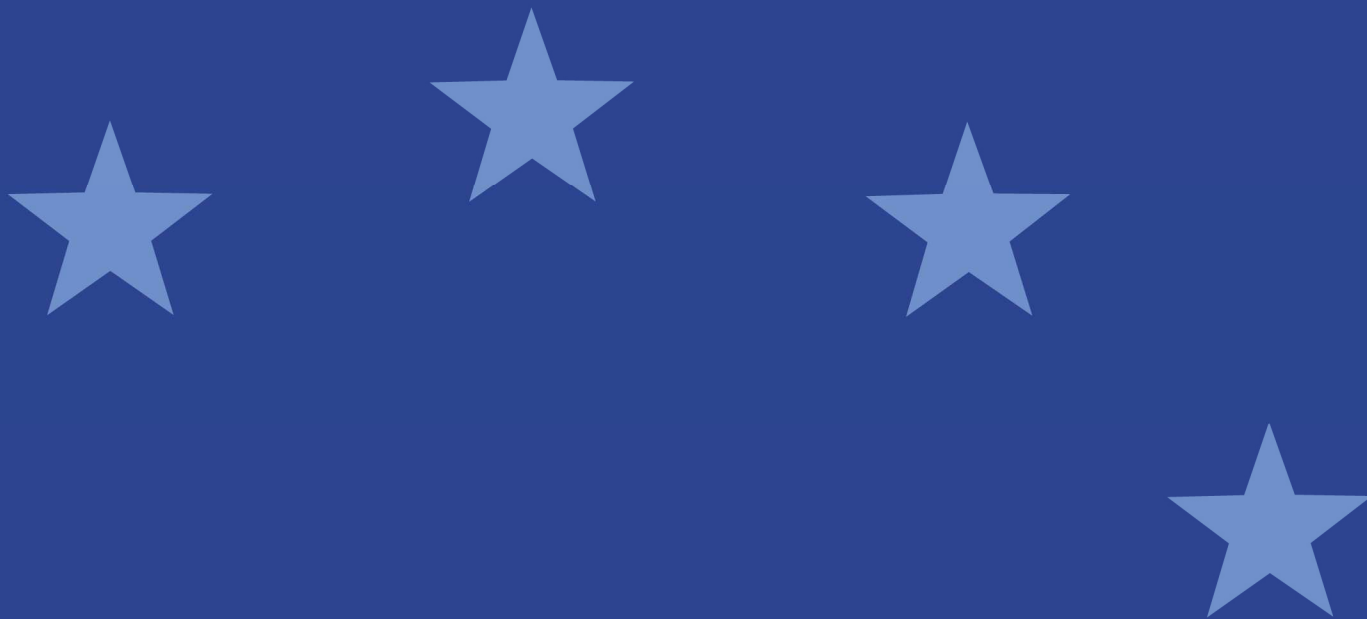




European Securities and  
Markets Authority

# Report

**16<sup>th</sup> Extract from the EECS's Database of Enforcement**



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The decisions included in this extract were taken by national enforcers in the period from August 2012 to March 2014. ESMA will continue publishing further extracts from the database on a regular basis, with the next extract expected to be published in the first half of 2015.

## List of abbreviations and acronyms used in this report

CGU	Cash-Generating Unit
CU	Currency Units
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
EU	European Union
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretation Committee
PPE	Property, Plant and Equipment



## Introduction

The European Securities and Markets Authority (ESMA) is publishing extracts from its confidential database of enforcement decisions on financial statements, with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of the International Financial Reporting Standards (IFRS).

According to its founding regulation (Regulation no 1095/2010), ESMA shall act in the field of financial reporting to ensure the effective and consistent application of European Securities and Markets legislation. In order to fulfil these responsibilities, ESMA organises the European Enforcers Coordination Sessions (EECS), a forum gathering 38 European enforcers from the 28 Member States and the 2 countries in the European Economic Area (EEA) who have responsibilities in the area of supervision and enforcement of financial information.

European enforcers monitor and review IFRS financial statements and consider whether they comply with IFRS and other applicable reporting requirements, including relevant national law. Through the EECS, European enforcers are able to share and compare their practical experiences on the enforcement of IFRS financial information provided by companies who have, or who are in the process of having, securities admitted to trading on a regulated market in Europe. It provides a forum to discuss enforcement cases before or after decisions are taken by the European enforcers. As a forum of technical experts, this group provides technical advice for the preparation of ESMA statements and opinions on accounting matters. In addition, the EECS enables ESMA to review accounting practices applied by European issuers as well as to monitor market developments and changes in those practices.

