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EBNER STOLZ

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Editorial

Dear Readers,

social life and economic activity continue to be severely impacted by the coronavirus pandemic. Because of this, companies are facing not only economic challenges, but also new accounting requirements.

This edition of 'novus IFRS' contains an overview of key publications relating to IFRS accounting during the coronavirus pandemic, that were published by standard-setters and institutions over the course of the year, and provides you with specific information on issues that are relevant to you.

This edition of 'novus IFRS' also highlights key disclosures with regard to standards and interpretations that have already been adopted and need to be disclosed in EU-IFRS consolidated financial statements as of December 31, 2020. The amendments to IFRS 16 'Leases' will be of particular relevance for many companies as they provide an accounting choice for rent concessions granted on the occasion of Covid-19.

In the fourth quarter of 2020, FREP (Financial Reporting Enforcement Panel, DPR) published its enforcement priorities for 2021 for individual and consolidated financial statements 2020. Their focus is also on the effects of the coronavirus pandemic on financial reporting. The first two enforcement priorities relate to IAS 1 and IAS 36, with a focus on the presentation of the impact of Covid-19 on going concern assumptions, estimation uncertainty and impairment of non-financial assets. Two other priorities relate to financial instruments (IFRS 9 and IFRS 7), amongst other with regard to liquidation risk, and leases under IFRS 16. FREP's other enforcement priorities concern related party disclosures and selected aspects of risk reporting in group management reports.

We hope you enjoy reading this 'novus IFRS'. We will be happy to help you if you have questions on any of the topics.

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CONTENT

Amendment to IFRS 16: Optional practical expedient for rent concessions granted because of Covid-19

The sectors where leasing is particularly prevalent – retail, services and aviation – have been hit especially hard by the measures imposed to contain the coronavirus pandemic and the resulting loss of sales revenue. However, as most rent and lease payments continue to be due despite any lockdown, these sectors are being confronted with heavy economic burdens.

> As a practical expedient, the newly adopted IFRS 16 amendment gives lessees the option to account for Covid-19-related rent concessions as a (negative) variable lease payment.

To help lessees in this difficult situation, some lessors have been willing to grant their contractual partners concessions such as rent-free months or a reduction in the scope of the lease. IFRS accounting require lessees to assess in such situations whether there is a lease modification under IFRS 16 leading to an adjustment of the carrying amounts of the right-of-use asset and the lease liability. This requires a detailed analysis of each individual case. To offer lessees relief from the resulting significant effort shortly after the initial application of IFRS 16, the IASB decided on an amendment to IFRS 16, effective as of June 1, 2020, that allows a temporary exemption from this accounting practice. Earlier application of the IFRS 16 amendment to financial years beginning before June 1, 2020 is also permitted.

Under the existing IFRS 16 requirements, a lease modification must always be accounted for if the right to use the underlying asset and/or the amount of the lease payments changes in a way over the remaining term of the lease, that was not part of the original terms and conditions of the lease. If a lease modification is identified, the remaining lease payments must be discounted using a revised discount rate to reflect the new terms and conditions, and the lease liability must be remeasured if the present value determined at that point differs from the present value before the adjustment. The carrying amount of the right-of-use asset is reduced proportionately if the term or scope of the lease is reduced, and is otherwise reduced to reflect the change in the lease liability. Since the residual carrying amount of the lease liability and the right-of-use asset are normally not the same because of the differences in accounting subsequent to initial recognition, there is often a difference between the two adjusted amounts. The difference must be recognised in profit or loss.

Deviating from this treatment, lessees now have the option to simplify the accounting for changes in a lease. They can apply this option

- if a change in the lease is a direct consequence of the coronavirus pandemic,
- the change does not increase the total lease payments,
- the change only affects payments originally due before July 1, 2021 and
- there is no substantive change to other terms and conditions of the lease.

If all of these conditions are met and the lessee decides to exercise the option, the lessee may elect not to assess whether there is a lease modification and, instead, account for the change in the lease as a (possibly negative) variable lease payment. This amendment has been endorsed by the EU on October 9, 2020. For IFRS preparers in the EU, the amendment is already effective for periods beginning on or after January 1, 2020.

Discussion Paper on enhanced disclosures on business combinations and goodwill impairment

Business combinations are often substantial transactions for the companies involved. For this reason, the IASB has therefore increasingly focused its attention on the related financial reporting in recent years. Discussion Paper DP/2020/1 'Business Combinations—Disclosures, Goodwill and Impairment' was issued on March 19, 2020. The paper is the interim outcome of the 'Goodwill and Impairment' project, which also reflects findings of the Post-Implementation Review of IFRS 3. The comment period for the Discussion Paper (DP) was extended to 31 December 2020 because of the coronavirus pandemic.

> The IASB is proposing an 'indicator-only approach' for discussion, which would scrap the mandatory annual impairment test.

The IASB puts forward the following issues, among others, for discussion in the DP:

- The mandatory annual impairment test would be scrapped.
- Under the 'indicator-only approach', goodwill would only be tested for impairment if there are indicators that it may be impaired.
- Cash flows from expected restructurings and post-tax cash flows and discount rates could be used to estimate value in use.
- Disclosures should be required to enable an assessment of management's strategic rationale for an acquisition.
- The performance of the acquisition should be monitored against the targets originally set to enable an understanding of whether the acquisition meets management's original expectations.

> The IASB is proposing to retain the impairment-only approach for goodwill, but is suggesting simplifications regarding the impairment test.

The IASB also discusses whether there are new arguments or information about how best to measure goodwill after initial recognition. The advantages and drawbacks of a return to amortising goodwill are described.

In the comments about goodwill, the DP addresses criticisms of the impairment-only approach currently required under IFRS, which does not permit the amortisation of goodwill. In the course of developing the DP, a small majority of the IASB came to the conclusion that the reintroduction of scheduled amortization of goodwill should not be implemented. From the perspective of the proponents of the impairment-only approach, changing the methodology would not enhance the decision-usefulness of IFRS financial statements because the estimation of the useful life of goodwill would necessarily be arbitrary.

> The coronavirus pandemic in particular poses a risk to the recoverability of goodwill. Ebner Stolz' **Goodwill Check** offers IFRS preparers an opportunity to identify risks at an early stage and provides specific guidance. You can find out more at https://www.ebnerstolz.de/de/covid-19-goodwill-336891.html.

The DP also discusses the effectiveness of the goodwill impairment test. One criticism sometimes levelled at this test is that it recognises necessary impairment losses on goodwill too late. The Board comes to the conclusion in this context that no more effective approach to impairment testing is currently available without significantly greater costs, so the existing requirements should be retained.

The DP also addresses the question of whether the existing impairment test can be simplified without making it significantly less robust. The solution proposed by a narrow majority would remove the requirement for the mandatory annual impairment test for goodwill and intangible assets with indefinite useful lives, with the result that the impairment test should only be performed if there are indicators of impairment. Additionally, companies should be allowed to use cash flows from restructurings and post-tax cash flows and discount rates to estimate value in use, which was previously prohibited.

