AUTORITÉ
DES MARCHÉS FINANCIERS

**AMF Recommendation 2011-16**
**Financial statements 2011**

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

In view of the difficult market environment, marked at present by a loss of investor confidence, high volatility and liquidity pressures on some companies, it is essential that the information and measurements that will be provided and used in 2011 financial statements are clear and reliable in order to meet users' needs.

The issues to which companies will have to pay particular attention are liquidity, impairment and the measurement of assets.

The AMF also wishes to draw attention to certain issues in recently applicable standards on operating segments and changes in the scope of consolidation, although we do not provide a detailed analysis of all the disclosures required in the notes to the financial statements.

Lastly, we concentrate on a selection of standards published but not yet applicable.

Part of the AMF's remit is to scrutinise the quality of financial reporting by publicly traded companies, which is why it analyses their financial statements. From this perspective, the AMF is a user of financial statements in the same way as investors and analysts.

**Recommendation:**
**As in previous years, the AMF encourages issuers to focus on providing relevant disclosures rather than adopting an exhaustive approach, which often makes it hard to identify key issues.**

The AMF identified the issues developed below that we believe warrant particular attention in the current economic environment. However, companies should expand upon and adapt each of these points to match their particular situations.

## 1. Measurement and impairment of financial instruments

### 1.1. Financial instruments and funds available to issuers

*[Some French groups are reporting significant cash balances at a time when the liquidity market is under stress. Accordingly, the classification of these assets is a key issue, more specifically if some instruments no longer meet, or may no longer meet, the definition of cash equivalents.]*

The classification of collective investment schemes as cash equivalents is not discussed in these 2011 recommendations. For information on this issue, readers should refer to AMF Position 2011-13 dated 23 September 2011.

#### 1.1.1. Cash equivalents – Reminder of certain criteria to meet

According to IAS 7.6 and IAS 7.7, for a financial instrument to qualify as a cash equivalent if must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. The investment must also be held for the purpose of meeting short-term cash commitments. An investment normally qualifies as a cash equivalent only when it has a short maturity, for example three months or less from the date of acquisition. Some instruments, such as term deposits, that have at inception a longer maturity but provide for early withdrawal and a capital guarantee may also be classified as cash equivalents under certain circumstances.

**Recommendation:**
**Term deposits may be classified as cash equivalents when they meet the other criteria and when:**

- **exit options exist which:**
  - **i) can be exercised at any time or every three months at most;**
  - **ii) are initially provided for in the deposit agreement;**
  - **iii) can be exercised without the depositor incurring any penalties and without the cash received incurring a significant risk of changes in value; and**
- **there is no value risk related to the minimum level of interest acquired (i.e. in the event of an early withdrawal), since over the entire term of the deposit and at any time the interest receivable is identical to that which would be obtained from an investment for a maximum period of three months meeting the definition of a cash equivalent. This may be the case for variable-rate and adjustable-rate deposits.**

**In accordance with IAS 7, items must also be analysed taking into account the company's cash situation and cash requirements.**

**However, when the risk of changes in value is significant (for example due to penalties or non-adjustable fixed-rate interest determined at inception of the agreement), deposits should not be classified as cash equivalents.**

#### 1.1.2. Cash and cash equivalent balances not available to the group

In accordance with IAS 7.48, an entity should disclose, along with a commentary by management, the amount of significant cash and cash equivalent balances that it holds and that are not available for use by the group.
Factors restricting the use of these balances include:

- cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries;
- provisions in a shareholders' agreement restricting the availability of cash balances for a subsidiary or joint venture;
- contractual restrictions on liquidity transfers linked to banking covenants in the subsidiary.

However, IAS 7 does not define the notion of unavailable cash. Accordingly, and in view of the number of possible cases, judgment is required to determine whether an entity's cash and cash equivalent balances are available.

**Recommendation:**
**The AMF notes that this information is rarely disclosed. It therefore urges issuers in this situation to provide such information, along with management comments, if material amounts are concerned (IAS 7.48), including in particular any material judgments used to determine whether the cash balances in question were available.**

#### 1.1.3. Cash equivalents and their level in the fair value hierarchy

Cash equivalents may be classified as either Level 1 (prices quoted on an active market) or Level 2 (prices obtained using a model incorporating observable inputs) in the fair value hierarchy specified in IFRS 7.
For example, term deposits maturing in less than three months are classified as Level 2 instruments. This fair value hierarchy is sometimes seen by financial statement users as indicating the level of reliability risk for a given measurement. Consequently, a Level 2 measurement is likely to be seen as incompatible with a classification as cash equivalents.

**Recommendation:**
**To allow readers to understand the classification of cash equivalents, their characteristics should be described according to each level of the fair value hierarchy.**

#### 1.1.4. Capital and liquidity contracts disclosures

IAS 1.134 requires an entity to disclose information that enables users of its financial statements to assess the entity's objectives, policies and processes for managing capital.