In taking enforcement decisions, European national enforcers apply their judgement, knowledge and experience to the particular circumstances of the cases that they consider. Relevant factors may include other areas of national law beyond the accounting requirements. Interested parties should therefore consider carefully the individual circumstances when reading the cases. As IFRS are principles based, there can be no one particular way of dealing with numerous situations which may seem similar but in substance are different. Consistent application of IFRS means consistent with the principles and treatments permitted by the standards. Decisions taken by enforcers do not provide generally applicable interpretations of IFRS; this remains the role of the IFRS Interpretations Committee (IFRS IC). These decisions are based on IFRS and its interpretation at the time of publication and may be superseded by future developments in IFRS.

The publication of some enforcement decisions will inform market participants about which accounting treatments European national enforcers may consider as complying with IFRS; that is, whether the treatments are considered as being within the accepted range of those permitted by IFRS. Such publication, together with the rationale behind the decisions, will contribute to a consistent application of IFRS in the EEA.

In accordance with the provisions of the Guidelines on the enforcement of financial information,<sup>1</sup> cases submitted to the enforcement database are considered as appropriate for publication if they fulfil one or more of the following criteria:

- The decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS;

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<sup>1</sup> [http://www.esma.europa.eu/system/files/2014-807\\_-\\_final\\_report\\_on\\_esma\\_guidelines\\_on\\_enforcement\\_of\\_financial\\_information.pdf](http://www.esma.europa.eu/system/files/2014-807_-_final_report_on_esma_guidelines_on_enforcement_of_financial_information.pdf)

- The decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties ;
- The decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences;
- The decision has been taken on the basis of a provision not covered by a specific accounting standard.

## **I Decision ref EECS/0214-01 – Disclosure of forborne loans**

**Financial year end:** 31 December 2012

**Category of issue:** Disclosure of risks arising from financial instruments

**Standards or requirements involved:** IAS 1 – *Presentation of Financial Statements*, IAS 39 – *Financial Instruments: Recognition and Measurement*, IFRS 7 – *Financial Instruments: Disclosures*

### *Description of the issuer's accounting treatment*

1. The issuer is a financial institution which, due to the economic environment in which it operated, provided a range of forbearance measures on some of the loans granted to its customers. Forborne loans amounted to an increasing percentage of the total loans of the issuer and were increasing relative to the previous year. The notes to the issuer's financial statements provided a narrative description of the forbearance strategies. The issuer also provided a supplementary asset quality report which included selected quantitative and qualitative disclosures on forborne loans, together with related credit risk data. Within the supplementary asset quality report, the majority of forbearance data was referred to as unaudited and was, therefore, not an integral part of the audited financial statements.
2. The supplementary asset quality report provided information by type of forbearance measure, such as full interest (interest only), reduced payment (interest and reduced capital payments), term extension (including interest servicing) and capitalisation of arrears. Forbearance disclosures provided an analysis of the number and outstanding balance of loan accounts by type of forbearance measures and duration in arrears.
3. The issuer considered that 'forborne loans' were not a distinct class of loans but rather a subset of a larger class of loans and therefore no specific disclosure was required to be made based on IFRS 7 requirements.

### *The enforcement decision*

4. The enforcer disagreed with the issuer and concluded that, owing to the issuer's financial position, level of forbearance activity, potential exposure to losses as well as the impact of forbearance on financial performance, further disclosures on forbearance measures were

required in order to comply with the requirements of paragraphs 31, 35 and B3 of IFRS 7 and paragraph 112 of IAS 1.

5. The enforcer considered that the issuer should include all the required disclosures on forbore loans within its audited financial statements and not only within a separate document such as a supplementary asset quality report.

