount rate

2.1. Discount rate used in the impairment test of financial assets

Paragraph 55 of IAS 36 stipulates that the rate used shall reflect the time value of money and the specific risks which have not been taken into account in the future cash flow used to perform the test.

For purposes of comparability, companies may explain, in the notes to the financial statements, how the discount rate has been calculated when sensitivity of the impairment test to this parameter is important, namely when the sensitivity analysis reveals that a reasonably possible change in the discount rate would result in impairment.

2.2. Discount rate used for post-employment benefits

IAS 19.78 requires that the rate used to discount post-employment benefit obligations be determined by reference to market yields on high-quality corporate bonds or, where there is no deep market in such bonds, by reference to the government bond yields. Paragraph 81 stipulates that if there is no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the discount rate for longer maturities shall be calculated by extrapolating the current short-term market rates.

The standard does not define high-quality bonds and it is generally accepted that these are AAA or AA² rated bonds.

For some years, the number of AAA or AA-rated bonds has decreased. This decrease may lead companies to question the existing understanding of “high-quality”.

Even if the volume of bond issues has decreased within the euro area, there were still 90 companies rated AA³ or higher as at 30 June 2012.

The issue has been before the IFRS Interpretations Committee (IFRS IC) since October 2012 and should be on the agenda of its meeting in November 2012.

Recommendation:

Within the euro area, there seems to be activity in the high-quality corporate bond market and introducing changes aimed at using yields on government bonds does not seem to be compliant with the standard.

As regards the definition for high-quality corporate bonds, the AMF encourages companies not to change their practices before the IFRS IC releases its position on the issue.

In the financial statements 2011, half of the CAC 40-listed companies clearly indicates the underlying index used to determine the discount rate⁴.

Recommendation:

For companies with significant post-employment benefits obligations, the AMF recommends that the underlying index used to determine the discount rate be mentioned in the notes to the financial statements.

Moreover, providing details on the sensitivity of the provisions to the discount rate used is useful information to readers of financial statements (IAS 1.125). For the record, the revised accounting standard IAS 19 (IAS 19.145(a)) requires that an analysis of the sensitivity on the key assumptions be conducted, and in particular as regards the discount rate.

2.3. Discount rate on receivables

Accounting standard IAS 39.46 stipulates that the loans and receivables shall be recorded at amortised cost and Paragraph AG79 stipulates that, when they are first recognised, interest-free short term receivables may be measured at the original invoice amount if the effect of discounting is immaterial.

In the event of apparent delays in payments, the following shall be done:

- For new receivables, check that discounting would still have an immaterial effect and, if not, discount the receivables;
- For receivables that were not discounted when first recognised, one shall wonder about the implications of extending the payment delays in terms of impairment.

² This issue has been addressed in the Emerging Issues Task Force (EITF) topic D-36 dated November 2006, which concludes that “using the two highest grades that can be granted by credit rating agencies could help meet the ‘high-quality’ criteria.”

³ Standard & Poors, from the database ESMA-CEREP

⁴ “Corporate AA 10+”, “minimum credit rating AA received from one of the credit rating agencies”, “iBoxx € Corporate AA 15+”, ...etc.

3. Provisions for liabilities and charges

3.1. Information disclosed in the notes to the financial statements

IAS 37.84-85 requires that companies present a table of the provisions booked for each category and provide qualitative information on the nature of the obligation and the main valuation assumptions used.

The standard stipulates that in order to determine the relevant categories to be presented, companies must inquire about the degree of similarity between the aggregate provisions (IAS 37.87) (in terms of types or risks incurred and of resolution methods for instance).

Recommendation:

Since the standard provides few information on the method for determining the categories of provisions, the AMF stresses the importance of adjusting these categories to the activity and the situation of each group (one shall avoid too generic wording or significant non-detailed amounts in the category “others”).

For instance, an issuer that would book provisions for litigation mainly may choose to segregate them depending on their nature (industrial disputes, tax disputes, disputes with the competition authority...).

The AMF noted that although figures are provided for each category, descriptive information that helps understand the nature of the risks provisioned and the underlying assumptions are often too general or missing. Thus, the method used to calculate certain significant provisions and the underlying assumptions to these provisions which chiefly involve judgement are not presented in the notes to the financial statements (dismantling/rehabilitation of sites, tax disputes, restructurings).

Recommendation:

The AMF calls for greater transparency in the description of the method and assumptions chosen to determine the amount of the significant provisions.