**Recommendation:**
**Liquidity agreements which purpose is to provide liquidity in the group's shares market may fall within the scope of IAS 1.134. It would be useful to disclose information about these agreements (e.g. the amount of cash at stake and the volumes of shares set up in the agreement) in the description of the group's capital management processes.**

### 1.2. Impairment of financial assets

*[Financial instruments impairment is a key issue for the 2011 year-end, since the current market downturn affects the measurement of such instruments.]*

Given the economic climate in 2011, entities should take into account all information known at the reporting date in order to determine whether there is evidence of impairment or whether some events may have an adverse effect on cash flows (IAS 39.59).

**Recommendation:**
**The AMF recommends that the judgments made in determining whether to recognise impairment of financial assets should be disclosed.**

### 1.2.1. Information regarding recognised impairment losses

In volatile markets it is difficult to predict the value of assets at year-end, and some entities may be required to recognise significant impairment losses on financial assets.

**In accordance with IFRS 7 and IAS 1.125, the AMF reminds issuers recognising significant impairment losses on financial assets that they must disclose the main assumptions and sources of uncertainty involved in estimating those impairment losses.**
Disclosures may consist of the main assumptions used to estimate the future cash flows associated with financial assets recognised at amortised cost or the main assumptions applied in models (mainly weighted fair values) used to measure available-for-sale financial assets that are not or are no longer quoted on an active market. The reasons for deciding that the market was not active should also be disclosed, where appropriate.

The current climate also makes it difficult to determine whether available-for-sale financial instruments have incurred a loss in value.

**Recommendation:**
**As recommended in 2008, we remind issuers that they should disclose details of unrealised losses not recognised at the reporting date (i.e. carried in negative fair value reserves within equity) broken down by type of financial instrument (listed shares, unlisted shares, corporate bonds, Treasury bills/bonds, etc.) and also disclose the period over which the losses were incurred, so that users can identify all relevant issues at the reporting date[1].**

**Depending on the circumstances, the level of disclosure required by IFRS in respect of impaired assets could be met by identifying impairment losses by asset category, main sectors and portfolios, and by separately identifying impairment on individual assets and impairment on groups of assets.**

### 1.2.2. Available for sale financial assets – equity instruments held (shares)

In the past, the AMF has drawn issuers' attention to the criteria to be used for recognising impairment on available-for-sale financial assets, and particularly for determining significant or prolonged decline in value (IAS 39.61).
**Regarding key year-end estimates, it is important that issuers provide quantitative estimates in the notes to their financial statements as to whether the instruments they hold suffered a prolonged and/or significant decline in value.**
In reviewing financial statements for 2010, the AMF noted that some issuers modified the criteria used.

**Recommendation:**
**In accordance with IAS 8.39 and IAS 8.40, issuers should disclose the "nature and amount of a change in an accounting estimate that has an effect in the current period". The AMF recommends that issuers disclose the consequences on the period by indicating the amount of the impairment loss that would have been recognised had the criteria not been modified. The AMF recalls that in accordance with IAS 8.34, an estimate needs revision only "if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience".**

For securities that were impaired in previous reporting periods, IAS 39.E.4.9 (following an IFRIC rejection notice dated June 2005), clearly states that further decline in the value of an equity instrument after an impairment loss is recognised in profit or loss should be recognised immediately in profit or loss.

[1] A similar analysis is required under the US GAAP Codification Topic 320-10.

## 2. Measurement of non-financial assets

### 2.1. Recognition of deferred tax assets on tax loss carryforwards

*[Recognition of deferred tax assets on tax loss carryforwards is particularly relevant owing to the degree of judgment involved in estimating future profits in a troubled economic environment, as well as new French tax legislation that leads to delaying the use of loss carryforwards.]*

In its recommendations regarding 2009 financial statements, the AMF recalled the requirements of IAS 12 with respect to the recognition of deferred tax assets on tax loss carryforwards (IAS 12.35 and 36). Assessing the accuracy of taxable profit estimates requires entities to use their own judgment since:

- losses can be carried forward over very long periods or even indefinitely; and
- the business plans used are themselves based on several assumptions.

A new French tax legislation in 2011 introduces a number of restrictions for the use of tax loss carryforwards, which may lead to a delay in the period before which they can be used.

**Recommendation:**
**The AMF recommends that issuers likely to recognise material deferred tax assets on tax loss carryforwards take steps to disclose the main assumptions used to determine the future taxable profit availability and the result of their analysis.**

For example, issuers should specify:

- the period over which recognised tax loss carryforwards relating to a given entity or tax group are expected to be used;
- the amount of tax loss carryforwards recognised compared to tax loss carryforwards available for a material tax group or entity.

