



Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

Contents

02	Editorial
02	IFRS Highlights
05	European Highlights
09	Proposed amendments to IAS 32, IFRS 7 and IAS 1 (FICE project): a deep dive into the first three exposure draft topics

Editorial

Last November, we reported the publication of an IASB exposure draft of proposed amendments to IAS 32, IFRS 7 and IFRS 1 on the classification of financial instruments with characteristics of equity (“FICE”). In this issue, we present the IASB's proposals on three of the topics covered by these amendments: how to account for rights and obligations arising from legal or regulatory requirements, instruments that are settled in the entity's own equity instruments, and obligations requiring the entity to purchase its own equity instruments (including puts on non-controlling interests). These proposals are sure to prompt reactions from stakeholders.

Turning to sustainability reporting, a growing number of initiatives have been launched to help entities meet the new requirements, including the publication by EFRAG of an initial series of answers to questions posed by stakeholders concerning the application of ESRS. The IFRS Foundation has just published a methodological guide on the use of Sustainability Accounting Standards Board (SASB) standards to meet the requirements of IFRS S1.

IFRS Highlights

IASB redeliberates draft amendments to IFRS 9 and IFRS 7

At its February 2024 meeting, following its initial redeliberations (see IFRS Highlights in [Beyond the GAAP no.182](#) of November 2023 and [Beyond the GAAP no 184](#) of January 2024), the IASB continued its analysis of the feedback received to the exposure draft of amendments to IFRS 9 and IFRS 7 on the classification and measurement of financial instruments.

Disclosures requirements (amendments to IFRS 7)

During the meeting, the IASB discussed the proposed amendments to IFRS 7 requiring the disclosure of loans whose contractual cash flows may be modified when contingent events occur (paragraphs 20B and 20C of the exposure draft).

The comments received suggested that:

- the scope of the contractual clauses affected by these new disclosures should be limited to financial assets

(loans), and should not apply to financial liabilities;

- among these loans, limiting the scope to those with ESG-linked features;
- the presentation of a range of adjustments to future cash flows induced by the occurrence of a contingent event should only be an illustrative example of the quantitative information that may be provided.

The IASB tentatively decided to:

- retain both financial liabilities and financial assets within the scope of application;
- limit the scope of paragraph 20B of the exposure draft to contractual clauses that could change the amount of contractual cash flows based on a contingent event that is not directly related to a change in basic lending risks or costs. The scope therefore excludes clauses linked to the time value of money or credit risk, such as interest on arrears or early repayment clauses in the event of a breach of covenants, but includes clauses such as

i) indexation of the interest rate of a loan to an ESG criterion specific to the borrower, ii) indexation of the interest rate of a debt to the achievement of a volume of activity by the lender (as observed on the rate of ECB loans known as "TLTRO");

- changing the requirement to disclose quantitative information, to permit an entity to report information, where relevant, other than the range of possible adjustments to contractual cash flows.

Effective date and transitional requirements

The IASB tentatively decided to:

- set an effective date for these amendments of annual reporting periods beginning on or after 1 January 2026; this decision was passed by a slender majority (eight of 14 votes);
- finalise the transition requirements proposed in the exposure draft; and
- permit early application of the amendments to the requirements related to the SPPI criterion and to the disclosure requirement in IFRS 7 relating to changes in contractual cash flows, separately from the other amendments.

Due process steps

The IASB tentatively decided not to re-expose the text of these amendments and to prepare a final version for publication. Two of the 14 Board members indicated that they are considering dissenting from issuing the amendments.

First IASB deliberations on the post-implementation review of IFRS 9, Phase 2 – Impairment

At its February 2024 meeting, the IASB began to discuss stakeholder feedback to its request for information as part of the

post-implementation review of IFRS 9, Phase 2 – *Impairment* (see [Beyond the GAAP no 179](#) of July-August 2023).

General approach to the recognition of expected credit losses (ECL)

Without questioning the general approach, stakeholders had called on the IASB to reconsider its application to:

- intergroup loans and guarantees, and
- purchased or originated credit-impaired financial assets (POCI).