*Rationale for the enforcement decision*

6. Although the term 'forbearance' is not defined in IFRS, paragraph B5(g) of IFRS 7 refers to the renegotiation of the terms of financial assets that would otherwise be past due or impaired. Paragraph 59 of IAS 39 also points to instances where the lender, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise consider.
7. Paragraph 31 of IFRS 7 requires entities to disclose information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. Paragraph 35 of IFRS 7 states that if the quantitative data disclosed is unrepresentative of an entity's risk exposure during the period, the entity should provide further representative information.
8. Paragraph 112(c) of IAS 1 requires entities to disclose in the notes to the financial statements information that is relevant for understanding by users of the financial statements. Paragraphs 122 and 125 of IAS 1 require disclosure of significant accounting judgements and estimates.
9. In accordance with paragraph B3 of IFRS 7, when deciding on the level of detail to present, the issuer should neither include important information among insignificant detail nor present it in an aggregated way that obscures important differences between individual transactions or associated risks. This could inhibit the ability of users to understand risk exposures and changes.
10. The enforcer was concerned that the forbearance disclosures provided by the issuer and the disclosure of aggregated data for forbore and non-forbore loans did not appropriately reflect the risks of loans subject to a range of forbearance measures. The enforcer also considered that the changes, if any, in the issuer's policies for the classification and subsequent management of forbore loans together with the impact that forbore loans had on the financial performance of the issuer during the period covered by the financial statements should be subject to enhanced disclosures.
11. The enforcer considered that the policy of granting forbearance measures to selected borrowers, whilst not necessarily an indicator of impairment, is an indication of an elevated level of credit risk amongst those borrowers. Loans subject to forbearance measures posed a higher risk to the performance and financial position of the issuer than non-forbore loans.

Key performance metrics relating to forborne loans were likely to exhibit a higher probability of default, higher loan-to-value ratios, significant impairment charges and more uncertain future cash flows. Therefore, transparent disclosures of the significant levels of forborne loans were necessary for an adequate understanding of the issuer's performance, financial position and future cash flows.

12. As these disclosures are IFRS requirements, the enforcer considered that the issuer should include all the required disclosures within its audited financial statements and provide disaggregated forbearance disclosures in order to make apparent the effects of the forbearance measures on the issuer's financial performance, financial position and the different assessment of the risk from forborne and non-forborne loans.

## **II Decision ref EECS/0214-02 – Fair value of consideration paid in shares**

**Financial year end:** 31 December 2012

**Category of issue:** Fair value measurement, Reverse acquisition

**Standards or requirements involved:** IFRS 3 – *Business Combinations*, IFRS 13 – *Fair Value Measurement*

### *Description of the issuer's accounting treatment*

13. The issuer is a holding company created to acquire, through a merger, company A, incorporated in country 1, and company B, listed in country 2. Company A had investments in company B and in four subsidiaries of company B, all listed in country 2. Following the merger, the issuer intended to be listed in country 1.
14. While preparing the IFRS pro-forma financial information, the issuer viewed the transaction as a reverse acquisition, with company B being identified as the acquirer for accounting purposes. The consideration was paid in shares of the acquiring company (share-for-share transaction). Therefore, the consideration transferred was measured at fair value of the equity interests issued by the accounting acquiree, in accordance with paragraphs 37 and B19 of IFRS 3. In its measurement of the fair value of the consideration transferred, the issuer believed that country 2's stock market was no longer active because a press release issued by an index provider argued that this stock market should be classified as an 'emerging market' on the basis of restrictions on in-kind transfers, off-exchange transactions, as well as the absence of stock lending and short-selling.
15. The issuer also believed that the significant decrease in the average daily trading volume of all the shares under consideration in country 2 over the last 5 years, the limited average daily trading volume ranging over the last 17 months from 0,03% to 0,14% in comparison with the total outstanding shares and the difference over the last 17 months between minimum and

maximum prices, ranging from 270% to 502%, gave a clear indication of an improperly functioning stock market. The issuer's judgement was reinforced by a 60% decrease of the stock market index of country 2 and a 70% reduction of country 2 stock market capitalisation over the last 5 years, as well as the fact that since 2007 no entity had sought a listing on this market while a number of issuers had asked to be delisted.

16. On the basis of the limited volume, high volatility and improper functioning of the stock market, the issuer concluded that the quoted prices of the entities listed in country 2 were not a good indication of the fair value of the shares under consideration and decided to value these entities on the basis of level 3 inputs in accordance with paragraph 79 of IFRS 13. This calculated fair value was significantly higher than the quoted price at the acquisition date.

#### *The enforcement decision*

17. The enforcer disagreed with the issuer's assessment that there was no active market for shares of entities listed in country 2 and concluded that the fair value of the consideration paid in shares should have been determined on the basis of the quoted price.