The IASB is also proposing that preparers should make additional disclosures on the strategic rationale for undertaking a business combination, comprising in particular the objectives of the business combination and the metrics used to assess whether the performance of the business combination meets the original expectations. This is designed to give users of the financial statements a better understanding of whether a business combination was successful, and the purchase price was reasonable.

Finally, the IASB addresses in the DP the question whether it is necessary to recognise all intangible assets separately from goodwill in a business combination, or whether this approach can be abandoned. It comes to the conclusion that there should be no change to the existing requirement to recognise all intangible assets separately from goodwill.

IFRS accounting in the coronavirus pandemic

The outbreak and global spread of the coronavirus have left society and the economy in a state of emergency in 2020. Although many of the measures previously implemented to contain the pandemic were eased again following the lockdown imposed in the spring, the pandemic and the less restrictive lockdown measures now in place again continue to dominate business activity. Further severe measures were resolved by federal government and states (Länder) in November 2020 in response to the new spike in Covid-19 infections.

The pandemic is also impacting IFRS accounting. We already described the effects of the pandemic on IFRS accounting in edition 1/2020 of 'novus IFRS'. Over the course of the year, standard-setters and institutions have presented their views about how to account for the consequences of the pandemic. The following overview contains links to the most important Ebner Stolz publications and official pronouncements on IFRS accounting.

Fundamental overview of accounting-related issues in the coronavirus pandemic

- DRSC: Frei herunterladbare, überarbeitete Version des DRSC-Anwendungshinweises 3 (IFRS)
- IDW: Übersichtsseite mit Informationen zur Corona-Krise
- IDW: Fachlicher Hinweis „Auswirkungen der Ausbreitung des Coronavirus auf die Rechnungslegung zum 31.12.2019 und deren Prüfung"
- IDW: Fachlicher Hinweis „Auswirkungen der Ausbreitung des Coronavirus auf die Rechnungslegung und deren Prüfung (Teil 2)"
- IDW: Fachlicher Hinweis „Zweifelsfragen zu den Auswirkungen der Ausbreitung des Coronavirus auf die Rechnungslegung und deren Prüfung (Teil 3, 1. Update Juli 2020)"

Alternative performance measures

- ESMA: Q & A zu Alternative Performance Measures im Kontext der Corona-Pandemie

Preparation and publication of interim reports

- ESMA: Auswirkungen des Covid-19-Ausbruchs im Zwischenbericht

Financial instruments under IFRS 9

- ESMA: Auswirkungen des Covid-19-Ausbruchs auf die Bestimmung des Expected Credit Loss gemäß IFRS 9
- IASB: Hinweise zur Anwendung von IFRS 9
- IDW: Fachlicher Hinweis „Auswirkungen der Coronavirus-Pandemie auf Wertminderungen von Finanzinstrumenten nach IFRS 9 im Halbjahresabschluss von Banken zum 30.6.2020"
- IDW: Fachlicher Hinweis „Auswirkungen der Coronavirus-Pandemie auf Wertminderungen von Finanzinstrumenten nach IFRS 9 im Quartalsabschluss von Banken zum 31.3.2020"

Credit institutions

- IDW: Fachlicher Hinweis „Fragen & Antworten: Auswirkungen der Coronavirus-Pandemie auf Kreditinstitute"

Leases under IFRS 16

- IASB: IFRS 16 und Covid-19 – Bilanzierung Covid-19-bezogener Leasingkonzessionen bei der Anwendung von IFRS 16 (Stand: April 2020)

Disclosures required by IASB pronouncements

Overview of disclosure requirements in EU IFRS consolidated financial statements for the year ending December 31, 2020.

Particular attention should be paid to ensure complete disclosures on new or amended standards when consolidated financial statements are prepared and audited. Disclosures are required both, for newly applied standards and interpretations (IAS 8.28) and for standards and interpretations that have been adopted but not yet applied (IAS 8.30). The following overview describes the status of the standards and interpretations adopted by the IASB (as at December 12, 2020) that are required by IAS 8.28 and IAS 8.30 to be disclosed in EU IFRS consolidated financial statements for the year ending December 31, 2020.

Effects of new and amended standards and interpretations (IAS 8.28)

IAS 8.28 requires the disclosure of new and amended standards and interpretations, if their initial application has an effect on the reporting period or any prior period. The scope of IAS 8.28 therefore covers all changes to accounting policies resulting from the initial application of a new or amended standard or interpretation. The following information must be disclosed in connection with the new standard or interpretation:

- the title of the standard or interpretation,
- if applicable, a description of the transitional provisions,
- the nature of the change in accounting policy,
- the amount of the adjustment for each financial statement line item affected (including earnings per share) for the beginning of the prior period, for the prior period and the reporting period, to the extent practicable.

It should also be noted that the IAS 8.28 disclosures are also required if a new standard or interpretation is applied prior to the effective date.

Note: *The following table provides an overview of pronouncements that are potentially required by IAS 8.28 to be disclosed in EU IFRS consolidated financial statements for the year ending December 31, 2020, as well as a general estimate of their effect on accounting practice. It is not necessary to list all new or amended pronouncements. If appropriate, the description of the new standards and interpretations whose application may affect the IFRS consolidated financial statements may be followed by a general statement that the other standards and interpretations required to be applied in the EU for the first time as at January 1, 2020 do not materially affect the consolidated financial statements.*

Standard	Title	IASB effective date*	Expected effective date in the EU*	Effect**
Amdt. IAS 1 and IAS 8	Definition of Material	1 Jan. 2020	1 Jan. 2020	Fundamental importance
Amdt. IFRS 3	Definition of a Business	1 Jan. 2020	1 Jan. 2020***	Sector- or entity-specific importance
Amdt. Reference to the IFRS Conceptual Framework	Amendments to References to the Conceptual Framework	1 Jan. 2020	1 Jan. 2020	Fundamental importance
Amdt. IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform (Phase 1)	1 Jan. 2020	1 Jan. 2020***	Sector- or entity-specific importance
Amdt. IFRS 16	Covid-19-Related Rent Concessions	1 Jun. 2020	1 Jan. 2020***	Sector- or entity-specific importance

* For annual periods beginning on or after this date.
** The general estimate of the effect on accounting practice is provided for guidance only – the specific impact on individual entities must be explained independently of this.
*** The amendments to this standard were adopted in the EU in the course of 2020; in accordance with the corresponding Commission Regulation, the amendments must be applied to financial years beginning on or after January 1, 2020.