In response, the Board decided to take no further standard-setting measures, as it considers that the issues raised can be resolved within the existing framework, and because it does not wish to depart from a principles-based approach or call into question practices that have already been implemented.

However, the staff plan to seek the opinion of the Interpretations Committee (IFRS-IC) at its March 2024 meeting (paper available [here](#)) in order to analyse the application difficulties reported, particularly on the subject of intragroup loans and guarantees.

Determining significant increases in credit risk

Stakeholders had drawn the IASB's attention to:

- the diversity in practice when determining significant increases in credit risk (SICR);
- the limited use of collective assessment of the SICR.

In response, the Board decided to take no additional standard-setting measures, for the same reasons as those outlined above for the general approach.

The IASB's forthcoming meetings will consider feedback on the measurement of provisioning and post-model adjustments,

interactions with other standards, and disclosures in the notes to the financial statements.

Appointments to IFRS Advisory Council

On 19 February, the Trustees of the IFRS Foundation announced the appointment and re-appointment of several members of the IFRS Advisory Council, which provides strategic support and advice to the Trustees and Board members.

The appointed or re-appointed members will begin their three-year term on 1 January 2024.

The full press release is available [here](#).

ISSB Update and podcast – February 2024

The [ISSB Update](#), summarising the February 2024 International Sustainability Standards Board (ISSB) meeting, is now available along with [latest episode of the ISSB podcast](#) in which the Chair and Vice Chair discuss the key messages from the IFRS Sustainability Symposium, the IFRS Foundation's capacity building program and the recently issued jurisdictional guide for adoption of ISSB Standards (see below).

The ISSB board meeting in February addressed:

- a tentative decision to include a more explicit consideration of other relevant standard setters' work when deciding on agenda priorities;
- initial consideration of proposed materiality guidance.

IFRS Foundation guidance on using the SASB standards to meet the requirements of IFRS S1

On 19 February, the IFRS Foundation published educational material on [using the SASB Standards to meet the requirements](#)

[in IFRS S1](#) and a [webcast on the importance of industry-specific disclosures to investors](#).

In the webcast, the ISSB discusses with investors the key reasons why they use industry-specific information in their analysis and decision making, and how the SASB standards can help meet sector-specific requirements in the IFRS SDS.

Although IFRS S1 does not require entities to apply the SASB standards, it does require them to refer to and consider the applicability of the topics and metrics in SASB Standards. The educational material sets out how companies can refer to and consider the content of the SASB standards when meeting these requirements, including consideration of what the SASB standards are and why they are useful.

The core of guidance is a four-step process, with key questions to ask at each stage, for how companies may use the SASB standards to:

- identify relevant industry standards;
- identify relevant disclosure topics;
- identify relevant metrics;
- develop disclosures using technical protocols.

IFRS SDS translations now available in four languages

The [IFRS has announced](#) the translation of the IFRS SDS, along with accompanying guidance and basis for conclusions, into Japanese and Korean, bringing to four the number of translations of the standards, which are also available in French and Spanish.

The translated standards can be found on the [IFRS Sustainability Standards Navigator](#) by clicking the drop down menu and selecting the required language.

Preview of a guide on jurisdictional adoption of or other use of ISSB Standards

The ISSB has issued a preview of its [jurisdictional guide for the adoption or other use of the ISSB Standards](#). It aims to “promote globally consistent and comparable climate and other sustainability-related disclosures for capital markets through the adoption or other use of ISSB Standards [...] in a way that takes into account jurisdictional considerations”.

This guide provides information that is intended to support jurisdictions on their journey towards adopting the standards, as well supporting transparency for capital markets, regulators and other stakeholders on the progress being made towards adoption.

The guide includes factors for local standard setters to consider when developing their policy decision including, for example, relevant laws or regulation, entities to be included, where disclosures should be reported, identifying the reporting entity, setting the effective date, transitional reliefs and jurisdictional modifications.

The ISSB intends to finalise the guide in the first half of 2024.