3.2. Links with other elements of financial communication

Where disputes and their legal development are presented in the notes to the financial statements or under the main risks detailed in the prospectus by a majority of issuers, their impact on the accounts are rarely clearly indicated. The AMF reminds that it important to establish a link between the disputes described and their financial implications.

Recommendation:

The AMF recommends that companies provide information on the significant risks and disputes described in prospectuses or other documents communicated to market participants in the notes to the financial statements. As such, it might be useful to stipulate whether a dispute has been provisioned, or, if it has not been provisioned, if it is considered as a contingent liability.

For the record, IAS 37.86 requires that companies disclose for each class of contingent liability a brief description of the nature of the contingent liability and, where applicable, an estimate of its financial effect and an indication of the uncertainties relating to the amount or timing of this contingent liability.

IAS 37.92 stipulates that, in extremely rare cases, should disclosure of the information required by IAS 37 seriously prejudice the company's position, the companies need not disclose the information. **The AMF reminds that the standard refers to “extremely rare cases” and that it requires that any serious prejudice that might be suffered be explained in the notes to the financial statements and that the general nature of the dispute be explained (IAS 37.92).**

4. Financial assets

4.1. Exposure to high-risk countries

In late July 2012, ESMA released a report on the information related to the Greek sovereign risk disclosed in the financial statements.

Recommendation:

The AMF highlights the ways for improvement identified in this report and calls on companies to present specific information on exposure to the sovereign debt of high-risk countries.

As such, the AMF calls on companies to:

- **Provide a board charting the changes in the balance of each exposure by country between 31 December 2011 and 31 December 2012 and detail the changes associated with disposals, impairments, the fair value, repayments...**
- **Disclose the maturity of the exposures,**
- **Provide accurate details on the method for valuing the financial assets and the method for determining the fair value levels, in particular when it emerges as the result of judgement,**
- **Provide details about the impact of the deferred participation assets on the Insurance business and present systematically the exposures and impairments gross and net of deferred participation assets,**
- **Disclose the CDS exposures to sovereign debt and specify whether the positions are long or short, their value and their characteristics.**

As regards non-sovereign exposure to high-risk countries (companies, banks, local authorities, the semi-public sector), the AMF also calls on companies to:

- **Disclose the quantitative and qualitative analysis of credit risk carried out and the implications of this analysis in terms of impairment,**
- **Specify the exposures linked to the presence of local subsidiaries and the direct exposures of the group.**

Where the group has no exposure to a high-risk country, it is relevant, given the current context, to mention it.

4.2. Fair value

4.2.1. Disclosure of fair value measurements

A very large number of issuers copy the general principles provided for in IFRS 7.27A in their accounting principles to explain the criteria used to classify the financial instruments within the different fair value levels.

When it comes to dealing with simple situations, this practice does not pose any problem. Conversely, valuing certain financial instruments may require using both observable and non-observable market data. Moreover, the assessment of whether a market is active or not active might change over time.

The aforementioned ESMA study pointed out that, in certain European countries, the valuation of level 3 financial instruments fuelled concern. Some argued that the classification of financial instruments at level 3 and the use of a valuation model were considered more restrictively in some countries than in others when observable market data exist for the instrument concerned.

When the market is considered inactive but that a few transactions have been completed nonetheless, the standard requires that these transactions be taken into account when measuring the fair value (IAS 39.AG75 and 39.82), even when the instrument is classified at level 3.

Recommendation:

The AMF recommends that companies pay particular attention to the justifications provided in the financial statements as regards the level 3-classified financial instruments for which observable market data exist.

It recommends that the inactivity of a market and the fair value level associated with it be reassessed at the end of each period. Should activity revive in the said market, companies shall include the additional market factors into their valuation and they shall inquire about the relevance of a level 3 classification.

Where the financial instruments concerned are significant and where the level of fair value has changed, the AMF recalls that the standards require that the reasons for this change be explained (IFRS 7.27B).

4.2.2. Valuation of the available-for-sale financial instruments

Some French companies present in the notes to their financial statements ultimate criteria to qualify a significant or prolonged decline (for instance 50% or 2 years) which may be considered too broad compared to those used by their European peers. Conversely, some companies used upstream criteria that help identify the risky assets for which a specific analysis shall be conducted and which may require impairment.

Recommendation:

When the unrealised losses in these financial instruments are of material importance, the AMF recommends that the approach used be precisely explained to the readers.

Companies may, for instance, break down the unrealised losses by duration and scale - expressed in percentage - or specify the allocation of the impairment charge between the part attributable to the upstream criteria, the part attributable to the ultimate criteria and the part attributable to the impairment supplements in securities that were previously impaired.