Definition of Material – Amendments to IAS 1 and IAS 8

The IASB has issued amendments to IAS 1 and IAS 8 on October 31, 2018 to clarify the definition of 'material' and to align the different definitions used in the Conceptual Framework and the standards. The amendments now clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The reasons for the amended definition are as follows:

- 'could reasonably be expected': this wording is intended to limit the disclosures and not require too much information.
- 'obscuring': 'obscuring' material information can have a similar effect as omitting or misstating material information. The amendments provide examples of circumstances that may result in material being 'obscured' (including unclear language, information being scattered throughout the financial statements, material information being hidden by immaterial information).
- 'primary users': As the previous definition only referred to 'users', and this term might be understood too broadly, the Board lists examples of primary users.

To support the assessment of materiality, the IASB already issued Practice Statement 2 'Making Materiality Judgements' in September 2017.

Definition of a Business – Amendments to IFRS 3

The IASB issued narrow-scope amendments to IFRS 3 on October 22, 2018 that clarify whether an acquisition in a business combination is a business or a group of assets.

The amendments relate to the definitions in Annex A, the IFRS 3 application guidance and the illustrative examples:

- to be considered a business, an acquired set of activities and assets must include, at a minimum, an input (use of economic resources) and a substantive process that together significantly contribute to the ability to create outputs.
- the definition of a business is narrowed by focusing on goods and services provided to customers.

- illustrative examples and guidance have been added to help entities assess whether a substantive process has been acquired.

- guidance has been added on a simplified assessment of whether an acquired set of activities and assets is not a business.

Note: *Entities have the option to undertake a 'concentration test'. This tests whether substantially all of the fair value of the activities and assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is met, the entity can assume that no business has been acquired and no further assessment is needed.*

Amendments to References to the Conceptual Framework

The IASB issued the revised Conceptual Framework on March 29, 2018. The amendments contain revised definitions of assets and liabilities, as well as new guidance on measurement and derecognition, presentation and disclosure. The amended Conceptual Framework focuses on topics that were not yet covered or that showed obvious shortcomings; there was therefore no substantial revision.

The main additions to chapters 1 to 8 are presented in the following:

- **Chapter 1 – The objective of multi-purpose financial reporting**
  The objective of multi-purpose financial reporting is to provide financial information about the reporting entity that is useful to users of the financial statements in making decisions. The IASB stresses management's responsibility with regard to this information.

- **Chapter 2 – Qualitative characteristics of useful financial information**
  Decision-useful financial information is primarily characterised by the characteristics of relevance and faithful representation. The benefits of reporting the information should be greater than the costs of collecting or processing it. The IASB also added new guidance on this topic.

- **Chapter 3 – Financial statements and the reporting entity**
  The term 'reporting entity' was redefined as the smallest entity that is required, or chooses, to prepare financial statements. The IASB also stresses that consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements.

- **Chapter 4 – The elements of financial statements**
  Definitions of assets, liabilities, equity, income and expenses, as well as the expression 'economic resource', were revised and clarified. The IASB no longer applies probability considerations to inflows or outflows of resources. The definition of assets now focuses on rights and control.

- **Chapter 5 – Recognition and derecognition**
  The recognition criteria were revised and new guidance on derecognition was added. Derecognition is the removal of all or part of a recognised asset or liability from the statement of financial position with the aim of faithfully representing any assets and liabilities retained after the transaction or other event that led to the derecognition.

- **Chapter 6 – Measurement**
  The explanation of the different measurement bases now includes current cost as a measurement base. Current cost is the replacement cost for an equivalent asset or liability, comprising the value of the consideration plus the transaction costs at the measurement date.

- **Chapter 7 – Presentation and disclosure**
  Guidance was added concerning the recognition of income and expenses in profit or loss (the primary source of information for assessing an entity's financial performance) or in other comprehensive income, including subsequent reclassification.

- **Chapter 8 – Concepts of capital and capital maintenance**
  Taken over mainly unchanged from the Framework 2010.

Since the Conceptual Framework is neither a standard nor an interpretation, there are no plans for it to be endorsed for use in the EU. The amendments to standards that were issued at the same time mainly serve to update references to the Conceptual Framework or citations from it and relate to a large number of standards and other pronouncements.

IBOR Reform Phase 1 – Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 on September 26, 2019. These amendments relate to hedge accounting and finalise Phase 1 of the interest rate benchmark (IBOR) reform project.

In the course of the IBOR reform, the existing IBOR rates, that are used worldwide as benchmarks for the conditions governing financial instruments, are to be either reformed or successively replaced by alternative benchmark rates by the end of 2021.

The first phase of the reform provides relief relating to the application of specific hedge accounting requirements in IFRS 9 and IAS 39 for hedging relationships that are directly affected by the IBOR reform. In the case of forward-looking assessments, among other things, entities can now assume that the interest rate benchmark, on which hedged cash flows are based, is not altered by the reform. This allows hedging relationships to be continued that would otherwise have to be discontinued because of the existing uncertainty about when and how the current interest rate benchmarks will be replaced.

IFRS 7 was supplemented by the following disclosure requirements that reveal how the entity has been affected by the IBOR reform:

- disclosure of the significant interest rate benchmarks to which the entity's hedging relationships are exposed,
- the process to transition to alternative benchmark rates,
- the extent of the risk exposure,
- judgements and a description of significant assumptions the entity made in applying the amendments to IFRS 9 and IAS 39,
- the nominal amount of the hedging instruments in the hedging relationships to which the entity has applied the relief described above.

Note: *Phase 2 of the reform addresses the potential effects of changes in interest rate benchmarks at the time of their replacement; see 'New and amended standards and interpretations issued but not yet effective (IAS 8.30)' in this issue of 'novus IFRS' (p. 11).*

Amendment to IFRS 16 due to the coronavirus pandemic

The IASB has introduced an accounting choice for rent concessions granted to lessees during the coronavirus pandemic. If certain conditions are met, lessees may elect not to assess whether the rent concession is a lease modification as defined by IFRS 16 and, instead, account for the change in the lease as a (possibly negative) variable lease payment. For more details, please refer to the 'Spotlight' section in this issue of 'novus IFRS' (p. 4).

New and amended standards and interpretations issued but not yet effective (IAS 8.30)

IAS 8.30 requires entities to report on IASB standards and interpretations that have already been issued but are not yet effective in the reporting period and have not been applied prior to the effective date.

Examples of required disclosures include:

- the title of the new standard or interpretation,
- the nature of the impending change in accounting policy,
- the date by which application of the standard or interpretation is required,
- the date from which the entity plans to apply the standard or interpretation,
- the expected impact on the financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

Note: *The following table provides an overview of pronouncements that are potentially required by IAS 8.30 to be disclosed in EU IFRS consolidated financial statements for the year ending December 31, 2020. None of the standards or interpretations listed in the table below has been endorsed by the EU, with the result that they are not yet effective in the EU (although early adoption may be possible). However, there are certain standards for which EU endorsement is expected by December 31, 2020 and for which the effective date will be January 1, 2021. We have made a general assessment of the effect on accounting practice of the pronouncements that are potentially required. Standards and interpretations of fundamental importance, as well as those expected to affect accounting practice, should be discussed in the notes. There is no need for a comprehensive presentation of new or amended standards and interpretations that are not yet effective.*

If several new standards or interpretations do not materially affect the entity, it may use a formulation such that the relevant standards and interpretations without any material effect are neither described nor listed. For example, this could take the form of a general statement that, other than the standards and interpretations described in detail, the standards and interpretations adopted by the IASB are not expected to have any material effect on the consolidated financial statements. Additionally, the entity may also make a general statement at the date of application of the standards or interpretations that it has no plans to apply the new standards or interpretations prior to the effective date.