#### *Rationale for the enforcement decision*

18. Paragraph 67 of IFRS 13 states that valuation techniques used for measuring fair value should maximise the use of relevant observable inputs and minimise the use of unobservable inputs. According to paragraphs 69 and 79 of IFRS 13, the issuer should measure fair value on the basis of a quoted price in an active market when available, unless quoted prices do not represent a fair value at the measurement date or are not readily accessible.
19. The enforcer believed that the classification of country 2 stock market as an emerging market did not imply that this market was inactive. The criterion used by the index provider differed from the definition of an active market as specified in Appendix A of IFRS 13 which defines an active market as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. In accordance with paragraph B37(b) of IFRS 13, and taking into account the information provided by the enforcer of country 2, the enforcer concluded that investors in country 2's stock market were regularly and sufficiently informed and that quoted prices were developed on the basis of current information.
20. According to information available to the enforcer, country 2's trading limitations were only of a short-term nature and no longer in place as of the date of the transaction. The enforcer noted that although there was a decrease in the average daily trading volume there are still daily transactions. Furthermore, the enforcer considered that the analysis of the volatility over a 17 month-period was insufficient to conclude that country 2 quoted prices did not represent fair value, as short term volatility should also have been assessed.

21. According to paragraph B38 of IFRS 13, further analysis of the transactions or quoted prices is needed when an entity concludes that there has been a significant decrease in the volume or level of activity in relation to normal market activity. As such, a decrease may not indicate on its own that a transaction price or quoted price do not represent fair value. The issuer did not provide an analysis of the transactions or quoted prices to demonstrate that the quoted price did not represent fair value.
22. As required by paragraph B37 of IFRS 13, the enforcer evaluated the volume and level of activity in country 2 stock market and considered that the issuer used a very long time frame in analysing the level of activity. Although the capital free-float of the concerned entities was limited to a quarter of all shares, transactions of these shares occurred on a daily basis and therefore represented a volume sufficient to determine the price on a continuous basis.

### **III Decision ref EECS/0214-03 –Recognition of a liability payable to equity holders**

**Financial year end:** 31 December 2012

**Category of issue:** Dividends, Financial instruments, Financial liabilities

**Standards or requirements involved:** IAS 32 – *Financial Instruments: Presentation*

#### *Description of the issuer's accounting treatment*

23. The issuer is a listed entity which undertook a 'scrip issue' by allocating 'free allocation rights' to its shareholders. A scrip issue is a paid-up capital increase scheme in which the shareholders of the issuer receive free allocation rights and are able to choose between: (i) receiving newly issued shares; (ii) transferring their free allocation rights back to the issuer for a fixed price; or (iii) selling their free allocation rights on the market at a market price.
24. The implementation of the paid-up capital increase of the issuer took place as follows:
- December 2012: setting of the number of free allocation rights required to be delivered in order to receive one new share and of the guaranteed fixed price for which shareholders were entitled to transfer back their free allocation rights to the issuer.
  - Beginning of January 2013: attribution of the free allocation rights to the shareholders, opening of the trading period for these rights and of the period during which shareholders could request the transfer of their free allocation rights back to the issuer for a fixed price.
  - Second half of January 2013: acquisition by the issuer of the free allocation rights from the shareholders that requested their transfer back.



- End of January 2013: start of the trading of newly issued shares.

25. In the financial statements as of 31 December 2012, the issuer did not account for any financial liability for the commitment to buy free allocation rights at a fixed price. The issuer believed that the criteria for the recognition of a financial liability specified in paragraph 16 of IAS 32 were not met because it was impossible to reliably determine the amount to be paid, as the number of free allocation rights to be acquired would be unknown until January 2013 and the volatility of similar schemes in the past was high. As such, the issuer considered that free allocation rights did not exist as of 31 December 2012, as the wholly paid-up share capital increase had not been officially published and the free allocation rights had not been assigned to shareholders.
26. The issuer believed that recording a financial liability for the commitment to buy free allocation rights instead of the wholly paid-up share capital increase would reduce the share capital by the maximum amount payable and be confusing, as the final amount to be paid would only be known after the shareholders asked whether to transfer their free allocation rights back to the issuer for a fixed price.
27. Lastly, the issuer considered that these free allocation rights were a put option on its own equity, which would lead to recording changes in fair value in profit or loss.
28. Accordingly, the issuer did not recognise a liability related to this scrip issue in its financial statements as of 31 December 2012 but disclosed the transaction as an event after the reporting period in accordance with paragraph 8 of IAS 10 – *Events after the Reporting Period*.

#### *The enforcement decision*

29. The enforcer disagreed with the issuer and concluded that a gross financial liability related to the irrevocable purchase obligation for the present value of the maximum amount payable to shareholders should be recognised in the financial statements as of 31 December 2012.