4.3. Loans renegotiated with the lender

4.3.1. Accounting treatment: modification or extinguishment

IAS 39 does not address renegotiated loans from the asset perspective and does not provide for any criteria to distinguish extinguishments from modifications while this issue is addressed for renegotiated liabilities. For the record, this issue was before the IFRS IC in May 2012 as regards the specific case of Greek sovereign bonds.

Recommendation:

Since renegotiations are increasingly frequent and their impact radically depend on the solution chosen (extinguishment or modification), it is useful that the companies concerned present the method they use in their accounting policies (IAS 1.117 and 122) and indicate the loan volumes concerned when they are of material importance.

4.3.2. Exposures and impairments

The arrangements entered into with the debtors to suspend on a temporary basis the payments or reduce their amount prior to a payment incident are common practices in a deteriorated economic context. They may take different forms, such as rescheduling, suspension of the interest payments...

IFRS 7⁵ defines past due assets as assets for which counterparty has failed to make a payment when contractually due.

⁵ IFRS 7 Appendix A

However, the standards do not address loan restructurings completed prior to payment defaults, although IFRS 7.36(c) requires that information about the credit quality of financial assets that are neither past due nor impaired be disclosed for each class of financial instruments.

Recommendation:

The AMF recommends that the companies concerned explain in the notes to their financial statements the risks and implications associated with loan restructurings.

As such, the companies concerned may disclose qualitative and quantitative information about the restructured assets in the notes to their financial statements by segregating:

- **The unimpaired restructured loans, and**
- **The impaired restructured loans.**

Companies may for instance provide information on the proportion of restructured loans which were impaired during the period.

The financial institutions concerned do not use consistent terminology to make a distinction between the toxic assets and the past due assets or impaired assets.

Recommendation:

For purposes of comparability, the AMF encourages companies to define the terms used in the analysis of the credit risk in their accounting principles by explaining the classification criteria in the different categories. The AMF also recommends that the relationship between these categories and the impairment criteria be specified.

4.4. Transfer of financial assets

The amendment of IFRS 7 dated October 2010, which is applicable as of 1 July 2011, requires that additional information about the effects of transfers of financial assets and the remaining corporate risks be provided (IFRS 7.42A-42H).

Given the diversity and complexity of financial asset transfers, the AMF calls on companies to be as transparent as possible about the implications of such transfers, with an emphasis on corporate exposure to post-transfer risks.

As regards the financial assets recorded in the balance sheet, whether in full or in part, the amendment maintains the obligation to disclose the information previously requested and reinforces the disclosure requirements governing the relationships between the transferred assets recorded in the balance sheet and the associated liabilities. The AMF noted that some provisions of IFRS 7 (prior to the amendment) governing the transfer of financial assets that are not derecognised in their entirety were not systematically complied with, in particular the disclosure requirements on the nature of the risks and rewards of ownership to which the entity is exposed.

The AMF reminds that the information on the nature of the risks and rewards to which companies are exposed is required under IFRS 7, and that the amendment provides for further details on how to meet this objective.

As regards financial assets that are not derecognised in their entirety, the standard requires that the following information be provided under the heading 'continuing involvement in the transferred assets': (i) the description of its characteristics and (ii) the risks associated with it. The AMF recalls that the concept of continuing involvement used has a different meaning than that used in IAS 39 as the amendment covers any of the contractual rights or obligations inherent in the transferred financial asset retained by the company (for instance the commercial risks associated with transferred receivables).

Recommendation:

As regards transferred financial assets derecognised in their entirety but in which the reporting entity has continuing involvement in the meaning of Paragraph 42C of IFRS 7, the AMF invites the companies to provide detailed information which help understand its characteristics and the risks associated with it.

As part of the set of information required in this respect (IFRS 7.42^E), the companies may describe the risks arising from the rights and obligations retained (nature of the risks, triggers...) and the method used to calculate the maximum exposure to losses when the calculation is based on numerous assumptions and when the risk is not insignificant.

The AMF stresses that this amendment requires also additional information where transfers of financial assets are not evenly distributed throughout the period (for instance if a significant proportion of the transfers occurs in the last few days before the close of the period).

Given the amount of information required by the amendment, it is particularly important that the companies prioritise the elements to be disclosed under this amendment for the sake of clarity.

5. Non-current assets held for sale and discontinued operations

5.1. Practical difficulties

5.1.1. Non-current assets classified as held with a view to sale

IFRS 5.6-8 provide that a non-current asset shall be classified as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for sale (1) immediately (ii) in its present condition and (iii) its sale must be highly probable. For the sale to be highly probable, the management shall be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. In addition, the asset must be marketed for sale at a price that is reasonable in relation to its current fair value. The standard requires that the sale be planned within one year.