IFRS 17 'Insurance Contracts' and Amendments to IFRS 17

The IASB issued IFRS 17 'Insurance Contracts', which will replace IFRS 4 'Insurance Contracts', on May 18, 2017. The objective of the new standard is to provide relevant information for users of financial statements through systematic, principle-based accounting and to ensure the consistent presentation and measurement of insurance contracts. The new recognition, measurement and presentation requirements must be applied by entities to:

- insurance contracts and reinsurance contracts it issues,
- reinsurance contracts it holds and
- investment contracts with discretionary participation features that an entity issues, provided the entity also issues insurance contracts.

If the primary purpose of a contract, that meets the definition of an insurance contract under IFRS 17, is to provide services for a fixed fee, the entity may elect to account them in accordance with IFRS 15 'Revenue from Contracts with Customers' instead of IFRS 17.

The IASB issued targeted amendments and clarifications to IFRS 17 on June 25, 2020 together with an amendment to IFRS 4. These amendments defer the initial application date of IFRS 17 together with IFRS 9 for insurers who meet certain conditions until January 1, 2023. Insurers are excluded from the scope of IFRS 9 until that date. The effective date of IFRS 17 (including the amendments) was therefore extended by two years. The amendments and clarifications relate to eight areas of IFRS 17 and aim overall to simplify implementation of the standard. This will be enabled by the following amendments, among other things:

- additional scope exclusions for certain contracts,
- further extension of the risk mitigation option,
- amendments to recognition and measurement requirements, as well as simplified presentation of insurance contracts, and
- additional transition relief, including for business combinations.

There was no change to the principles underlying the standard.

EU-Endorsement still outstanding (as at 30 Nov. 2020)

Standard	Title	IASB effective date*	Expected effective date in the EU*	Effect**
IFRS 17, Amdt. IFRS 17	Insurance Contracts	1 Jan. 2023	Outstanding	Sector- or entity-specific importance
Amdt. IAS 1	Presentation of Financial Statements – Classification of Liabilities as Current or Non-current	1 Jan. 2023	Outstanding	Fundamental importance
Amdt. IFRS 3	Business Combinations – Reference to the Conceptual Framework	1 Jan. 2022	Outstanding	Sector- or entity-specific importance
Amdt. IFRS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 Jan. 2022	Outstanding	Sector- or entity-specific importance
Amdt. IFRS 37	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract	1 Jan. 2022	Outstanding	Sector- or entity-specific importance
Annual Improvements Process (2018–2020 cycle)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 Jan. 2022	Outstanding	Sector- or entity-specific importance
Amdt. IFRS 4	Insurance Contracts – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 Jan. 2021	Outstanding***	Sector- or entity-specific importance
Amdt. IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest Rate Benchmark Reform (Phase 2)	1 Jan. 2021	Outstanding***	Fundamental importance

* For annual periods beginning on or after this date.
** The general estimate of the effect on accounting practice is provided for guidance only – the specific impact on individual entities must be explained independently of this.
*** Endorsement expected in Q4/2020.

Amendments to IAS 1 'Presentation of Financial Statements' – Classification of Liabilities as Current or Non-current

The IASB issued Amendments to IAS 1 'Classification of Liabilities as Current or Non-current' on January 23, 2020, clarifying the classification of liabilities with an uncertain settlement date as current or non-current. Classification should be based on the entity's rights that are in existence at the reporting date. If a right to defer a liability is linked to credit conditions (e.g. covenants) and if a condition is breached after the reporting date, the decisive factor is whether those credit conditions are complied with at the reporting date. Management expectations whether a right will actually be exercised are disregarded. Credit conditions that give the creditor the right to settle the liability by transferring equity instruments must be taken into account in the classification unless they involve equity instruments that are recognised separately.

The amendments become effective on January 1, 2022. The IASB issued a further Amendment to IAS 1 ('Classification of Liabilities as Current or Non-current – Deferral of Effective Date'), deferring the effective date of the amendments to IAS 1 issued in January by one year to January 1, 2023. The background to this deferral is the effects of the Covid-19 pandemic. This is confronting entities with numerous challenges, and the deferral will enable entities to focus on them for the time being.

Amendments to IFRS 3 'Business Combinations' – Reference to the Conceptual Framework

On May 14, 2020, the IASB issued amendments to IFRS 3 that update a reference to the Conceptual Framework. The revised Conceptual Framework containing an amended definition of assets and liabilities was issued in March 2018. At the same time, references in a large number of standards and other pronouncements were amended, but not in IFRS 3 because this could have caused conflicts for entities applying IFRS 3 due to differences in the definitions.

In addition to the reference, the following requirements in IFRS 3 have now been amended:

- an acquirer must apply the requirements of IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify obligations it has assumed that fall within the scope of IAS 37 or IFRIC 21.
- an explicit recognition prohibition for contingent assets was added.

Note: *The new guidance in the revised Conceptual Framework 2018 is described in 'Amendments to References to the Conceptual Framework' in this issue of 'novus IFRS' (p. 9).*

Amendments to IAS 16 'Property, Plant and Equipment' – Proceeds before Intended Use

The IASB also adopted amendments to IAS 16 'Proceeds before Intended Use' on May 14, 2020. The amendments clarify that proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating (for example, product samples) must be recognised in profit or loss. Such amounts are therefore not recognised when determining the cost of items of property, plant and equipment. This also applies to the costs associated with producing the item. The cost of the product sample is measured in accordance with IAS 2 'Inventories'.

The amendments also clarify when an asset is 'functioning properly', which is decisive for the start of depreciation. The assessment of functioning properly is not an assessment of the financial performance intended by management, for example an anticipated operating margin.

The IAS 16 amendments require proceeds and costs that relate to items produced that are not an output of the entity's ordinary activities to be presented separately.

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' – Onerous Contracts – Cost of Fulfilling a Contract

The IASB issued amendments to IAS 37 relating to onerous contracts, again on May 14, 2020. The amendments clarify the costs that an entity must include in the assessment of whether a contract will be onerous. They state that the cost of fulfilling a contract comprises the costs that relate directly to the contract. This means that both costs that would also be incurred without the contract, for example direct materials or labour (incremental costs), and other costs that directly relate to fulfilling contracts must be included. Examples of other costs include depreciation charges for an item of property, plant and equipment used in fulfilling the contract.