### 2.2. Impairment of property, plant and equipment and intangible assets

*[We consider that the assumptions used in impairment tests and the tests' sensitivity to key assumptions are important issues for 2011 financial statements. This is chiefly due to difficulties in determining these key assumptions in an economic environment where macroeconomic data varies sharply from one sector and region to the next. All information provided on asset impairment tests in the notes to the financial statement will be especially relevant in the current market downturn.]*

The AMF points out that the criteria set up by IAS 36 for determining whether there is evidence of impairment include the situation where the carrying amount of an entity's net assets exceeds its market capitalisation (IAS 36.12 (d)).

### 2.2.1. Required disclosures in the notes

#### 2.2.1.1. Presentation of key assumptions used in impairment testing of goodwill and intangible assets with indefinite useful lives

IAS 36.134 (d) (i) requires that a description of each key assumption used by management to determine value in use should be disclosed for each group of cash-generating units for which the carrying amount of goodwill or intangible assets with indefinite useful lives is significant.
For example, where an issuer is organised based on geographical areas, it can test the goodwill and intangible assets with indefinite useful lives at the level of each major country on a given continent.
In such a case, the issuer should provide details of the key assumptions used for each country rather than aggregate information (e.g. a range of assumptions) for a continent as a whole.

**Recommendation:**
**With the emergence of sharp economic contrasts within geographical areas, preparers of financial statements should use separate assumptions for each homogenous sub-group in each region rather than common assumptions, as applied in previous periods.**
**It should be remembered that IAS 36.134 (f), that requires that sensitivity of the amounts tested to changes in the key assumptions should be disclosed , applies not to the entity as a whole but to each cash-generating unit or group of units to which goodwill has been allocated for the purpose of impairment testing.**

#### 2.2.1.2. Sensitivity of key assumptions used in impairment testing of goodwill and intangible assets with indefinite useful lives

There is no uniform interpretation of IAS 36.134 (f) requiring entities to determine the sensitivity of impairment tests to a change in one or more criteria used to calculate the recoverable amount when “a reasonably possible change in a key assumption (…) would cause the unit’s (group of units’) carrying amount to exceed its recoverable amount”. Since IAS 36.134 (f) (i) requires entities to indicate the amount by which the unit (group of units’) recoverable amount exceeds its carrying amount and IAS 36.134 (f) (iii) requires entities to disclose the amount by which the value assigned to the key assumptions changes in order for the unit’s (group of units’) recoverable amount to be equal to its carrying amount, some entities consider that assets impaired during the reporting period are exempt from these requirements.

Disclosing the sensitivity of tests where impairment was recognised is particularly useful and meets the requirements of IAS 1.125-129 that deal with the main sources of estimation uncertainty. IAS 1.129 states that “examples of the types of disclosures an entity makes are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved”.

**Recommendation:**
**Where changes in the key assumptions used to determine the value of an asset lead to significant uncertainties regarding the asset’s value at the reporting date, IAS 36 and IAS 1 require issuers to indicate that sensitivity, including when an impairment loss has already been recognised.**

When reviewing financial statements, the AMF noted that the large majority of entities disclosed the sensitivity of impairment tests to a change in the discount rate and in the perpetuity growth rate. These disclosures do not always capture the interaction between the key variables.
This is important because the economic crisis has reduced medium-term visibility on compliance with budgets and business plans and may also alter estimates of future cash flows, so the sensitivity of impairment tests to all key assumptions – both financial and operating assumptions – is relevant. This includes assumptions used to determine cash flows over the years covered by the entity’s business plan.

**Recommendation:**
**This information could be presented as a sensitivity analysis reflecting reasonably possible changes in the volumes/selling prices or in margins used, without disclosing confidential information (e.g. price or sales volume forecasts).**

**Disclosing sensitivity to different scenarios in which all key assumptions change is a best practice that provides useful information for financial statement users, particularly when value in use is sensitive to many different variables.**

The disclosure of key assumptions and the level of detail of the information presented depend on the size of the entity, its industry sector and the amount of goodwill and intangible assets with indefinite useful lives.

#### 2.2.1.3. Presentation of fair value

IAS 36.18 requires entities to determine the recoverable amount as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use.

**Recommendation:**
**If goodwill is tested for impairment at the level of a cash-generating unit or of a group of units that is a listed subsidiary, and if the entity uses value in use as the recoverable amount for goodwill, the AMF recommends that the subsidiary's market value at the reporting date together with explanations if the difference in value is material should be disclosed.**
**It should be noted, however, that IAS 28.37 (a) requires entities to disclose the fair value of investments in associates for which there are published price quotations.**

### 2.2.2. Determination of impairment in some specific situations

#### 2.2.2.1. Testing for impairment goodwill and non-controlling interests

*[The impairment method recommended by IAS 36 is complex and its relevance called into question by the new requirements set out in standards on business combinations. However, complex though they may be, the current requirements are relevant as long as the issuer has not acquired 100 per cent of another company because they are the only means of ensuring a meaningful comparison between the inputs of the impairment test and the items shown on the balance sheet.]*