Thus, the standard fails to specify the decision-making level (board of directors, general meeting...) or when the search for a buyer may be considered active. Many factors shall be taken into account in order to determine whether the classification criteria for the non-current assets held for sale are being complied with, in particular the market conditions and the legal requirements. However, it might not be necessary to wait until all the requirements are met to classify the assets if the sale is deemed highly probable (for instance if the probability of obtaining certain approvals is high)

There may be a delay between the moment when a company reports on a plan to sell assets and the moment when the assets are classified as non-current assets held for sale or discontinued operations. This time delay is likely to fuel concerns, in particular when the sale occurs shortly after the reporting date.

Recommendation:

The AMF encourages companies to provide further details, for significant cases, on the analysis carried out to determine whether the assets meet the criteria to be classified as held for sale.

This information is particularly important when financial disclosure refers to divestment opportunities.

5.1.2. Discontinued operations

Non-current assets held for sale or disposal groups shall be presented on a separate line in the balance sheet. Discontinued operations shall also be presented on a separate line in the income statement of the current period and the comparative financial statements. Therefore, determining whether a group of assets which is held for sale meets the definition of discontinued operations or not is a real issue when it comes to reporting the performance of an entity.

The standard indicates that a group of assets whose disposal is planned shall be referred to as discontinued operations when it is a cash generating unit or a group of cash generating units, when it is classified as group of assets held for sale and when it represent a separate major line of business or geographical area of operations (IFRS 5.32).

The standard gives no further indication on how these concepts must be understood, which may give rise to various practices. A separate major line of business or geographical area may for instance represent part or the entirety of an operating segment as set out in IFRS 8.

Recommendation:

The AMF recommends that all the key judgements and the way the company applies the classification criteria under which assets may be classified as discontinued operations be presented in the notes to the financial statements, pursuant to IAS 1.122. In addition, the company shall use the same principles from one period to another (IAS 8.15)

5.1.3. Asset valuation

It might be useful to remind that certain assets, although they might be presented as assets held for sale, are excluded from the scope of IFRS 5. This is particularly so for financial assets (both individual assets or assets that are part of a disposal group (IFRS 5.5 and IFRS 5.BC13(a))).

Moreover, IFRS 5.18 stipulates that before the initial classification of the asset (or disposal group) as held for sale, all the asset shall be measured in accordance with the standards applicable to them. For instance, financial assets shall be valued according to IAS 39 and it is necessary to inquire about a potential impairment of these assets (IAS 39.59) before reclassification.

The standard provides, on the one hand, that a disposal group be valued at the lowest of its carrying amount and fair value less costs to sell (IFRS 5.15) and, on the other hand, that the potential resulting impairment loss reduce the carrying amount of the non-current assets in the disposal group which are within the scope of the standard's measurement requirements (IFRS 5.23). In the case of a disposal group, the standard does not provide for any way to treat the difference between the carrying amount of the disposal group and the fair value less costs to sell if it is higher than the net carrying value of the non-current assets held for sale. In November 2009, the IFRS IC declared it was not competent to rule on the issue and concluded that the issue should be addressed through an amendment to IFRS 5, thereby leaving it to companies to choose their accounting policy.

Recommendation:

In the absence of any amendment to the standard to date, the accounting policy chosen by a company which is confronted with a situation in which the impairment loss exceeds the value of the non-current assets that are within the measurement scope of IFRS 5 shall be referred to in the notes to the financial statements and applied in a consistent and homogeneous manner (IAS 1.117 et IAS 8.15).

5.1.4. Elimination of intra-group balances and transactions

IFRS 5.1(a) provides for amortisation on the assets to cease. However, since the assets held for sale or disposal groups are included in the scope of consolidation, all the consolidation procedures provided for in IAS 27 shall continue to apply until control is definitely lost upon

completion of the sale, including the procedures associated with the elimination of intra-group balances and transactions (IAS 27.24).

5.1.5. Extension of the period required to complete the sale

Although the standard provides that the disposal shall be completed most of the time within one year (IFRS 5.8), it stipulates that this term may be extended when the delay is caused by events or circumstances beyond the entity's control and when there is sufficient evidence that the entity remains committed to its plan to sell (or disposal group) (IFRS 5.9). IFRS 5.B1 provides a list of the circumstances under which the delay may be extended beyond one year, in particular when circumstances that were previously considered unlikely arise during the initial one-year period. In such a case, the asset shall still be classified as held for sale if:

- during the initial one-year period the entity took action necessary to respond to the change in circumstances,
- the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances, and
- the criteria in paragraphs 7 and 8 are met.