Annual Improvements Process (2018–2020 cycle): Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

The IASB issued the Annual Improvements to IFRS Standards (2018 – 2020) on May 14, 2020. The amendments relate to the following standards:

- **IFRS 1 'First-time Adoption of International Financial Reporting Standards' – Subsidiary as a First-time Adopter**
  For subsidiaries that become first-time IFRS adopters later than their parent, there is an option to measure assets and liabilities at the carrying amounts already used in the parent's consolidated financial statements (without consolidation adjustments, among other things). The amendment in the Annual Improvements extends this option to include the subsidiary's cumulative translation differences, with the result that these can also be measured at the carrying amounts already used in the parent's consolidated financial statements.

- **IFRS 9 "Financial Instruments' – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities**
  In the case of substantial modifications to parts of a contract resulting in a change of more than 10 per cent in the present value of a financial liability (the '10 per cent test'), the liability must generally be derecognised, and a new liability must be recognised. The IFRS 9 amendment clarifies the fees that must be included in the 10 per cent test for derecognising financial liabilities. Fees and costs are only included if they are paid to and received by the entity and the creditor (including fees and costs paid on behalf of the entity or creditor). Fees and costs paid to or received by third parties are not included.

- **IFRS 16 'Leases' – Lease Incentives**
  Illustrative Example 13 in the Illustrative Examples to IFRS 16 also contains guidance on payments by the lessor to the lessee to reimburse leasehold improvements, which are explicitly not classified as lease incentives as defined by IFRS 16. Because this guidance has led to misunderstandings in practice, the IASB deleted this passage in the Illustrative Example.

- **IAS 41 'Agriculture' – Taxation in Fair Value Measurements**
  The amendment deleted a requirement in IAS 41 that entities do not include cash flows for taxation in the fair value measurement (present value method) of a biological asset. There is no longer any requirement to use a pre-tax discount rate when measuring fair value. This amendment aligns the requirements of IAS 41 with those of IFRS 13.

Amendments to IFRS 4 'Insurance Contracts' – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The IASB issued an amendment to IFRS 4 'Insurance Contracts' on June 25, 2020 in connection with the amendments to IFRS 17 'Insurance Contracts' that were issued on the same date. IFRS 17, issued in May 2017, will replace IFRS 4. The amendment to IFRS 4 relates to the existing option to defer the initial application of IFRS 9, which was extended to the new effective date of IFRS 17. These amendments defer the initial application date of IFRS 17 together with IFRS 9 for insurers who meet certain conditions until January 1, 2023. Insurers are excluded from the scope of IFRS 9 until that date.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)

The IASB issued 'Interest Rate Benchmark Reform – Phase 2' on August 27, 2020, amending IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments published in Phase 1 in September 2019 contain practical expedients that can be applied in the run-up to the IBOR reform (see 'IBOR Reform Phase 1 – Amendments to IFRS 9, IAS 39 and IFRS 7' in this issue of 'novus IFRS' (p. 10)), while Phase 2 addresses practical financial reporting expedients after the reform of a benchmark interest rate, i. e. once an existing benchmark interest rate has actually been replaced.

The amendments relate to the following areas:

- **Modifications to financial assets, financial liabilities and lease liabilities**
  In the amendments to IFRS 9 'Financial Instruments' and IAS 39 'Financial Instruments: Recognition and Measurement', the IASB provides practical expedients if contractual cash flows change as a direct consequence of the IBOR and the new basis is economically equivalent. The IASB clarifies that this can also involve a modification if there has been no change to the contractual terms. It is sufficient to account for the transition to the new benchmark interest rates by updating the effective interest rate. If further modifications are made, these must be accounted for using existing IFRS. The amendments to IFRS 4 and IFRS 16 give insurers and lessees similar practical expedients with regard to their financial instruments and leases.

- **Hedge accounting**
  The amendments allow hedge accounting to be continued after transitioning to the new benchmark interest rates. However, in order to reflect the modification due to the transition, it is necessary to amend the hedging relationship and the related documentation. The amended hedging relationships must also continue to meet all of the qualifying criteria for hedge accounting.

- **IFRS 7 disclosure requirements**
  Comprehensive disclosures are required in the notes to enable users of financial statements to understand the nature and extent of the risks to which the entity is exposed because of the IBOR reform and how the entity manages these risks, as well as how the entity is managing the transition to alternative benchmark rates.

Exposure Draft on general presentation and disclosures to replace IAS 1: What the new 'statement of profit or loss' should look like

The IASB issued Exposure Draft (ED) ED/2019/7 General Presentation and Disclosures on December 17, 2019. It is intended to replace IAS 1 and also amends certain presentation issues in other standards (e.g. IAS 7, IAS 8, IAS 34 and IFRS 12). It is based on feedback received from the Agenda Consultation 2015, which revealed in particular that the income statements of entities in the same sector can have a different structure and content, which restricts the comparability of IFRS financial statements.

The main changes proposed in the ED are:

- presentation of binding categories ('operating', 'integral associates and joint ventures', 'investing' and 'financing') and subtotals in the income statement (referred to in the ED as the 'statement of profit or loss'),
- specific requirements on the combination and analysis of financial statement line items (nature of expense versus function of expense methods, unusual income and expenses),
- introduction of guidance for the additional disclosure and explanation of management performance measures,
- removal of certain options in the presentation of the statement of cash flows.

The IASB proposes to enhance the comparability of financial statements in the future by requiring the following three subtotals to be reported:

- operating profit or loss,
- operating profit or loss and income and expenses from integral associates and joint ventures, and
- profit or loss before financing and income tax.

This would result in the disaggregation of profit or loss, since all income and expenses (except for income taxes and discontinued operations) would be allocated to the four categories of 'operating', 'integral associates and joint ventures', 'investing' and 'financing'. The 'integral associates and joint ventures' category includes all income and expenses attributable to integral associates or joint ventures. The other categories are similar to those used in the statement of cash flows. The IASB has no plans to completely align the categories in the future statement of profit or loss with those in the statement of cash flows.

The management performance measures presented in future financial statements would be disclosed and explained in a separate note to the financial statements. In addition, the entity must disclose a reconciliation to the most directly comparable subtotal or total defined in the standards.

The comment period, which was extended because of the coronavirus pandemic, ended on September 30, 2020.

IFRS Interpretations Committee agenda decisions

If the IFRS Interpretations Committee (IC) takes the position that an issue addressed to the Committee is not suitable as a basis for an interpretation, the decision not to add it to its agenda is published in the IFRIC Update. In addition to a description of the fact pattern, this 'tentative agenda decision' also gives the reasons for the negative decision. After the end of a comment period of at least 30 days, the IFRS IC decides on the final wording of the decision, including the reasons.

Some of the negative agenda decisions of the IFRS IC also contain material statements on IFRS accounting (non-interpretations, non-IFRICs). The agenda decisions are explicitly published by the IASB for information purposes only. Nevertheless, the IASB believes that preparers may not ignore the IFRS IC's agenda decisions and may only depart from them if there are compelling reasons for doing so.