IAS 36.C4, amended following the revision to IFRS 3, requires that, when testing for impairment goodwill allocated to a partially-owned subsidiary, the cash flows attributable to the non-controlling interest should be included in the recoverable amount of the related cash-generating unit (CGU), whereas the goodwill on non-controlling interest is not recognised in the parent's consolidated financial statements. Consequently, when an entity is using the 'partial goodwill' method, the carrying amount of goodwill must be grossed up to include the goodwill attributable to the non-controlling interest for the impairment test purpose. This adjusted carrying amount is then compared to the recoverable amount of the CGU to determine whether the CGU is impaired. An illustrative example of this method is provided in IAS 36.IE.65. As long as the entity has not acquired all of the non-controlling interest, this adjustment is required to ensure comparability between the amount tested and the cash flows used to perform the test on the entire goodwill and not only on the portion attributable to the group.

Following the adoption of revised IAS 27, the AMF understands that certain issuers are questioning the relevance of this method on the grounds that once a controlling interest has been acquired, any additional interests acquired will not result in the recognition of additional goodwill but will impact equity only.

The above rationale is not appropriate since this adjustment is required by IAS 36. If this adjustment was not made, the items compared (ie goodwill and the recoverable amount of the ownership interest) would not be comparable since goodwill would concern only part of the subsidiary while the recoverable amount would be calculated for the subsidiary as a whole.

**The AMF therefore points out that IAS 36 requires that goodwill should be grossed up in order to take into account non-controlling interests when an entity does not apply the 'full goodwill' method and for as long as it does not acquire all of the interests held by non-controlling shareholders.**

#### 2.2.2.2. Sale of an operation within a cash-generating unit

*[Sales of an operation within a CGU are common in reorganisation/restructuring operations within a group. IAS 36 offers issuers the possibility of using an alternative method when this is more relevant.]*

If an entity disposes of an operation within a cash-generating unit, IAS 36.86 requires that the goodwill associated with that operation should be included in the carrying amount of the operation when determining the gain or loss on disposal. To allocate the portion of goodwill associated with the disposed operation, IAS 36 recommends using the relative value of the operation disposed of unless it can demonstrate that some other method better reflects the goodwill disposed of.

**Recommendation:**
**The AMF encourages issuers choosing to use the method of measurement based on the relative values of the operation disposed of and the portion of the cash-generating unit retained, to disclose in the notes to the financial statements the method used to calculate relative values (e.g. multiples, DCF, etc.). If another method is used, the AMF recommends that the entity should describe the method used and explaini why it is more relevant in the notes to financial statements.**

## 3. Focus on recently applicable standards

### 3.1. Operating segments

*[Our recommendations for 2010 financial statements identified certain issues arising from IFRS 8 that we considered important. As we understand that information on operating segments is a key element of the analyses performed by users of financial statements, our recommendations this year focus once again on two critical but complex areas for users, namely sector aggregation and the 'All other segments' sector. Although the principles for aggregating sectors were already discussed last year, we wish to refocus on the issue again this year as we feel entities are still not providing enough explanation in the notes to their financial statements even though, for users, this is a key element in performance analysis. ]*

#### 3.1.1. Groups of cash-generating units and operating segments

IAS 36.80 states that for the purpose of impairment testing, goodwill should be allocated to each of the cash-generating unit, or group of cash-generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units should "(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before aggregation."

**Groups of cash-generating units should therefore correspond to the lowest level within the entity at which goodwill is monitored and not be larger than an operating segment before aggregation. Groups of units must be first allocated to the lowest level within the entity at which goodwill is monitored for internal management purposes – which does not always correspond to the operating segment but should reflect the way in which the entity manages its operations (IAS 36.80).**

### 3.1.2. Aggregating operating segments

In its recommendations for 2010 financial statements, the AMF indicated that in most cases, the information provided in financial statements did not allow users to determine whether or not the entity had aggregated its operating segments. The AMF encouraged issuers who aggregated significant operating segments to point out those segments in the notes.
In its review of 2010 financial statements, the AMF noted that even though many entities aggregated their operating segments, this information was rarely disclosed in the notes to their financial statements.
IFRS 8.22 (a) requires information on "factors used to identify the entity's reportable segments, including the basis of organisation" and gives examples of factors that need or need not be disclosed.