Maintaining the assets as « asset held for sale » depends on the causes of the delay in the project and explaining the reasons for their maintenance might be useful to the reader.

5.2. Information to provide in the notes to the financial statements

The standard requires that the information provided in the notes to the financial statements allow the readers to assess the financial implications linked to the application of the standard (IFRS 5.30) and that the notes shall clearly set out the facts and circumstances of the sale completed or to be completed and they shall indicate the schedule (IFRS 5.41).

Since the effects of this standard may be hard to understand for readers, the company shall clearly explain the effects on the different line items of the financial statements (IFRS 5.33(b) and IFRS 5.38).

IFRS 5.30 and IAS 1.125 require that companies describe the method for determining the fair value.

When the sale is being completed, certain additional effects such as the recycling through profits or loss of any exchange differences shall be accounted for. Should the amount be of material importance, it may be relevant to present, as part of the IFRS 5 classification the additional effects anticipated when the sale is completed (IFRS 5.38).

6. Accounting principles used and granularity of the information (IAS 7, IAS 28, IAS 8)

6.1. Cash flow statement

6.1.1. Link between the cash flow table, the other financial statements and the notes to the financial statements

The cash flow statement is a key element in the understanding and analysis of the industrial and commercial companies.

As provided for in the 2009 recommendations, it might be useful to provide explanations about the main flows (IAS 1.114(c)) by detailing the elements of the change in working capital (accounts receivable, inventories, accounts payable).

These explanations will help distinguish, within the cash flow statement, the liabilities which have an impact on the cash flow from those which have no impact and make a connection with the statement of comprehensive income.

Certain transactions have a significant impact on the amount of the cash flows, sometimes on an ad hoc basis. Such transactions include for instance the transfer of non-financial assets such as tax receivables



or legal rights to reimbursement of sums previously paid (such as withholding taxes) or cash payments paid or received for early termination of an option contract.

As regards the significant elements of the cash flow statement, it is crucial that connections be made with the other elements of the financial statements (the statement of financial position, the statement of comprehensive income and the notes to the financial statements). The AMF noted that referrals to the notes sometimes do not allow tracking the figures presented in the cash flow table.

Recommendation:

IAS 1.113 requires that referrals to the notes concerned be included in the cash flow statement. The AMF encourages companies to include such referrals for the significant flows and to ensure that the amounts displayed in the cash flow statement are consistent with the elements presented in the notes to the financial statements.

6.1.2. Reporting principles

Several issues related to the presentation of the cash flow statement have been before the IFRS IC. The analysis carried out by the IFRS IC shows that, in the current state of IAS 7, several classifications may be considered for certain flows, including the following:

- The flows linked to the construction or improvement of an infrastructure as part of a IFRIC 12 service concession agreement,
- The payments received as part of a insurance contract due to damage to fixed assets
- The payments made as part of a decommissioning obligation
- The voluntary contributions to a pension fund,
- The payments received from a government grant,
- The classification of the earn-out payments as part of business combinations,
- The payments related to fixed assets purchased on a deferred basis.

In the past, the presentation of other transactions had also been discussed, such as the classification of the costs incurred in a takeover.

Recommendation:

Pending a final position on how these elements shall be classified in the cash flow statement, the AMF recommends that the classification adopted be presented in the notes to the financial statements when the flow is of significant importance.

6.2. Associates

6.2.1. Information to be disclosed in the notes to the financial statements

The AMF conducted a study out of a group of 60 French listed companies⁶ and selected from this sample 19 companies whose associates significantly contributed to the consolidated financial statements. This study reveals that part of the information required under IAS 28 is often lacking.

Paragraphs 37(c) and (d) of IAS 28 require that the situations in which an investor has significant influence while holding less than 20% of the voting rights and the situations in which, conversely, an investor has no significant influence while holding 20% or more of the voting rights be precisely described in the notes to the financial statements. This information has been disclosed by only on third of the companies concerned.

The AMF recalls that these explanations are necessary to understand the analysis and the judgement which allow determining the existence of significant influence.

This understanding is essential since the judgements have a direct and significant impact on the valuation of the companies. These pieces of information will be provided for under IFRS 12.9(d) and (e), which will

⁶ CAC 40 and Next 20.

require that all the situations in which judgement plays an important part in understanding significant influence be detailed.

As regards the figures related to the equity associates to be disclosed, three quarters of the companies comprising the sample provide aggregate amounts as provided for in IAS 28.37(b).