Jurisdictional sustainability disclosure consultations (ongoing and completed)

In addition to publishing the draft jurisdictional adoption guidance (see above), the IFRS Foundation has published an [overview of ongoing and completed consultations](#) on sustainability related disclosures. This includes ongoing consultations in Australia, Nigeria and Malaysia as well as completed consultations including Pakistan, Philippines, UK, Singapore and Hong Kong.

European Highlights

EFRAG launches two consultations ahead of the IFRS 16 PiR

In anticipation of the IASB's request for information as part of the post-implementation review (PiR) of IFRS 16 – Leases, the European Financial Reporting Advisory Group (EFRAG) is launching two separate consultations:

- one aimed at preparers, auditors, national standard-setters and regulators (the questionnaire, consisting of 20 questions, can be completed online [here](#));
- one aimed at users (the questionnaire, also consisting of 20 questions, can be completed [here](#)).

These consultations are an opportunity for EFRAG to gather feedback from a wide range of stakeholders on the application of IFRS 16, and should enable it to draw up a preliminary list of application issues.

Responses should be sent by 15 April 2024.

EFRAG publishes a first set of responses on the application of ESRS

On 5 February 2024, the European Commission's technical advisor on sustainability reporting EFRAG published its first set of answers (accessible [here](#)) on the application of the European Sustainability Reporting Standards (ESRS), in conjunction with the Q&A platform (available [here](#)) launched at the end of last year (see [Beyond the GAAP no181](#) of October 2023).

Of the 12 questions addressed in this first batch, six relate to cross-cutting standards, five to environmental standards and one to social standards. In each case, EFRAG

provides the references and extracts from the standards on which its explanations are based in order to guide the reader.

Based on the 258 questions received by 31 January 2024, EFRAG has identified the following trends:

- categories: 127 questions require an explanation (106) or the development of implementation guidance (21); 17 are currently under analysis; and 114 have been rejected; this may be because they are not technical in nature, because they have already been dealt with elsewhere, or because they fall out of EFRAG's scope;
- subjects addressed: these questions mainly concern cross-cutting standards (38%) and topical standards (22% on environmental standards and 20% on social issues); the remainder address other topics (15%) and the XBRL taxonomy (5%);
- stakeholder representation: preparers and industry associations are the most represented contributors (40%), followed by users of sustainability statements (15%) and assurance service providers (8%), all of whom are mainly based in EU Member States.

EFRAG plans to publish a series of explanations on a quarterly basis to provide ongoing support to preparers and other affected stakeholders in the implementation of ESRS.

EFRAG publishes educational videos on sustainability reporting standards for SMEs

On 20 February 2024, EFRAG published three educational videos (available [here](#)) on the ESRS for listed SMEs (i.e. SMEs within the scope of the Corporate Sustainability Reporting Directive (CSRD)) and the voluntary standard for non-listed SMEs and

micro-enterprises (press release available [here](#)).

Released following the launch of a four-month public consultation on the draft standards at the end of January (see [Beyond the GAAP no.184](#) of January 2024), these videos aim to present:

- the main subjects addressed in the exposure drafts;
- a detailed overview of their contents;
- the main proportionality and simplification measures introduced by EFRAG in respect of ESRS Set 1, which must be applied by large entities (and which listed SMEs may decide to apply if they do not apply the standard developed expressly for them).

EFRAG launches public consultation on draft XBRL taxonomies for ESRS Set 1 and the Green Taxonomy

On 8 February 2024, EFRAG published the draft XBRL taxonomy (available [here](#)) applicable to information arising from both ESRS Set 1 and Article 8 of the Regulation (EU) 2020/852 on the taxonomy of sustainable economic activities (the "Green Taxonomy"), together with explanatory notes and basis for conclusions. Annexes have also been included to provide illustrations and examples of implementation.

These drafts are the subject of two independent public consultations in order to reflect EFRAG's different mandates on these subjects. EFRAG is not responsible for the structure and content of the Green Taxonomy disclosure requirements and only provides technical and digital support to the European Commission (EC). Stakeholders can provide feedback until 8 April 2024.

For ESRS Set 1, the challenge for EFRAG is to transpose the reporting requirements

into the form of a digital taxonomy based on XBRL (eXtensible Business Reporting Language), each data point being associated with an XBRL element known as a "tag".