**Recommendation:**
**In accordance with IFRS 8.22 (a), issuers should specify clearly in their definition of operating segments that the segments reflect those reviewed by the chief operating decision maker and that they do not result from aggregation.**

Where segments were aggregated, IFRS 8.12 requires that certain criteria should be met (similar long-term economic characteristics and similar long-term average gross margins as set out in paragraphs (a) to (e)), although it allows entities to use their judgment in assessing these criteria.
In its review of 2010 financial statements, the AMF noted that these criteria, and in particular the notion of similar economic characteristics, were not interpreted in the same way by all market participants.
**Accordingly, as required by IFRS 8.22 (a) and the paragraph on judgment in IAS 1 (IAS 1.122), the notes to the financial statements should mention the judgments made in aggregating the main operating segments.**

During a review of changes to operating segments in financial statements for 2010, the AMF observed that out of a sample of 80 listed companies, one third modified the segments they presented, mostly without providing a satisfactory explanation.
**If operating segments are modified, IFRS 8.29 and 8.30 require that comparative information should also be restated unless the information is not available and the cost of providing information exceeds the benefits. We believe that it is essential to justify and clearly explain all modifications in the notes to the financial statements.**

### 3.1.3. "All other segments" category

**An entity may combine information about operating segments that do not meet certain quantitative thresholds in an "All other segments" category (IFRS 8.13). In this case, IFRS 8.16 requires that the sources of significant revenue for the 'All other segments' category should be described, regardless of whether the segments relate to business activities or to geographical areas.**
From our review of a sample of 80 listed companies, we noted that almost 40% reported an 'All other segments' category, and 25% of these did not provide any information as to what was included in the category.

## 3.2. Business combinations and changes in the scope of consolidation

The revisions to IFRS 3 and IAS 27 are applied since 1 January 2010 (in most cases) and have not been addressed in our recommendations since their effective date. The AMF wishes to focus on some principles that we feel are not being correctly applied and to draw attention to the difficulties entities may face when applying those revised standards for the first time.

### 3.2.1. Presentation of the statement of cash flows

**The AMF reminds issuers that IAS 7 was amended following the publication of the revised IFRS 3 and IAS 27, and now clearly requires that cash flows arising from changes in ownership interests**

**in a subsidiary that do not result in a loss of control should be classified as cash flows from financing activities (IAS 7.42A and 42B).**

#### 3.2.2. Multiple arrangements

In the event of step acquisitions, the issue arises as to whether the acquisitions should be considered as related and recognised as a single transaction or whether they should be accounted for as separate transactions. The method adopted is decisive in accounting for business combinations, particularly for entities using the 'partial goodwill' approach.

IFRS 3 states that the acquisition date is the date on which the acquirer obtains control of the acquiree, which is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree (IFRS 3.8 and 9). The standard stresses that the acquisition date is a single date.

**Recommendation:**
**IAS 27.33 provides examples of situations where several transactions are, in substance, part of a single transaction when they involve a loss of control. Since no specific provisions are given in IFRS 3, this paragraph of IAS 27 can be used for guidance in determining whether the transactions in step acquisitions are related and should be accounted for as a single transaction.**
**IFRS 3 and IAS 27.33 (c) indicate that multiple transactions carried out within a short timeframe may only be considered as a single transaction if each transaction could not have been carried out on a standalone basis.**

#### 3.2.3. Options available under the standard

IFRS 3.19 states that, on the acquisition date, non-controlling interests may be measured at either the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets (previous IFRS treatment) or at fair value (method required by US GAAP and added to the provisions of the revised IFRS 3 for convergence of accounting standards purposes). This choice is available on a transaction-by-transaction basis.
If the fair value method is used, this involves measuring the amount of "full" goodwill (goodwill on the interest acquired plus goodwill associated with non-controlling interests). Otherwise, the method is known as the 'partial goodwill' approach which calculates goodwill only on the ownership interest basis.
**IFRS 3 explicitly requires issuers to specify the option chosen for each significant business combination in which the acquirer holds less than 100 per cent, along with the method used to measure non-controlling interests (IFRS 3.B64 (o)).**
Based on our review of financial statements for 2010, the AMF observed that this information was often omitted even though it is critical for readers and, depending on the approach chosen, significant different accounting treatments in cases of additional purchases, impairment and disposals may arise.

#### 3.2.4. Earn-out and continuing employment

The revised IFRS 3 provides indications on how to account for arrangements for contingent payments to employees or selling shareholders. Those arrangements may be part of the business combination or may be considered as a separate transaction from the acquisition of the target entity.
As stated by IFRS 3, it is essential to understand the reasons, nature and structure of any such arrangements so that the appropriate accounting treatment can be determined (IFRS 3.B54).
IFRS 3 also states that "A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post combination services" and that "Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration" (IFRS 3.B55 (a)).