#### *Rationale for the enforcement decision*

30. As of 31 December 2012, free allocation rights are economically equivalent to a written put option because they represent for the issuer the irrevocable purchase obligation that gives shareholders the right to sell the entity's own equity instruments for a fixed price.
31. According to paragraph 23 of IAS 32, a contract that contains an entity's obligation to purchase its own equity instruments gives rise to a financial liability which should be recognised at the present value of its redemption amount.
32. As the issuer had set up the conditions for the share capital increase in December 2012, including the number of free allocation rights required to receive one new share and the exercise price of the purchase commitment of these rights, the enforcer considered a

financial liability already existed at that date even though the attribution of the free allocation rights was only performed in January 2013. Therefore, the contract gave rise to financial liabilities from 2012 and the issuer should have recognised a financial liability for the present value of the maximum amount payable to shareholders in its 2012 financial statements.

#### **IV Decision ref EECS/0214-04 – Presentation of statement of cash flows**

**Financial year end:** 31 December 2011

**Category of issue:** Statement of cash flows

**Standards or requirements involved:** IAS 7 – *Statement of Cash Flows*, IAS 16 – *Property, Plant and Equipment*, IAS 18 - *Revenue*

##### *Description of the issuer's accounting treatment*

33. The issuer is an automotive retailer which acts as a lessor of vehicles in operating lease agreements and routinely sells vehicles previously held for rental.
34. The issuer accounted for vehicles held for rental in operating leases as property, plant and equipment (PPE). At the end of the operating lease, vehicles ceased to be held for rental, became available for sale and were transferred to inventory at their carrying amount. The issuer neither disclosed such transfers of vehicles in the PPE note to its financial statements, nor presented separately the initial purchase of vehicles or their subsequent sale in its statement of cash flows.
35. The issuer included vehicles transferred to inventory within the line for disposal of vehicles in the PPE note, the sale proceeds within the revenue line and charged the cost of inventory to the cost of sales. In its statement of cash flows, cash flows from investing activities included cash outflows relating to the initial purchase of vehicles to be leased and cash inflows relating to the disposal of vehicles.

##### *The enforcement decision*

36. The enforcer disagreed with the issuer's presentation of cash flows from purchase and sale of vehicles as being from investing activities and concluded that they should have been presented as cash flows from operating activities.

##### *Rationale for the enforcement decision*

37. According to paragraph 68A of IAS 16, an entity that routinely sells items of PPE that are held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. Subsequent proceeds from the sale of such assets shall be recognised as revenue in accordance with IAS 18.

38. In accordance with paragraph 14 of IAS 7, cash payments made to acquire assets held for rental and subsequently held for sale shall be treated as cash flows from operating activities.

## **V Decision ref EECS/0214-05 – Presentation of discontinued operations**

**Financial year end:** 31 December 2012

**Category of issue:** Discontinued operations

**Standards or requirements involved:** IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*

### *Description of the issuer's accounting treatment*

39. The issuer disposed of two major subsidiaries in 2011. Part of the consideration was received at the time of the disposal, while the rest of the payment was made contingent on the performance of the disposed subsidiaries over a defined period of time (earn-out). These subsidiaries qualified as discontinued operations according to paragraph 32(c) of IFRS 5 and therefore were presented as such in the 2011 financial statements.
40. Subsequently, in its 2012 financial statements, the issuer presented the additional consideration (earn-out) as financial income and not as a discontinued operation. Given that the terms of the arrangement, concluded in 2011 were not amended, the issuer believed that subsequent changes in the fair value of the financial income from the instruments received as consideration should not be treated as a price adjustment and therefore the earn-out should not be presented as a discontinued operation.
41. The issuer recognised the amount of additional consideration to be received in 2012 as a financial instrument which gives the right to receive cash. As the provisions of paragraph 35 of IFRS 5 do not apply to the presentation of subsequent changes in the fair value of financial instruments, the issuer presented these changes as financial income in the statement of comprehensive income. The issuer argued that the contingent consideration (earn-out) gave it the right to receive cash and classified the consideration as a financial instrument in accordance with paragraph 9 of IAS 39.

### *The enforcement decision*

42. The enforcer disagreed with the accounting treatment of the issuer and concluded that the additional consideration received in 2012 should have been presented as a discontinued operation in the financial statements for the year ending on 31 December 2012.