***Note:** The following table provides a brief overview of the issues addressed by the IFRS Interpretations Committee's agenda decisions in the period January1 to 16 November 2020. A detailed description of the fact patterns and the decision are published as IFRS IC agenda decisions in the IFRIC Update.*

IFRIC Update June 2020

Standard/Issue	Extracts from agenda decisions
IFRS 15 & IAS 38: Player transfer payments – registration right	When it derecognises a licence under IAS 38.113, the transferring club recognises the difference between the net disposal proceeds and the carrying amount of the license in profit or loss; it cannot be recognised as revenue.
IFRS 16: Sale and leaseback with variable payments	In the opinion of the IFRS IC, the present value of the expected variable lease payments can be compared with the fair value of the underlying asset when the underlying asset is classified into a right-of-use transferred and a right-of-use retained.
IAS 12: Deferred tax related to an investment in a subsidiary – undistributed profits	The parent entity must recognise deferred tax assets for undistributed profits under IAS 12.39 and measure them at the tax rate applicable to dividend distributions.

IFRIC Update April 2020

Standard/Issue	Extracts from agenda decisions
IAS 12: Deferred tax in connection with licences acquired in a business combination – multiple tax consequences	The entity must apply IAS 12 to the two distinct tax consequences of accounting for the licence and must therefore recognise both, a taxable and a deductible temporary difference.

IFRIC Update March 2020

Standard/Issue	Extracts from agenda decisions
IAS 21 & IAS 29: Ausweis von Effekten aus der Währungsumrechnung bei der Umrechnung eines ausländischen Geschäftsbetriebs – Restate/Translate-Ansatz	Exchange differences may not be recognised directly in equity. Since IAS 21.41 requires exchange differences from translating non-hyperinflationary foreign operations to be recognised in OCI, the IFRS IC concludes that this approach must also be applied to the financial statements of hyperinflationary foreign operations. In consequence, the translation effect is presented in OCI and the restatement effect is presented in equity, or both effects are presented in OCI.
IFRS 15: Behandlung von Ausbildungskosten, die zur Erbringung einer Dienstleistung anfallen	Under IAS 38.5, training costs fall within the scope of IAS 38, which states that training costs incurred to provide future economic benefits cannot be recognised as part of the cost of an asset and must be recognised as expenses.

IFRIC Update January 2020

Standard/Issue	Extracts from agenda decisions
IFRS 16: Definition of a lease – decision-making rights	Operation and maintenance of a ship does not give the supplier the right to direct how and for what purpose the ship is used. The contract therefore contains a lease.

Disclosure Initiative – Subsidiaries that are SME

As a consequence of the Agenda Consultation 2015, the IASB added a project on disclosure requirements for SME subsidiaries of IFRS preparers. The background to this project is that subsidiaries that are themselves SME and could therefore follow the less comprehensive requirements of the IFRS for SME are often required at the same time to prepare numbers for the consolidated financial statements that follow the requirements of full IFRS standards. The IASB wants to examine whether, and under what conditions, it is possible to simultaneously apply full IFRS in the statement of financial position or income statement and the IFRS for SME in the notes. The decision whether to issue a discussion paper or directly issue an exposure draft is expected to be taken in December 2020. At the Board meeting on October 29, 2020, a provisional decision was taken regarding the requirements for SMEs to be included in an exposure draft. Among other things, SMEs will be expected to disclose that they apply reduced disclosure requirements. However, the requirements of IAS 8 would have to be satisfied in full.

IFRS Practice Statement 'Management Commentary'

The IASB issued Practice Statement 1 'Management Commentary' in December 2010. This is designed to support the preparation of a management report that complies with IFRS, but does not constitute an IFRS standard and is therefore not required to be applied when preparing IFRS-compliant financial statements, unless stipulated otherwise by national law. In practice, this document has so far tended to play a subordinate role. However, as the IASB decided in March 2017 to play a more active role in general management reporting, it added a project to revise the Practice Statement to its agenda. A particular focus will be on linking financial and non-financial information. The next step will be the publication of an Exposure Draft.

Rate-regulated Activities

There are currently no specific requirements in IFRS governing rate-regulated activities. These activities differ from regular market transactions because a regulator or government decides how much and when customers are charged. As part of the Agenda Consultation 2011, the IASB decided to add this issue to its agenda and subsequently launched a project to address the issue. The accounting model being developed by the IASB would require rate-regulated entities in particular to provide information about their rights and obligations as regards pricing. Together with the simultaneous application of IFRS 15, this is expected to give users of financial statements clear and more complete information about rate-regulated activities. A discussion paper was already issued in September 2014, which will now be followed by an exposure draft. Based on the outcome of the Board meeting in September 2020, this is now expected to be published in January 2021.

IDW – Institut der Wirtschaftsprüfer: Additional modules on IDW RS HFA 50 clarifying application issues in connection with IFRS 1, IFRS 9 and IFRS 16

To be able to comment more flexibly on practical issues and bundle its accounting pronouncements into packages, a few years ago the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW) started issuing guidance on specific issues relating to IFRS accounting in standardised modular pronouncements. Each of the modules is self-contained and is adopted separately by the Hauptfachausschuss (Auditing and Accounting Board). The individual modules are then combined into the modular accounting practice statement IDW RS HFA 50 and classified by the sequence of IFRSs.

Note: *The following table provides an overview of the modular pronouncements adopted in 2020. Following the table, we have summarised two of these modular pronouncements, which we believe are the most important in practice.*

IFRS 1

Number	Topic of the modular pronouncement
IFRS 1 – Module M 1	Transition from combined financial statements to IFRS consolidated financial statements for an operation using the extraction method due to a planned IPO

IFRS 9

Number	Topic of the modular pronouncement
IFRS 9 – Module M 2	Compatibility of the 'Hold to collect' business model as defined in IFRS 9 with the sale of receivables under factoring agreements
IFRS 9 – Module M 3	Assessment of the cash flow condition at different initial recognition dates of financial instruments with identical contractual conditions

IFRS 16

Number	Topic of the modular pronouncement
IFRS 16 – Module M 1	Accounting for Erbbaurechtsverträge (heritable building right contracts) under German law
IFRS 16 – Module M 2	Accounting for agreements on the provision of company cars
IFRS 16 – Module M 3	Accounting for tenant loans under real estate leases

IFRS 9 – Module M 2: Compatibility of the 'Hold to collect' business model as defined in IFRS 9 with the sale of receivables under factoring agreements

This module, which was adopted by the Auditing and Accounting Board on May 12, 2020, concerns factoring programmes in which trade receivables are regularly offered for sale once predefined criteria have been met. As the receivables, which inherently have short maturities, are being offered for sale, there are doubts about whether the 'Hold to collect' business model in IFRS 9 can be applied to these receivables. The module comes to the conclusion that this will not normally be possible.