**Recommendation:**
**Whenever judgments are involved, the AMF recommends that issuers should explain in the notes their analyses and the resulting impacts for the significant judgements/estimations of the reporting period (IAS 1.125).**

### 3.2.5. Loss of control

*[In August 2011, ESMA published decision EECS/0211-05 on transactions falling within the scope of IFRIC 17, which states that the interest retained should be measured based on its quoted price on the first day on which it is listed.]*

If a parent loses control of a subsidiary, IAS 27.34 (d) requires any investment retained in the former subsidiary to be recognised at fair value. In those cases where the subsidiary is not initially listed but is subsequently listed as a result of the sale, an issue arises as to how to measure the interests retained. At first sight, it seems that the interests could be measured using an independent expert or based on the quoted price. However, IAS 39.48A indicates that the best evidence of fair value is quoted prices in an active market. According to the fair value hierarchy set out in IAS 39, a quoted price therefore provides better evidence of fair value than the value determined by an independent expert.
**The quoted price on the first day of listing should be used to remeasure the interest retained following the transaction in accordance with IAS 39.48A.**
**This is also the case for dividends paid by a parent in the form of shares of its subsidiary (IFRIC 17) when the parent company loses control as a result of the payout and the shares of the subsidiary are admitted to trading. The interest retained should be measured at fair value even if the shares of the subsidiary are tendered shortly before the listing. The quoted price during the first day on which the shares are listed should then be used to remeasure the interests retained after the transaction.**

## 4. <u>Focus on standards published but not yet applicable</u>

*[The new standards on consolidation are not expected to be applicable before 2013. However, we have outlined below the areas that entities need to analyse ahead of their application.]*

### 4.1. Amendment to IAS 1

The June 2011 amendment to IAS 1 is effective for annual reporting periods beginning on or after 1 July 2012 and earlier application is permitted. This amendment introduces the need to separate those elements of other comprehensive income (included in equity) that will be “recycled” in profit or loss and those elements that will not.

**Recommendation:**
**Although the amendment is not effective at this year-end, the information it requires is useful for the users of financial statements and is not in contradiction to current IAS 1. The AMF therefore encourages issuers to early apply this amendment**.

### 4.2. Amendment to IFRS 7

The October 2010 amendment to IFRS 7 is effective for annual reporting periods beginning on or after 1 July 2011 and earlier application is permitted.. This amendment is intended to help users assess the risks associated with transfers of financial assets and the impacts of these transfers, specifically for asset securitisations.

**Recommendation:**
**Although the amendment is not effective at this year-end for issuers whose annual reporting period is based on a calendar year, the information it requires is useful for users of financial statements and is not in contradiction to current IFRS 7. The AMF therefore encourages issuers to early adopt this amendment**.

### 4.3. Standards on consolidation

IFRS 10, IFRS 11 and IFRS 12 were published in May 2011 and are effective as at 1 January 2013; application is retrospective. These standards have not yet been adopted by the European Union and cannot be applied in the 2011 reporting period. However, the AMF considers it useful to set out a number of recommendations ahead of the application of these standards.

**Recommendation:**
**Although those standards cannot be applied in the 2011 reporting period because they have not yet been adopted by the European Union, the AMF recommends that issuers should try their best to provide the following information in accordance with IAS 8.30 and 31:**
- **analyses in progress to determine the impacts of those new standards;**
- **major impacts that are expected to result from the application of those new standards.**

**Those disclosures should be provided by the entity only if the information and estimations are available and reliable.**

#### 4.3.1. IFRS 10 criteria

IFRS 10 defines a single model for analysing control, which is the basis for full consolidation. The model comprises three criteria:
- power over the investee;
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 requires that entities should exercise their judgment, specifically upon:
- determining the type of control and the key businesses;
- accounting for substantive rights (options, etc.);
- recognising *de facto* control.

Control should also be reassessed whenever facts or circumstances change that affect one of the three above criteria for the determination of control.

**Recommendation:**
**In light of the important issues arising from the new approach to assessing control under IFRS 10, the AMF recommends that issuers should begin to analyse the impact of the standard as soon as possible.**
**An in-depth analysis of control will require preliminary assessments to support judgments with the help of:**
- **the various individuals involved within the entity (accountants, lawyers, operating staff, management);**
- **accurate documentation specifying the findings and the assumptions used;**
- **in some cases, an analysis of the relations with the entity's partners will be necessary(e.g. in the event of *de facto* control, potential voting rights, contractual arrangements between parties to an operating agreement managed by a single entity, etc.).**

#### 4.3.2. Required disclosures in the notes (IFRS 12)

Information to be disclosed in the notes to the financial statements is designed to allow users of financial statements to understand:

- judgments and assumptions used in defining the scope of consolidation;
- justification for changes in the scope of consolidation;
- weight of non-controlling interests in controlled entities;
- the nature and scope of any limits on control;
- risks resulting from relations with non-consolidated entities.