The same principle is applied to the XBRL taxonomy applicable to information relating to the Green Taxonomy. This second draft will enable entities to tag Article 8 information relating to their environmentally sustainable activities and incorporate it into the sustainability statement drawn up in compliance with the CSRD in a standardised digital format.

This work relates to the CSRD requirement to present the management report, including the sustainability statement, in a single European electronic format (ESEF).

Following this public consultation, these draft XBRL taxonomies will be submitted to the European Securities and Markets Authority (ESMA), so that it can develop the Regulatory Technical Standards (RTS) to be used in the ESEF. The EC will then proceed to endorse the Delegated Regulation (EU) 2019/815 (on the ESEF format), amended by means of a delegated act. It has been agreed that the mandatory publication of annual reports in xHTML format, with sustainability information tagging, will be postponed at least until the 2025 reporting year.

EFRAG, CEN and CENELEC commit to cooperating to enhance synergies in sustainability reporting

On 27 February 2024, EFRAG, the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC) announced the signature of a Memorandum of Understanding (press

release available [here](#)) aimed at facilitating entities' implementation of sustainability reporting under the CSRD through the development of all possible synergies. This agreement entails cooperation to identify the relevant CEN and CENELEC standards and publications that will facilitate the implementation of ESRS.

Readers will recall that ESRS 2 on general disclosures allows an entity to indicate (i) the European standards approved by the European standardisation system (ISO/IEC¹ or CEN/CENELEC standards) on which it relies and (ii) the extent to which the data and processes used for sustainability reporting purposes have been verified by an external assurance provider and found to conform to the corresponding ISO/IEC or CEN/CENELEC standard.

Note that the CEN has collaborated with the ISO on technical issues since 1991. In the wake of COP28, the ISO and the IFRS Foundation have also announced their intention to cooperate (see [Beyond the GAAP no 183](#) of December 2023).

EFRAG launches three advisory panels to support the development of ESRS topical standards for the financial sector

On 28 February 2024 (press release available [here](#)), EFRAG announced the launch of three financial advisory panels: the Banking Advisory Panel (EFRAG BAP), the Capital Markets Advisory Panel (EFRAG CMAP), and the Insurance Advisory Panel (EFRAG IAP).

These advisory groups will advise EFRAG's Sustainability Reporting Technical Expert Group (SR TEG) on the development of the three sector-specific ESRS standards that will eventually be drafted for the financial

¹ International Organisation for Standardisation and International Electrotechnical Commission

sector. As a reminder, although the deadline for the adoption of sector-specific standards by the EC is likely to be extended to 30 June 2026 (see [Beyond the GAAP no 184](#) of January 2024), EFRAG has been asked to move forward as quickly as possible in the financial sector.

Natacha André and Jennifer Maingre Coudry, Mazars Partners in France, will serve on the EFRAG BAP and EFRAG IAP respectively.

To carry out its work, the SR TEG will also benefit from the support of the sectoral communities concerned. Interested stakeholders can apply at the following address: FIAPs@efrag.org.

Proposed amendments to IAS 32, IFRS 7 and IAS 1 (FICE project): a deep dive into the first three exposure draft topics

On 29 November 2023, the IASB published an exposure draft (available [here](#)) of proposed amendments to IAS 32, IFRS 7 and IAS 1 on the classification of financial instruments with characteristics of equity. The comment period runs until 29 March 2024.

The amendments aim to clarify some of the principles governing whether financial instruments should be classified as liabilities or equity, and thus resolve some of the practical issues identified by the Board. However, the fundamental principles of IAS 32 will remain unchanged.