Only half of the companies comprising the sample disclose individualised information for the main equity associates.

The AMF underlines that IFRS 12.21(b) requires disclosing individualised information on the main aggregates of the associates within the group. As part of their preparatory work for adopting IFRS 12, issuers may disclose individualised information for the main associates in the notes to the financial statements.

As part of the financial analysis of the listed companies, it is important that companies isolate the contribution of the associates within the group's financial statements.

The study conducted by the AMF reveals that the line in the income statement under which the impairments of investments in associates are classified is rarely included. Certain issuers classify these impairment charges in the line item 'income/loss from investment in associates' and some other impairment charges in the line item 'goodwill impairment' for instance.

Recommendation :

The AMF recommends that the line in the income statement under which the significant impairments of investments in an associate are included be described in the notes to the financial statements.

In the same logic, it encourages companies to provide details on the classification used to present the significant disposals of equity associates in the income statement.

6.2.2. Information on the accounting principles

Recommendation:

It is useful that companies which are confronted with the issues described below (available-for-sale financial instruments becoming an associate or interest in an associate held for sale) provide details on the accounting method which will apply consistently (IAS 1.117).

6.2.2.1. *Available-for-sale financial instruments becoming an associate*

IFRS standards do not address the issue of step acquisitions which result in available-for-sale financial instruments becoming an associate. The issue was before the IFRS IC in July 2010, which acknowledged the diversity of practices and referred the matter to the IASB.

The accounting treatments include, amongst others:

- An analogy with IFRS 3.42 which consists in registering the sum of the new tranche and the fair value of the previously held interest as an acquisition cost.
- An analogy with IAS 28.11 which consists in assuming that the acquisition cost corresponds to the sum of the acquisition costs of each step.

6.2.2.2. *Classification of an investment in associate held for sale*

IAS 28 provides that the equity investments classified as held for sale pursuant to IFRS 5 are not within the scope of IAS 28 (IAS 28.13(a)) and shall comply with the IFRS 5 accounting principles (IAS 28.14). Thus, as regard the proposed disposal of a portion of an investment in an associate, the current standard does not specify:

- Whether this portion shall be classified as held for sale,
- Or how the retained investment should be treated, in case of loss of significant influence upon disposal

For the record, the amended version of IAS 28 (Paragraph 20) supplies this lack of information by specifying that IFRS 5 applies to portions of investments in an associate classified as held for sale. Moreover, IAS 28 excludes from its scope the associates held for sale. Accordingly, when it is classified



as a disposal group, the investment is no longer accounted for using the equity method of accounting and the share of profits or losses of such an associate is no longer accounted for.

6.3. Early application of standards/future standards

For the record, the standards that were issued but are not yet effective are the consolidation standard (IFRS 10-11-12), the fair value measurement standard (IFRS 13) and the revised employee benefits standard (IAS 19).

The revised version of IAS 19 will be applicable no later than the beginning of the first financial year starting January 2013 or after this date.

Concerning the end of financial year 2012, companies shall make every effort to disclose the following information, pursuant to IAS 8.30 and IAS 8.31:

- Indicate if work is underway so as to determine the implications of the new standard,
- Indicate if major impacts are expected.

Recommendation:

As regards the revised version of IAS 19, the notes to the financial statements should present, where applicable, the implications of the elimination of the corridor method, the impact of the changes in the asset return rate and on the recognition of the past service costs as well as any significant impact linked to the retroactivity of the first application, in particular on the financial impacts of the disposals of subsidiaries.

On its own, the existence of draft standards or draft interpretations is not sufficient justification to authorise a change in the accounting policy.

The IFRS IC released in June 2012 a draft interpretation on the accounting treatment of put options on non-controlling interests which provides that changes in the measurement of the put options on non-controlling interests be recognised in equity. It also provides a draft clarification of the criteria to be taken into account in order to determine whether certain taxes shall be recognised or not.

Recommendation:

IAS 8.14 stipulates that a change in an accounting policy operated on a voluntary basis is possible only if it results in more reliable and more accurate information. Given the uncertainties involved until a text is finally adopted, it is important not to rely only on such project to justify a change in an accounting policy.

Should a company justify a change in its accounting policy by a common practice and by the desire to enhance comparability with its peers, the sample used shall be large enough and representative.

Pursuant to IAS 8.29, the notes to the financial statements shall present the implications of the change in the accounting policy and they shall justify the latter.

Appendix: Reference to the IFRS

1. Impairment tests of non financial assets

1.1. Estimates used in the impairment tests

IAS 36.134 (c) - IAS 36.134 (d) : "An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives: (...)