**Recommendation:**
**As indicated for IFRS 10, given the scope of the changes introduced by IFRS 12, the AMF recommends that issuers should undertake a preliminary analysis in order to achieve the right balance between the need to disclose sufficiently detailed information on sensitive and/or material issues (e.g. protective rights, material non-controlling interests by entity) and the need to be concise.**

#### 4.3.3. Presentation of associates accounted for using the equity method

One of the main changes introduced by IFRS 11 is the requirement to measure jointly controlled entities using the equity method. At present, IAS 31 offers issuers a choice between proportionate consolidation and equity accounting for associates.
The AMF understands that some issuers are concerned about the position of the “Associates” line in their income statement.

However:

- IAS 1.82 provides for a separate line item for the share of profit or loss of associates accounted for using the equity method;
- In the event that a specific sub-total is included representing operating activities, although no definition of this sub-total exists in the standard, the basis for conclusions (IAS 1.BC56) states that the sub-total should include all activities considered to be operating activities.

**The presentation of the share of profit or loss of associates can be included within a sub-total representing operating activities only in specific situations analysed on an ongoing and case-by-case basis and duly explained in the notes.**

**If an entity deliberately changes the presentation of this information, IAS 1.45 and 46 state that the revised presentation should be applied to comparative data and should be demonstrated to provide more reliable and relevant information.**

Appendix: Extracts from IFRS literature

# 1. Measurement and impairment of financial instruments

## 1.1 Financial instruments and funds available to the issuer

### 1.1.1. Cash equivalents – Reminder of certain criteria to be met

IAS 7.6: “Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.”
IAS 7.7: “Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.”

### 1.1.2. Cash balances and cash equivalents not available for use by the group

IAS 7.48: “An entity shall disclose, together with commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.”
IAS 1.123: “In the process of applying the entity’s accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgments in determining:
a) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
c) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.”

### 1.1.3. Cash equivalents and level in the fair value hierarchy

IAS 7.6: “Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.”
IAS 7.7: “Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.”
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 (i.e. as prices) or indirectly (i.e. 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 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 judgment, considering factors specific to the asset or liability."

#### 1.1.4. Capital and liquidity disclosures

IAS 1.134: "An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital."

### 1.2. Impairment of financial assets

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 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 (e.g. 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 (e.g. 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)."

#### 1.2.1 Disclosures regarding impairment

IFRS 7.7: "An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance."
IFRS 7 37.b: "an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors that the entity considered in determining that they are impaired."
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."

#### 1.2.2. Available-for-sale financial assets – equity instruments held (shares)

IAS 39.61: "In addition to the types of events in paragraph 59, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer

operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment."
IAS 8.39: "An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to disclose that effect."
IAS 8.40: "If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact."
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 39 E 4.9: "If a non-monetary financial asset, such as an equity instrument, measured at fair value with gains and losses recognised in equity becomes impaired, should the cumulative net loss recognised in equity, including any portion attributable to foreign currency changes, be recognised in profit or loss?
Yes. IAS 39.67 states that when a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity should be removed from equity and recognised in profit or loss even though the asset has not been derecognised. Any portion of the cumulative net loss that is attributable to foreign currency changes on that asset that had been recognised in equity is also recognised in profit or loss. Any subsequent losses, including any portion attributable to foreign currency changes, are also recognised in profit or loss until the asset is derecognised."

## 2. <u>Measurement of non-financial assets</u>

### 2.1. Recognition of deferred tax assets on tax loss carryforwards

IAS 12.35: "The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition."
IAS 12.36: "An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:
a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
d) whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.
To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised."

### 2.2. Impairment of property, plant and equipment and intangible assets

#### 2.2.1. Disclosures required in notes to financial statements

IAS 36.12: "In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:
*External sources of information*

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
(d) the carrying amount of the net assets of the entity is more than its market capitalisation (…)".

#### 2.2.1.1. Presentation of key assumptions used in testing goodwill and intangible assets with indefinite useful lives for impairment

IAS 36.134 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.
iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.
iv) the growth rate used to extrapolate cash flow projects beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.
v) the discount rate(s) applied to the cash flow projections."
IAS 36.134 f: "if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:
i) the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
ii) the value assigned to the key assumption;
iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount."

#### 2.2.1.2. Sensitivity of impairment tests of goodwill and intangible assets with indefinite useful lives to key assumptions

IAS 36.134 f: "if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:
i) the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
ii) the value assigned to the key assumption;
iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount."
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."
IAS 1.126: "Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to

measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs."
IAS 1.127: "The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amount of assets and liabilities normally increases accordingly."
IAS 1.128: "The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period."
IAS 1.129: "An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgments that management makes about the future and about other sources of estimation uncertainty. The nature and extent of information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:
a) the nature of the assumption or other estimation uncertainty;
b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved."

#### 2.2.1.3. Presentation of fair value

IAS 36.18: "This Standard defines recoverable amount as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Paragraphs 19-57 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or cash-generating unit."
IAS 28.37 "The following disclosures shall be made:
(a) the fair value of investments in associates for which there are published price quotations (…)".