### *Rationale for the enforcement decision*

43. According to paragraph 35 of IFRS 5, adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The enforcer believed that these provisions applied so that subsequent changes in the contingent consideration received in 2012 on the disposed subsidiaries should not be presented as financial income but as discontinued operations. This will ensure, in accordance with paragraph 30 of IFRS 5, that investors are not misled on the future revenues of the continuing operations.
44. The adjustment of the consideration was determined on the basis of changes directly related to the disposal of a discontinued operation as a consequence of changes in the business sold. Therefore, the enforcer considered that the gain on disposal recognised in 2012 was directly linked to the disposal of the subsidiaries in 2011 and should have been presented as a gain on disposal from discontinued operations in the 2012 financial statements.

## **VI Decision ref EECS/0214-06 – Presentation of non-current assets held for sale**

**Financial year end:** 31 December 2012

**Category of issue:** Classification of non-current assets as held for sale

**Standards or requirements involved:** IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*

### *Description of the issuer's accounting treatment*

45. As of 31 December 2012, the issuer owned subsidiary A, which formed more than 80% of the total consolidated assets.
46. On 7 December 2012, the issuer published a statement informing the market that a binding divestment offer for subsidiary A had been made and accepted, so that the divestment was expected to be completed in 2012.
47. As a consequence of the divestment offer and in accordance with paragraph 15 of IFRS 5, the assets and liabilities of subsidiary A were measured at the lowest of either their carrying amount or their fair value less costs to sell as of 31 December 2012, on the basis of the amount included in the binding offer.
48. Even though the issuer expected at the time of the announcement that the divestment would be completed by the end of 2012, the agreement was only finalised on 15 January 2013 and the issuer had control over subsidiary A until 31 January 2013. The assets of subsidiary A were not classified as held for sale in the financial statements as of 31 December 2012.

49. The issuer was aware that, as of 31 December 2012, there were uncertainties regarding the negotiations with the buyer with the risk that the agreement would not be finalised. However, this information was not disclosed to the market.

*The enforcement decision*

50. The enforcer disagreed with the issuer and concluded that the assets of subsidiary A should have been presented as held for sale in the financial statements, in accordance with IFRS 5, as at 31 December 2012.

*Rationale for the enforcement decision*

51. According to paragraph 8 of IFRS 5, the appropriate level of management must be committed to a plan to sell the asset for the sale to be probable. The issuer's acceptance of a binding divestment offer in December 2012 and the communication of this information to the market indicated a high probability of sale. The enforcer concluded that subsidiary A met the criteria to be classified as held for sale and the transaction remained highly probable despite the uncertainties as of 31 December 2012.
52. Paragraph 6 of IFRS 5 requires that an entity classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
53. The provisions of paragraph 7 of IFRS 5 do not require the existence of a binding sales agreement in order to classify a non-current asset as held for sale but only a high probability of its occurrence.
54. The acceptance of a binding divestment offer by the issuer implied that the transaction met the criteria to be classified as held for sale at the date of the financial statements. The finalisation of the agreement on 15 January 2013 only confirmed the situation prevailing on 31 December 2012 and was in accordance with the requirements of paragraph 3(a) of IAS 10.
55. The enforcer also concluded that an issuer cannot apply IFRS 5 measurement criteria without classifying the item as held for sale in its statement of financial position. As the assets under consideration met the criteria to be classified as held for sale, they should have been presented as such in the financial statements.

**VII Decision ref EECS/0214-07 – Deferred tax assets upon disposal of a subsidiary**

**Financial year end:** 31 December 2013

**Category of issue:** Deferred taxes

**Standards or requirements involved:** IAS 12 - *Income Taxes*, IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*

*Description of the issuer's accounting treatment*

56. The issuer intended to sell one of its subsidiaries, and, shortly before 31 December 2013, got a signed letter of intent from a potential acquirer interested to buy the subsidiary for a notional amount of 1 CU. The sale of the subsidiary occurred after the publication of the issuer's consolidated financial statements.
57. As a result of the letter of intent, the issuer considered the sale to be highly probable, and although the sale had not occurred as of 31 December 2013, the issuer considered that the transaction was part of a single coordinated plan to dispose of a separate major line of business and fulfilled the requirements contained in the definition of discontinued operation as specified in Appendix A of IFRS 5. Consequently, the issuer recognised and classified the assets and liabilities of subsidiary A as held for sale for a net carrying amount of nil in its consolidated financial statements as of the end of the reporting period.
58. In addition, a deferred tax asset was recognised with respect to the tax benefit of the tax loss resulting from the sale of the subsidiary for a notional amount of 1 CU. The disposal entitled the issuer to record a deferred tax asset in relation to the carry-back of tax losses in order to recover current tax of a previous period. The deferred tax asset was equal to the value of the subsidiary for tax purposes, multiplied by the corporate tax rate applicable to this sale. The tax loss was chargeable to the group tax returns. The issuer expected to benefit from future taxable profits against which tax losses would be charged.