The proposed amendments in the exposure draft can be grouped into ten topics, as follows:

1. how to account for rights and obligations arising from laws or regulations when classifying the instrument;
2. accounting for instruments that are settled in an entity's own equity instruments, and in particular how to assess whether the "fixed-for-fixed" condition is met in the case of derivatives;
3. accounting for obligations that require an entity to purchase its own equity instruments (particularly puts on non-controlling interests);
4. contingent settlement provisions, and in particular how these should be taken into account when measuring the

liability component of a compound instrument;

5. the factors to be taken into account to determine whether a shareholder decision should be treated as a company decision or a third-party investor's decision, when this decision obliges the issuer to make a settlement in cash or by delivering another financial asset;
6. the rules on reclassification of financial instruments between financial liabilities and equity instruments;
7. disclosures on financial instruments with characteristics of equity;
8. the introduction of new rules under IAS 1 that will require an entity to separately present the portion of equity and comprehensive income that is attributable to ordinary shareholders;
9. the transition requirements for these amendments;
10. the reduced disclosures to be provided by subsidiaries that are covered by the future *Subsidiaries without Public Accountability: Disclosures* standard.

In this special feature, we will look in more detail at the first three topics listed above. The others will be covered in a future issue of *Beyond the GAAP*.

The effects of relevant laws or regulations

IAS 32 identifies the 'contract', with its rights and obligations, as the key to identifying and classifying financial instruments. In this context, it is sometimes difficult to determine whether and how laws and regulations applicable to financial instruments affect the classification of those instruments.

In particular, differences in accounting treatment can arise depending on whether a contract in a given jurisdiction:

- includes the rights and obligations arising from laws or regulations within its text; or
- does not *explicitly* include these rights and obligations, even if they *implicitly* apply to the contract.

Within a given jurisdiction, the analysis of contractual rights and obligations may thus result in different accounting treatments for instruments with similar economic characteristics.

The Board identified several types of instruments that are affected by laws or regulations and for which this issue frequently arises. These include:

- instruments with ‘bail-in’ provisions, such as Additional Tier 1 instruments issued by banks. These are usually perpetual instruments with no redemption obligation unless the issuer goes into liquidation. However, they include a loss-absorption clause that is specifically required by law. This type of clause might require the conversion of the instrument into a variable number of ordinary shares, in the event of a trigger linked to the issuer’s capital ratio;
- legal obligations in some jurisdictions (such as Brazil) to distribute a minimum percentage of the entity’s annual profits as dividends to ordinary shareholders;
- obligations to repurchase non-controlling interests in the event of a tender offer by an entity.

Thus, in these examples, if the legal or regulatory requirements were taken into account, the instruments would be classified as financial liabilities.

To resolve this issue, the IASB is proposing to clarify the circumstances in which laws or regulations should be taken into account when classifying a financial instrument issued by the entity. The IASB is proposing to clarify that:

- only contractual rights and obligations that are enforceable by laws or regulations and that are in addition to legal or regulatory rights or obligations should be taken into account in the classification of the instrument;
- a right or obligation that is not solely created by laws or regulations must be taken into account in its entirety when classifying the financial instrument. For example, if a law requires the issuer to pay a dividend of 10% per ordinary share and the contract stipulates that the issuer must pay 15%, the issuer must consider the obligation to pay 15% in its entirety when quantifying the liability component of the hybrid instrument, not just the additional 5% that is required over and above the legal requirements.

It thus follows that:

- when a contract simply reproduces the legal requirements that would apply to the parties regardless of any agreement, whether or not they are specifically mentioned in the contract, these rights and obligations are not taken into account when classifying the instrument;
- in contrast, if legal or regulatory requirements would prevent enforceability of a contractual clause, these should be taken into account in the analysis: for example, if an entity’s obligation to repurchase its own equity instruments is restricted by law. In this case, the contractual clause would only be legally enforceable to the extent

permitted by law. The Board also noted that IFRIC 2, which covers the accounting treatment of shares in co-operative entities, is consistent with the new provisions and will not be called into question.

Settlement in an entity's own equity instruments

"Fixed-for-fixed" condition

IAS 32.16 specifies that derivatives that are settled in an entity's own equity instruments (e.g. a written call option on the issuer's own shares) shall be classified as equity if the contract specifies a fixed number of shares to be exchanged for a fixed amount of cash.