### 2.2.2. Calculation of impairment in specific cases

#### 2.2.2.1. Testing goodwill and non-controlling interests for impairment

IAS 36.C4: "If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognised in the parent's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired."
IAS 36 example IE.65: "Goodwill attributable to non-controlling interests is included in Subsidiary's recoverable amount of CU1,000 but has not been recognised in Parent's consolidated financial statements. Therefore, in accordance with paragraph C4 of Appendix C of IAS 36, the carrying amount of Subsidiary is grossed up to include goodwill attributable to the non-controlling interests, before being compared with the recoverable amount of CU1,000. Goodwill attributable to Parent's 80 per cent interest in Subsidiary at the acquisition date is CU400 after allocating CU500 to other cash-generating units within Parent. Therefore, goodwill attributable to the 20 per cent non-controlling interests in Subsidiary at the acquisition date is CU100."

Schedule 1. Testing Subsidiary for impairment at the end of 20X3

| *End of 20X3* | *Goodwill of Subsidiary* | *Net identifiable assets* | *Total* |
|---|---|---|---|
| | CU | CU | CU |
| Carrying amount | 400 | 1,350 | 1,750 |
| Unrecognised non-controlling interests | 100 | – | 100 |
| Adjusted carrying amount | 500 | 1,350 | 1,850 |
| Recoverable amount | | | 1,000 |
| Impairment loss | | | 850 |

2.2.2.2. Sale of an operation within a CGU

IAS 36.86: "If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:
(a) included in the carrying amount of the operation when determining the gain or loss on disposal; and
(b) measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of."

## 3. <u>Note on recently applicable standards</u>

### 3.1. Segment reporting

3.1.1. Groups of CGUs and segment reporting

IAS 36.80: "For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:
a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments*."

3.1.2. Aggregation of operating segments

IFRS 8.22: "An entity shall disclose the following general information:
(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); and
(b) types of products and services from which each reportable segment derives its revenues."
IFRS 8.12: "Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
a) the nature of the products and services;

b) the nature of the production processes;
c) the type or class of customer for their products and services;
d) the methods used to distribute their products or provide their services; and
e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities."
IAS 1.122: "An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, 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."
IFRS 8.29: "If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods."
IFRS 8.30: "If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive."

#### 3.1.3. "All other segments" sector

IFRS 8.13: "An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments.
b) The absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
c) Its assets are 10 per cent of more of the combined assets of all operating segments."
IFRS 8.16: "Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'All other segments' category separately from other reconciling items in the reconciliations required by paragraph 28. The sources of the revenue included in the 'All other segments' category shall be described."

### 3.2. Business combinations and changes in the scope of consolidation

#### 3.2.1. Presentation of the statement of cash flows

IAS 7.42A: "Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities."
IAS 7.42B: "Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see IAS 27 *Consolidated and Separate Financial Statements*) (as amended in 2008)). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17."

#### 3.2.2. Related transactions

IAS 27.33: "A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One

or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:
(a) They are entered into at the same time or in contemplation of each other.
(b) They form a single transaction designed to achieve an overall commercial effect.
(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
(d) One arrangement considered on its own is not economically justified, but is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequently disposal price above market."

#### 3.2.3. Options available

IFRS 3.19: "For each business combination, the aquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation."
IFRS 3.B64.o: "For each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
(i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and
(ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value."

#### 3.2.4. Earn-out and conditions of continuing employment

IFRS 3.B54: "Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement."
IFRS 3.B55 a: "If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators: a) Continuing employment — The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration (…)."
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."

#### 3.2.5. Loss of control

IAS 27.33: "Sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:
(a) They are entered into at the same time or in contemplation of each other.
(b) They form a single transaction designed to achieve an overall commercial effect.
(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

(d) One arrangement considered on its own is not economically justified, but is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal price above market."
IAS 39.48A: "The best evidence of fair values is provided by quoted prices in active markets. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. 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. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data."

## 4. <u>Note on standards published but not yet applicable</u>

### 4.3. Standards on consolidation

IAS 8.30: "If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive."
IAS 8.31: "Paragraphs 32-34 apply to all entities subject to this IFRS including those entities that have a single reportable segment. Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32-34 shall be provided only if it is not provided as part of the reportable segment information required by this IFRS."

#### 4.3.1. Presentation of associates

IAS 1.82: "As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:
(a) revenue;
(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;
(b) finance costs;
(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
(ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);
(d) tax expense;
(e) a single amount 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;
(f) profit or loss;
(g) each component of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
(i) total comprehensive income."
IAS 1.85: "An entity shall present additional line items, headings and sub-totals in the statement of comprehensive income and the separate income statement (if presented), when such presentation is relevant to an understanding of the entity's financial performance."
IAS 1.BC56: "The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses."
IAS 1.45: "An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:
(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or
(b) an IFRS requires a change in presentation."
IAS 1.46: "For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42."