IFRS 16 – Module M 2: Accounting for agreements on the provision of company cars

Module M 2, which was adopted on June 15, 2020, addresses the provision of company cars to employees. The question here is whether a sublease results from the transfer of use to the employee, or whether the transfer of use merely constitutes a form of employee remuneration within the meaning of IAS 19. The module clarifies the conditions under which it is classified as a sublease or as remuneration, and also provides guidance on how to recognise depreciation charges that may result from the employer's head lease.

ASCG Interpretation 1 on the Current/Non-current Classification in the Statement of Financial Position withdrawn

The Accounting Standards Committee of Germany (ASCG) decided on February 14, 2020 to withdraw ASCG Interpretation 1 ‘Current/Non-current Classification in the Statement of Financial Position under IAS 1, Presentation of Financial Statements’. The background to this decision is the publication by the IASB of amendments to IAS 1 on the classification of liabilities as current or non-current at the beginning of the year. In the ASCG’s view, these amendments remove the need for a separate ASCG interpretation on the current/non-current classification in the statement of financial position.

ASCG interpretations address issues of predominantly national relevance for which the IFRS Interpretation Committee (IFRS IC) is unable to issue a generally binding interpretation. The ASCG develops its own interpretations of these issues in consultation with the IFRS IC. ASCG DRSC Interpretation 1 was applicable for the first time in 2005 and contained practical guidance on the classification of the statement of financial position as well as an illustrative statement of financial position format.

Publication of DRS 28 ‘Segment Reporting’

The German GAAP-Technical Committee (HGB-Fachausschuss) of the Accounting Standards Committee of Germany (ASCG, Deutsches Rechnungslegungs Standards Committee, DRSC) adopted DRS 28 (German Accounting Standard, GAS) ‘Segment Reporting’ on May 12, 2020. It must be applied for the first time to financial years beginning after December 31, 2020. Earlier application is encouraged by the ASCG.

The standard addresses segment reporting under section 297(1) sentence 2 of the German Commercial Code (HGB) and follows the management approach, under which the definition of the segments and the determination and selection of the data to be reported for the individual segments follow the group’s internal reporting and decision-making structure. It corresponds largely to the previously published exposure draft E-DRS 36. However, there are differences with regard to additional requirements on aggregating segments and disclosing prior-period comparative figures.

Revision of DRSC Implementation Guidance AH 3 (IFRS) on Crisis Situations

At its meeting on May 28, 2020, the ASCG’s IFRS Technical Committee discussed the applicability of DRSC AH 3 (IFRS) ‘„Ausgewählte IFRS-Bilanzierungsfragen unter besonderer Berücksichtigung gesamtwirtschaftlicher und unternehmensindividueller Krisensituationen“’ to the current Covid-19-related crisis situation. A decision was taken to undertake a comprehensive revision of DRSC AH 3 in consultation with the German GAAP Technical Committee in the medium term, and to extend the applicability of the implementation guidance beyond the German legal system. Because some of the references in the implementation guidance were outdated and needed to be adapted, a number of editorial amendments have already been implemented.

This implementation guidance was originally developed in the wake of the 2009 financial market crisis. It provides guidance to IFRS preparers about issues that need to be considered when accounting for crisis situations in the German legal context. In connection with the coronavirus pandemic, the DRSC has also published the implementation guidance on its website since some of the guidance published in it is also relevant in the current crisis.

EU Endorsement Status Report

The following table contains standards and interpretations not yet endorsed or endorsed by the EU after January 1, 2020. The table is based on the most recent EU Endorsement Status Report published by EFRAG on October 12, 2020 (as at November 30, 2020).

Standards	IASB effective date	EU endorsement
IFRS 17: Insurance Contracts (18 May 2017) incl. amendments to IFRS 17 (25 Jun. 2020	1 Jan. 2023	Outstanding
Änderungen von Standards		
IAS 1: Classification of Liabilities as Current or Non-current (23 Jan. 2020) and IAS 1: Classification of Liabilities as Current or Non-current – Deferral of Effective Date (15 July 2020)	1 Jan. 2023	Outstanding
IFRS 3: Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37: Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements Process 2018–2020 cycle (all 14 May 2020)	1 Jan. 2022	Outstanding
IFRS 4 Insurance Contracts – Deferral of IFRS 9 (25 June 2020)	1 Jan. 2021	expected in Q4 2020
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16: Interest Rate Benchmark Reform – Phase 2 (27 Aug. 2020)	1 Jan. 2021	expected in Q4 2020
IFRS 16: Leases (Covid-19-Related Lease Concessions)	1 Jun. 2020	9 Oct. 2020
IFRS 3: Business Combinations – Definition of a Business (22 Oct. 2018)	1 Jan. 2020	21 Apr. 2020
IFRS 9, IAS 39, IFRS 7: Interest Rate Benchmark Reform – Phase 1 (26 Sept. 2019)	1 Jan. 2020	15 Jan. 2020
IAS 1 and IAS 8: Definition of Material	1 Jan. 2020	29 Nov. 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 Jan. 2020	29 Nov. 2019

Activity Report 2019 of the Deutsche Prüfstelle für Rechnungslegung (DPR, Financial Reporting Enforcement Panel (FREP)

FREP published its Activity Report for 2019 on January 20, 2020. FREP completed a total of 86 (previous year: 84) examinations in the reporting period. These included 79 unlimited scope examinations, six indication-based examinations and one examination performed at the request of the Federal Financial Supervisory Authority (BaFin). At 20 %, the error rate was considerably higher than the previous year. FREP sees the reasons for this increase mainly in the higher number of indication-based examinations completed, all of which led to findings of errors. The main errors in 2019 in the application of IFRSs related to accounting for business combinations, including goodwill, equity and non-current assets. In the area of notes disclosures and management reports, errors related in particular to related party disclosures and reporting on risks and expected developments.

Note: *FREPS Activity Report can be downloaded at https://www.frep.info/presse/taetigkeitsberichte.php.*

FREP enforcement priorities 2021

The Financial Reporting Enforcement Panel (FREP, Deutsche Prüfstelle für Rechnungslegung (DPR)) has defined the following enforcement priorities for 2021 in respect of 2020 annual and consolidated financial statements:

1. IAS 1 Presentation of Financial Statements
2. IAS 36 Impairment of Assets
3. IAS 9 Financial Instruments IFRS 7 Financial Instruments
4. IFRS 16 Leases
5. IAS 24 Related Party Disclosures
6. Section 315 of the HGB: Group management report – risk reports taking into account the implications of Covid-19

The first four enforcement priorities constitute the European common enforcement priorities identified by the national enforcement agencies together with ESMA. A detailed description of these enforcement priorities and the priorities relating to non-financial reporting can be found on ESMA's home page. The last two enforcement priorities are FREP's national priorities.

The enforcement priorities focus on the effects of the coronavirus pandemic on financial reporting. Companies are expected to present these effects on the development and position of the company appropriately and transparently in the financial statements.