In practice, questions arise about whether any variation in the terms of the exchange should automatically mean the "fixed-for-fixed" condition is not met. Examples of these grey areas include:

- variation in the amount of consideration denominated in a foreign currency, due to changes in the exchange rate relative to the issuer's functional currency;
- variation in the amount of consideration per share due to adjustments in the contractual conversion ratio under certain circumstances, e.g. the application of anti-dilution clauses.

The IASB is proposing to clarify the situations in which the "fixed-for-fixed" condition is deemed to be met. The amount of consideration to be exchanged must be:

- denominated in the entity's functional currency; and
- fixed from the outset, or variable solely because of:
 - "preservation" adjustments, which preserve the relative economic interests of future shareholders to

an equal or lesser extent than those of current shareholders; and/or

- passage-of-time adjustments, if these adjustments: (i) are predetermined; (ii) vary with the passage of time only; and (iii) have the effect of fixing, on initial recognition, the present value of the amount of consideration exchanged for each of the entity's own equity instruments.

In the Basis for Conclusions of the exposure draft, the IASB provided some further clarifications on implementing these principles, which are worth mentioning.

Thus, for instruments denominated in foreign currencies, the IASB considers a situation in which an entity within a group issues a derivative over the equity instruments of another entity in the group with a different functional currency. In this specific case, the IASB concludes that the appropriate reference point is the functional currency of the entity whose equity instruments are to be exchanged, not the functional currency of the entity that issued the derivative.

Notwithstanding the terminology used in the section on passage-of-time adjustments, the Board explicitly states in the Basis for Conclusions and Illustrative Examples accompanying the exposure draft that adjustments to the strike price of a derivative based on an inflation index or an interest rate benchmark (such as Euribor) do not meet the criteria set out in the exposure draft and thus do not meet the "fixed-for-fixed" condition.

These clarifications on passage-of-time adjustments could also mean that some instruments, such as convertible bonds that include conversion ratio adjustment clauses based on the remaining time value of the option, would in practice be reclassified as

financial liabilities. More generally, if passage-of-time adjustments do not meet the three criteria set out above, they would not meet the “fixed-for-fixed” condition.

Choice of settlement between different classes of an entity’s own equity instruments

The IASB is proposing to clarify that, if the terms of a derivative over own equity instruments give one party a choice of settlement between two or more classes of an entity’s own equity instruments, the fixed-for-fixed condition is met if all settlement options meet this condition.

For example, if one party has the choice between receiving 100 ordinary shares or 125 preference shares in exchange for consideration of €500, the fixed-for-fixed condition is met because both the options meet this condition: the exchange ratio is fixed in both cases (one share for €5 if the derivative is settled in ordinary shares, or one share for €4 if it is settled in preference shares).

Share-for-share exchanges

The IASB is proposing to clarify that a derivative that may be settled by the exchange of a fixed number of the entity’s own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument.

Thus, a put option issued by a parent company to a non-controlling shareholder of a subsidiary, which would be settled by the purchase of a fixed number of the subsidiary’s shares in exchange for a fixed number of the parent’s shares, would be classified as an equity instrument in the parent company’s consolidated financial statements.

Obligations for an entity to purchase its own equity instruments

A key principle set out in IAS 32.23 is that, if a contract contains an obligation for an entity to purchase its own equity instruments, the entity should recognise a financial liability for the present value of the redemption amount. In practice, such contracts are usually written puts on non-controlling interests, or forward contracts to purchase the entity’s own shares.

In the absence of further clarifications, significance diversity in practice has arisen around which components of equity should be debited on initial recognition of the financial liability (the group share of equity vs. non-controlling interests) and where to recognise gains or losses on subsequent remeasurement of the financial liability (profit or loss vs. equity).

Moreover, IAS 32.23 only explicitly refers to situations in which the contract is settled in exchange for cash or another financial asset. Situations where the issuer must deliver a variable number of its own equity instruments (e.g. delivery of a variable number of shares in the parent company to purchase a fixed number of shares in a subsidiary) are not covered by the current standard.