*The enforcement decision*

59. The enforcer concluded that the issuer's treatment of a deferred tax asset did not conflict with the requirements of paragraph 44 of IAS 12.

*Rationale for the enforcement decision*

60. The enforcer concluded that paragraph 44 of IAS 12 requires recognition of a deferred tax asset for a deductible difference arising from investments in subsidiaries if it is probable that the temporary difference will reverse in the foreseeable future and a taxable profit will be available against which the temporary difference can be utilised.
61. As the completion of the sale was highly probable and a taxable profit was likely to be available against which tax losses could be utilised, the enforcer believed that the criteria mentioned in paragraph 44 of IAS 12 were met as of 31 December 2013.

## VIII Decision ref EECS/0214-08 – Accounting for the effects of specific tax regime

**Financial year end:** 31 December 2011

**Category of issue:** Investment property, Income taxes

**Standards or requirements involved:** IAS 12 - Income Taxes, IAS 16 - *Property, Plant and Equipment*, IAS 40 – *Investment Property*

### *Description of the issuer's accounting treatment*

62. The issuer is a real estate company listed in a jurisdiction with a specific tax regime for listed real estate companies, granted by the fiscal authorities if an entity distributes most of its profits to its shareholders. Upon first-time adoption of this tax regime, the entity has to pay an 'exit tax' on the unrealised gains of its investment properties (fair value less carrying tax amount of the investment property at the date of the option).
63. In January 2011, the issuer merged with another real-estate company which was an entity under common control, and chose to account for the acquired assets and liabilities at their carrying amounts under the cost model. Concomitant with the merger, the issuer opted for the specific tax regime for the newly acquired investment properties and agreed to pay the corresponding exit tax.
64. The issuer considered that the exit tax qualifies as an expenditure necessary to bring the buildings to the condition necessary for its operations, and therefore was directly attributable to the acquisition of the property, in line with paragraph 16(b) of IAS 16. Hence, this tax was not accounted for as an expense but capitalised as a part of the value of the investment property.

### *The enforcement decision*

65. The enforcer disagreed with the issuer and concluded that the exit tax should have been recognised as an expense in the statement of comprehensive income.

### *Rationale for the enforcement decision*

66. According to paragraph 21 of IAS 40, the cost of an investment property comprises its purchase price and any directly attributable expenditure, such as professional fees for legal services, property transfer taxes and other transaction costs.
67. In accordance with paragraph 16 of IAS 16, the cost of an item of PPE comprises any cost directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management. However, administrative and other general overhead costs are not costs of an item of PPE according to paragraph 19 of IAS 16.
68. In the enforcer's view, the specific fiscal treatment and the exit tax to be paid were not linked to bringing the asset to the condition necessary for its operations, as the asset would have

been operational without the exit tax. As such, the exit tax was a cost linked to the activity of the issuer and should be accounted for as an expense in accordance with paragraph 58 of IAS 12, and included in the profit or loss for the period, unless that tax arises from a transaction recognised outside profit and loss.

## **IX Decision ref EECS/0214-09 – Key assumptions used in the impairment test of goodwill**

**Financial year end:** 31 December 2012

**Category of issue:** Impairment test of goodwill

**Standards or requirements involved:** IAS 36 – *Impairment of Assets*

### *Description of the issuer's accounting treatment*

69. The issuer is a listed entity with the goodwill representing 15% of its total assets and 50% of its total equity in its consolidated financial statements. The issuer carried out an impairment test of the goodwill and the intangible assets with indefinite useful life at the end of the reporting period. The recoverable amount was based on the value in use, which calculation was made on the basis of management's estimate of expected future cash flows, discount rate and growth rate.
70. The issuer disclosed only generic and not entity specific information about the key assumptions used in the impairment test and underlined that key parameters used in the calculation were forecasts of revenue, gross margin and growth expectations during the forecast and the terminal periods.
71. The impairment test did not result in any recognition of an impairment loss.

### *The enforcement decision*

72. The enforcer concluded that the disclosure related to the key assumptions of the impairment test on which management based its cash flows projections were not entity specific as required by paragraph 134(d)(i) to (iii) of IAS 36.