(c) the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs to sell);

(d) if the unit's (group of units') recoverable amount is based on value in use:

(i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive,

(ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information."

1.2. Sensitivity of the impairment tests

IAS 8.34: « An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error. »

IAS 8.36 : « A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. »

1.3. Fair value less costs to sell method

IAS 36.74 : "The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use."

IAS 36. 25 - 27 :

25 The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

26 "If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

27 If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately."

IAS 36.134 (d) : "If the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive,

(ii) a description of management's approach to determining the value

(or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.”

2. Discount rate

2.1. Discount rate used in the impairment tests of financial assets

IAS 36.55 : “The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.”

2.2. Discount rate used for post-employment benefits

IAS 19.78 : “The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.”

IAS 19.81 : “In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.”

IAS 19(R).145(a) : “An entity shall disclose: (a) a sensitivity analysis for each significant actuarial estimate (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial estimate that were reasonably possible at that date.”

IAS 1.125 : “An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature, and
- (b) their carrying amount as at the end of the reporting period.”

2.3. Discount rate on receivables

IAS 39.46 (extract): « After initial recognition, an entity shall measure all financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets: loans and receivables as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method.”

IAS 39.AG79 (extract): "Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.”

3. Provisions for liabilities and charges

3.1 Information disclosed in the notes to the financial statements

IAS 37.84-85 : “For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;
 - (b) additional provisions made in the period, including increases to existing provisions;
 - (c) amounts used (ie incurred and charged against the provision) during the period;
 - (d) unused amounts reversed during the period; and
 - (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.
- Comparative information is not required.”

85. An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

IAS 37.87 : "In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings."

3.2. Links with other elements of financial communication

IAS 37.86 : "Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 36–52;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement."

IAS 37.92 : " In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed."

4. Financial assets

4.1. Exposures to high-risk countries

4.2. Disclosure of the fair value measurements

IFRS 7.27A : "To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability."

IAS 39.AG75 (extract) : "The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs."

IAS 39.AG82 : "An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value."

IFRS 7.27B : "For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments: (...)any significant transfers between Level 1 and Level 2

of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities (...) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3. »

4.3. Loans renegotiated with the lender

4.3.1. Accounting treatment: modification or extinguishment

IAS 1.117 : “An entity shall disclose in the summary of significant accounting policies: (a) the measurement basis (or bases) used in preparing the financial statements, and (b) the other accounting policies used that are relevant to an understanding of the financial statements.”

IAS 1.122 : “An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.”

4.3.2. Exposures and impairments

IFRS 7.36 (c) : “An entity shall disclose by class of financial instrument: information about the credit quality of financial assets that are neither past due nor impaired.”

4.4. Transfers of financial assets

IFRS 7.42C : “For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 42E–42H, the following do not constitute continuing involvement:

- (a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;
- (b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or
- (c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 3.2.5(a)–(c) of IFRS 9 are met.”

IFRS 7.42E: “To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 3.2.6(a) and (c)(i) of IFRS 9) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

- (a) the carrying amount of the assets and liabilities that are recognised in the entity’s statement of financial position and represent the entity’s continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised.
- (b) the fair value of the assets and liabilities that represent the entity’s continuing involvement in the derecognised financial assets.
- (c) the amount that best represents the entity’s maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined;
- (d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (eg the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.
- (e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity’s continuing involvement.
- (f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).”

5. Non-current assets held for sale and discontinued operations

5.1. Practical difficulties

5.1.1. Non-current assets classified as held with a view to sale

IFRS 5.6-8 : 6. "An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

7. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

8. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for, recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

5.1.2. Discontinued operations

IFRS 5.32 : "A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale."

IAS 1.122 : "An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements."

IAS 8.15 : "Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14."

5.1.3. Asset valuation

IFRS 5.5: "The measurement provisions of this IFRS* do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group: (...) (c) financial assets within the scope of IFRS 9 *Financial Instruments* ; (...)"

IFRS 5.BC13(a) : "The Board also reconsidered the exclusions from the scope proposed in ED 4. The Board noted that the classification and presentation requirements of the IFRS are applicable to all non-current assets and concluded that any exclusions should relate only to the measurement requirements. In relation to the measurement requirements, the Board decided that non-current assets should be excluded only if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell. The Board therefore concluded that only the following non-current assets should be excluded from the measurement requirements of the IFRS: Assets already carried at fair value with changes in fair value recognised in profit or loss: (a) financial assets within the scope of IAS 39. The Board acknowledges that not all financial assets within the scope of IAS 39 are recognised at fair value with changes in fair value recognised in profit or loss but it did not want to make any further changes to the accounting for financial assets at this time."