The IASB is thus proposing the following clarifications on the accounting treatment for these obligations:

- a financial liability should also be recognised when the purchase of own equity instruments is to be settled by delivering a variable number of a different class of equity instruments;
- if the obligation to purchase own equity instruments does not give access to the rights and returns associated with ownership of the equity instruments on initial recognition (as defined in

IFRS 10), the liability shall be recognised against a component of equity other than non-controlling interests or issued share capital (i.e. in practice, a component of the group share of equity);

- when measuring the liability, the same approach should be used for initial and subsequent measurement: the liability is measured at the present value of the redemption amount at the earliest possible contractual redemption date, without taking account of the probability or estimated timing of the counterparty's exercise of its redemption right;
- gains and losses on remeasurement of the liability are recognised in profit or loss;
- if the contract expires without the counterparty exercising its redemption right:
 - the carrying amount of the liability is removed from financial liabilities and included in the same component of equity that was debited on initial recognition of the obligation;
 - the cumulative amount in retained earnings related to remeasuring the liability may not be reversed in profit or loss, but may be reclassified to another component of equity.

The IASB is also proposing to clarify that written put options and forward purchase contracts on an entity's own equity instruments that are settled gross (i.e. the consideration is exchanged for own equity instruments) must be presented at the gross amount of the obligation.

The IASB's proposals thus confirm the requirement to present a financial liability representing the obligation to purchase own equity instruments using a "gross" approach, in contrast to the "net" approach

that would be used for a derivative, i.e. recognising an amount equal to the difference between the consideration paid and the fair value of the shares to be received to settle the contract. The IASB decided not to apply a "net" approach, firstly because gross presentation of the information is helpful to users of financial statements in assessing the entity's exposure to liquidity risk, and secondly because it would require a substantial overhaul of IAS 32.

As regards the allocation of the liability at initial recognition, the Board noted in the Basis for Conclusions that its approach was challenged by some stakeholders, who argued that this would result in double counting of non-controlling interests based on two mutually exclusive scenarios. Under the approach proposed in the exposure draft, non-controlling interests would be treated as both:

- existing shareholders via their shares in the company, giving them the right to a share of net assets, including the entity's profits; and
- third-party creditors of the group, via the financial liability representing their right to require the entity to repurchase their shares.

In response, the Board argued that there is no double counting of non-controlling interests, because the investors' right to require the entity to repurchase their shares does not replace their current rights – it is an additional right that should logically be recognised separately, giving rise to two units of account.

Given the diversity in practice regarding the corresponding debit from equity (group share of equity vs. non-controlling interests) and subsequent remeasurement of the liability (profit or loss vs. equity), the proposed amendments could incur

significant consequences for entities that had previously applied a different accounting treatment.

Thus, where an entity has an obligation to repurchase non-controlling interests, the proposed clarification would change the practice of many companies that currently recognise the financial liability by anticipating the eventual purchase (i.e. simulating the exercise of the option); that is, they recognise the liability against non-controlling interests first, and only recognise any excess against group equity if the amount exceeds the value of non-controlling interests.

Contact us

Edouard Fossat, Partner, Mazars
edouard.fossat@mazars.fr

Carole Masson, Partner, Mazars
carole.masson@mazars.fr

Contributors to this issue:

Colette Fiard, Vincent Gilles, Clémence Lordez,
Nicolas Millot, Laura Niewiadomskyj, Pierre Savu,
Arnaud Verchère and Paul Winrow

Beyond the GAAP is published by Mazars. The purpose of this newsletter is to keep readers informed of financial and sustainability reporting developments. Beyond the GAAP may under no circumstances be associated, in whole or in part, with an opinion issued by Mazars. Despite the meticulous care taken in preparing this publication, Mazars may not be held liable for any errors or omissions it might contain.

The drafting of the present issue was completed on 5 March 2024.

© Mazars – February 2024 – All Rights reserved

About Mazars

Mazars is an international, integrated and independent firm, specialising in audit, advisory, accountancy, tax and legal services [1]. With a presence in 95 countries and territories across the world, Mazars brings together the expertise of 47,000 professionals – 30,000 in our integrated partnership and 17,000 in the United States and Canada via the Mazars North America Alliance – to serve clients of all sizes at every stage of their development.

[1] Where permitted under applicable country laws

www.mazars.com