***Note:** FREP's enforcement priorities can be downloaded at https://www.frep.info/docs/pressemitteilungen/2020/20201109_pm.pdf.*

IAS 1 Presentation of Financial Statements

The enforcement priorities relate to:

- going concern assumptions
- significant judgements and estimation uncertainty
- presentation of Covid-19-related items in the financial statements

Re 2: IAS 36 Impairment of Assets

Publicly traded companies should carefully consider the effects of the coronavirus pandemic in assessing any indications of impairment for non-financial assets. The recoverable amount of goodwill, intangible assets and property, plant and equipment may be impacted by the deterioration of the economic outlook. Companies are expected to update any measurement assumptions to reflect the latest available information. There is also an expectation that companies will disclose whether and when they presume they will return to pre-Covid cash flow levels.

Re 3: IFRS 9 Financial instruments and IFRS 7 Financial Instruments: Disclosures

With regard to the application of IFRS 9, the enforcement priorities will address both specific considerations for credit issuers when measuring expected credit losses and more general issues relating to risks arising from financial instruments. The focus here will be on liquidity risk. ESMA emphasises that the coronavirus pandemic may have given rise to new significant risks that did not exist before or that were not as significant.

Re 4: IFRS 16 Leases

ESMA spells out specific issues relating to the application of IFRS 16, including the requirement for disclosures by lessees who have applied the practical expedient in the amendment to IFRS 16 issued in 2020 to rent concessions they have received.

Re 5: IAS 24 Related Party Disclosures

The enforcement priorities include in particular:

- determination/identification of related parties (IAS 24.9)
- disclosures concerning the ultimate controlling party (IAS 24.13)
- disclosures concerning the nature of the relationship, amount and terms and conditions of transactions, as well as outstanding balances (IAS 24.18)
- categorisation of related party disclosures (IAS 24.19)
- consistency of disclosures with the dependent company report and correct reproduction of the concluding declaration (section 312(3) of the Stock Corporation Act, AktG)

Re 6: Section 315 of the HGB: Group management report – risk reports taking into account the implications of Covid-19

The priorities relate to:

- completeness and appropriateness of disclosures concerning significant risks (section 315(1) sentence 4 of the HGB), in particular on:
  - individual risks and going concern risks (section 315(1) sentence 4 of the HGB)
  - risks arising from the use of financial instruments (section 315(2) sentence 1 no. 1 of the HGB): extent of credit and liquidity risk, presentation and discussion of significant financial risks related to financial covenants (IFRS 7.18 f. and IFRS 7.31 ff.)
- consistency between reports on risks and expected developments.

Findings of errors by FREP

The findings of errors by FREP published between January 1, and November 16, 2020 are listed in the following. The aim is to prevent errors in these areas.

Note: *FREP publications on findings of errors can be downloaded (in German only) at www.bundesanzeiger.de (select 'Rechnungslegung/ Finanzberichte' – 'Fehlerbekanntmachungen'.*

Publication	Issue
Publication on 29 Jan. 2020	▶ Management reporting ▶ Goodwill impairment test
Publication on 21 Feb. 2020	▶ Management reporting ▶ Goodwill impairment test ▶ Disclosures relating to a capital increase
Publication on 26 Feb. 2020	▶ Impairment of inventories
Publication on 17 Mar. 2020	▶ Goodwill impairment test ▶ Accounting for intangible assets acquired in a business combination ▶ Derecognition of licences
Publication on 30 Mar. 2020	▶ Costs in connection with an IPO ▶ Inclusion of the concluding declaration on the dependent company report in the management report
Publication on 31 Mar. 2020	▶ Costs in connection with a reduction in a majority shareholding in the IPO of a subsidiary
Publication on 14 Jul. 2020	▶ Receivables from affiliated companies

ESMA – Enforcement decisions published

The national European enforcement agencies examine the financial statements of companies whose securities are traded on a regulated market in Europe or are in the process of being admitted. The financial statements are prepared in compliance with IFRSs and examined to establish the extent to which they follow IFRS and other applicable reporting requirements, including applicable national law.

The European Securities and Markets Authority (ESMA) has developed an anonymous database of enforcement decisions taken by the individual European enforcement agencies. It serves as a source of information to promote the appropriate application of IFRSs and hence to give IFRS preparers and their auditors insights into the decisions taken by the European enforcement agencies.

Due to the statutory restrictions in Germany, the published extracts do not contain any cases handled by the Financial Reporting Enforcement Panel (FREP). However, because of the consistent application of IFRS, it can be assumed that these decisions are also taken into consideration by FREP, and that they are therefore also relevant to companies in Germany.

The following overview shows the most recent publications. The publications can be downloaded from ESMA's website.

Affected standard	Overview of fact pattern	Source
IFRS 15	Identification of separate performance obligations in connection with prospecting for new oil deposits	Decision ref EECS/0120-01
IFRS 7	Liquidity risk of notes with early redemption option	Decision ref EECS/0120-02
IFRS 9, IAS 12	Deferred tax assets in connection with a change in tax law in the context of the initial application of IFRS 9	Decision ref EECS/0120-03
IFRS 10	Assessment of de-facto control of an investee	Decision ref EECS/0120-04
IFRS 15	Disclosure of disaggregated revenue	Decision ref EECS/0120-05
IAS 34	Aggregation of line items in the statement of comprehensive income	Decision ref EECS/0120-06
IFRS 15	Identification of separate performance obligations in accounting for a framework agreement	Decision ref EECS/0120-07
IFRS 15	Identification of lease and non-lease components of a lease	Decision ref EECS/0120-08

PUBLICATIONS “FINANCIAL INSTRUMENTS”

Sonja Kolb: Covid-19 – Ermittlung
der Risikovorsorge nach IFRS 9,
Der Betrieb Spezial Nr. 11/2020, S. 2

PUBLICATIONS “LEASES UNDER IFRS 16“

Sonja Kolb, Max Meinhövel:
Covid-19 und IFRS 16,
Der Betrieb Spezial Nr. 9/2020, S. 4

Sonja Kolb, Max Meinhövel:
IFRS 16 und Covid-19 – Besonderheiten der
Bilanzierung von Leasingverhältnissen in der
Corona-Pandemie,
Der Betrieb Nr. 30/2020, S. 1527

PUBLICATIONS “SHORT-TIME WORKING“

Hanno Rädlein, Simone Windeisen, Christoph Eppinger, Julian Kübler:
Virales Kurzarbeitergeld –
rechtliche und bilanzielle Behandlung,
Der Betrieb Spezial Nr. 10/2020, S. 4

Hanno Rädlein, Simone Windeisen, Christoph Eppinger, Julian Kübler:
Virales Kurzarbeitergeld –
Gesetzliche Voraussetzungen und
bilanzielle Behandlung,
Der Betrieb Nr. 25/2020, S. 1297

PUBLICATIONS “DUE PROCESS HANDBOOK“

IFRS Foundation issues
Due Process Handbook

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