IFRS 5.18: "Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRSs."

IAS 39.59: "A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of

future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of, financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group)"

IFRS 5.15 : "An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell."

IFRS 5.23 : « The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36 (as revised in 2004). »

IAS 1.117 : "An entity shall disclose in the summary of significant accounting policies: (a) the measurement basis (or bases) used in preparing the financial statements, and (b) the other accounting policies used that are relevant to an understanding of the financial statements."

IAS 8.15 : "Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14."

5.1.4. Elimination of intra-group balances and transactions

IFRS 5.1(a) : "The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires:

- (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease."

IAS 27.20: "Intragroup balances, transactions, income and expenses shall be eliminated in full."

5.1.5. Extension of the period required to complete the sale

IFRS 5.8.: "For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be, expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

IFRS 5.9 : "Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). This will be the case when the criteria in Appendix B are met."

IFRS 5.B1: "As noted in paragraph 9, an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by

events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). An exception to the one-year requirement in paragraph 8 shall therefore apply in the following situations in which such events or circumstances arise:

(a) at the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and: (i) actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained, and (ii) a firm purchase commitment is highly probable within one year;

(b) an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and: (i) timely actions necessary to respond to the conditions have been taken, and (ii) a favourable resolution of the delaying factors is expected;

(c) during the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and: (i) during the initial one-year period the entity took action necessary to respond to the change in circumstances, (ii) the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances, and (iii) the criteria in paragraphs 7 and 8 are met."

5.2. Information to be disclosed in the notes to the financial statements

IFRS 5.30 : "An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)."

IFRS 5.41 : "An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) a description of the non-current asset (or disposal group);

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss;

(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 Operating Segments."

IFRS 5.33 (extract): "An entity shall disclose: (a) a single amount in the statement of comprehensive income comprising the total of: (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; (b) an analysis of the single amount in (a)."

IFRS 5.38: « An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale."

6. Accounting principles used and granularity of the information

6.1. Cash flow table

6.1.1. Link between the cash flow table, the other financial statements and the notes to the financial statements

IAS 1.113 : "An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows to any related information in the notes."

IAS 1.114(c) : "An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities: supporting

information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented.”

6.2. Associates

6.2.1. Information to be disclosed in the notes to the financial statements

IAS 28.37(b), (c) and (d) : « The following disclosures shall be made: (b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss ;

(c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;

(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence; »

IFRS 12.9(d) and (e) : “To comply with paragraph 7, an entity shall disclose, for example, significant judgements and estimates made in determining that:

(d) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.

(e) it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.”

IFRS 12.21 (b) : “21 An entity shall disclose (b) for each joint venture and associate that is material to the reporting entity: (i) whether the investment in the joint venture or associate is measured using the equity method or at fair value. (ii) summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13. (iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.”

6.2.2 Information on the accounting policies

IAS 1.117 : “An entity shall disclose in the summary of significant accounting policies: (a) the measurement basis (or bases) used in preparing the financial statements, and (b) the other accounting policies used that are relevant to an understanding of the financial statements.”

6.2.2.1. Available-for-sale financial instruments becoming an associate

IFRS 3.42 : “In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.”

IAS 28.11 (extract) : “Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition.”

6.2.2.2. Interest in an associate classified as held for sale

IAS 28.13(a) : “An investment in an associate shall be accounted for using the equity method except when: (a) the investment is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.”

IAS 28.14 : « Investments described in paragraph 13(a) shall be accounted for in accordance with IFRS 5. »

IAS 28 (2011).20 : “An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.”



6.3. Early application of standards/future standards

IAS 8.30 : “When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

(a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity’s financial statements in the period of initial application.”

IAS 8.31 : “In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new IFRS; (b) the nature of the impending change or changes in accounting policy (c) the date by which application of the IFRS is required; (d) the date as at which it plans to apply the IFRS initially; and (e) either: (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity’s financial statements; or (ii) if that impact is not known or reasonably estimable, a statement to that effect.”

IAS 8.14 : “An entity shall change an accounting policy only if the change:

(a) is required by an IFRS; or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.”

IAS 8.29 : « When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the nature of the change in accounting policy; (b) the reasons why applying the new accounting policy provides reliable and more relevant information; (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) for each financial statement line item affected; and (ii) if IAS 33 applies to the entity, for basic and diluted earnings per share; (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied. Financial statements of subsequent periods need not repeat these disclosures. »