### *Rationale for the enforcement decision*

73. Paragraphs 134(d)(i) to (iii) of IAS 36 requires the disclosure of specific information on the key assumptions and approaches of the impairment test on which management based its determination of the value in use for each CGU. In accordance with that paragraph, the issuer should provide specific CGU-by-CGU disclosure of the key assumptions to which the recoverable amounts are most sensitive together with a description of the management's approach to determining the value assigned to each assumption and the period over which



management projected its cash flows in order to fulfil the requirements of paragraphs 134(d)(i) to (iii) of IAS 36.

74. Therefore, the enforcer considered that the issuer should have given specific disclosure on a CGU-by-CGU basis including the material information, such as a description of the key factors influencing the developments of sales and relevant expenses.

75. The enforcer concluded that the information provided was generic and not sufficient to assess the expected developments in revenue and cash flows.

## **X Decision ref EECS/0214-10 – Disclosures related to capitalised costs**

**Financial year end:** 31 December 2012

**Category of issue:** Intangible assets

**Standards or requirements involved:** IAS 38 – *Intangible Assets*, IFRS 6 – *Exploration for and Evaluation of Mineral Resources*

### *Description of the issuer's accounting treatment*

76. The issuer is a listed company acting in the extractive industry, which had not generated any revenue from its activities over the reporting period ending on 31 December 2012.

77. In accordance with paragraphs 5 and 20 of IFRS 8 – *Operating Segments*, the issuer disclosed information on the basis of 8 operating segments. The activity in each segment was generally based on more than one licence.

78. According to paragraphs 8 and 18 of IFRS 6, the issuer accounted for the exploration and evaluation expenses as intangible assets, which were initially measured at cost and subsequently tested for impairment. The relevant disclosures were provided on a segment basis with a description, the carrying amount and the remaining amortisation period.

### *The enforcement decision*

79. The enforcer considered the disclosure on intangible assets provided by the issuer insufficient on the basis of operating segments, pointing out that disclosures should be provided on the basis of every individual licence, in accordance with IAS 38.

### *Rationale for the enforcement decision*

80. The general provisions of IAS 38 shall not be applied to the recognition and measurement of exploration and evaluation assets that fall within the scope of IFRS 6. However, according to paragraph 25 of IFRS 6, an issuer shall treat exploration and evaluation assets as an

individual class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with the way the assets are classified. Since the issuer considered capitalised exploration and evaluation costs related to each license as individual intangible assets, the disclosures required by paragraph 122(b) of IAS 38 should be provided on the basis of every individual asset.

81. According to paragraph 122(b) of IAS 38, an entity shall disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements. Therefore, those assets under IFRS 6 which are accounted for as intangible assets shall follow the disclosure regime in line with IAS 38.
82. In the enforcer's view, presenting information of individual assets on a segment basis omits important material information regarding the issuer's activity. As the issuer had not yet generated revenue from its exploration activities, the capitalised cost of individual assets was material information that needed to be disclosed.

## **XI Decision ref EECS/0214-11 – Disclosure of major customers**

**Financial year end:** 31 December 2011

**Category of issue:** Operating segments, Entity-wide disclosure

**Standards or requirements involved:** IFRS 8 – *Operating Segments*

### *Description of the issuer's accounting treatment*

83. The issuer is a listed company, which reports its activities as one segment in its financial statements. In accordance with paragraphs 32 and 33 of IFRS 8, the issuer made entity-wide IFRS disclosures on products and services as well as the geographical areas from which it earns revenues.
84. The issuer did not include any information about its major customers even though some sections of the issuer's annual report implied that the issuer had a limited number of customers.
85. Even though two customers each accounted for more than 10 percent of the entity's revenues, the issuer did not make the disclosures required in paragraph 34 of IFRS 8, arguing that it was a commercially sensitive information.

### *The enforcement decision*

86. The enforcer disagreed with the non-disclosure of information about major customers and required the issuer to disclose such information within its financial statements.

*Rationale for the enforcement decision*

87. In accordance with paragraph 34 of IFRS 8, an entity shall provide information about the extent of its reliance on major customers if the revenues from a single external customer amount to 10 percent or more of an entity's revenues. Accordingly, the entity should disclose this fact and the total amount of revenues from each such customer.
88. According to paragraph 31 of IFRS 8, the provisions of paragraphs 32 to 34 of IFRS 8 apply to all entities preparing their IFRS financial statements, including those entities that have a single reporting segment.
89. Finally, paragraphs BC 43 to 45 of IFRS 8 do not include any exemption for disclosure on the ground that it is commercially sensitive information that could cause competitive damage.