

AMF Recommendation 2017 financial statements - DOC-2017-09

Reference text: AMF General Regulation, article 223-1

Before the close of each annual accounting period, the Autorité des Marchés Financiers (AMF), like the European Securities and Markets Authority (ESMA) and other regulators, identifies the accounting matters which seem important in a given context with a view to alerting listed companies, their audit committees and statutory auditors to these issues. In so doing, the AMF helps to protect savings and ensure that investors are well informed by way of high-quality financial and accounting disclosure.

The task of setting and interpreting international accounting standards, on the other hand, is the remit exclusively of the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) Interpretations Committee.

These recommendations are primarily aimed at companies that draw up financial statements using the IFRS framework pursuant to IAS Regulation no. 1606/2002 of the European Union.

Some of the recommendations below require that companies provide descriptions or explanations in their financial statements. As regards specific aspects of the standards, the topics addressed will not be applicable to all issuers. Furthermore, the degree of detail in the disclosures will also have to be adjusted to the relative importance of the subject in order to emphasise the relevant information.

At a European level, ESMA has identified common enforcement priorities¹ regarding the standards coming into force on 1 January 2008 (IFRS 15 - *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*) and 1 January 2019 (IFRS 16 – *Leases*) as well as business combinations and the statement of cash flows.

The AMF's recommendations are consistent with those of ESMA with regard to the new standards and the statement of cash flows. References are made to the ESMA statement in order to facilitate comparison between the two texts. In certain cases, the AMF has adapted the topics in question to fit the French environment, and it has also highlighted information that should be provided in the first interim financial statements published under the new standards.

Since it made recommendations on the topic in 2011 and these have been fairly well followed, the AMF has not reiterate ESMA's recommendations on business combinations in its 2017 recommendation. ESMA's focus in this regard is on the following topics:

- The importance of information provided in the notes to the financial statements on the fair value of assets acquired and liabilities assumed, as well as the methods used to determine this fair value;
- Information that should be provided and additional analysis that should be performed in the event of a bargain purchase.
- The specific features of the standard and analysis that should be performed on the accounting for contingent consideration or remuneration for post-combination services;
- The lack of IFRS clarity over whether a liability needs to be recognised in a mandatory tender offer (cf. IFRS IC of March 2013²)

Companies affected are invited to refer to the ESMA recommendations on the matter.

In addition, as indicated in 2016, the United Kingdom's exit from the European Union is eventually likely to have consequences on accounting and/or the activity of certain companies that will need to be disclosed to the market. The AMF recommends that affected companies continue to monitor Brexit in order to determine which, if any, risks, exposures and/or impacts they should disclose to the market in relation to any operational or strategic decisions. In addition to the factors mentioned in the 2016 recommendations, there could also be eventual consequences for deferred taxes should Brexit affect groups from a tax perspective.

¹ ESMA Public Statement – European common enforcement priorities for 2017 IFRS financial statements – ESMA32-63-340 <https://www.esma.europa.eu/file/23828/download?token=F1O4Bslf>

² IFRIC Update March 2013 <http://www.ifrs.org/-/media/feature/news/updates/ifrs-ic/2013/ifric-update-march-2013.pdf>

AMF financial statement reviews

The AMF hereby presents some statistics and explanations regarding its reviews of the financial statements of listed companies.

These companies and their statutory auditors should feel free to contact the AMF to discuss any matter regarding the application of IFRS.

Contents

1. Importance of relevant, consistent and readable information	3
1.1. Materiality principle.....	3
1.2. Amendment to IAS 7- Statement of Cash Flows	3
2. IFRS 15	4
2.1. Agent vs principal	4
2.2. Financing component	4
2.3. Costs incurred over the life of a contract	5
2.4. Measuring progress.....	5
2.5. Information on the transition	5
2.6. First interim financial statements published under IFRS 15.....	6
3. IFRS 9.....	7
3.1. Elements specific to industrial and commercial companies	7
3.2. Elements specific to credit institutions	8
3.2.1. IFRS 9 matters for consideration	8
3.2.2. Information on the transition	9
3.2.3. First interim financial statements published under IFRS 9.....	10
3.3. Application to insurance activities.....	10
4. IFRS 16.....	11
5. AMF financial statement reviews.....	12
5.1. Ex-post review of financial statements	12
5.1.1. Selection of issuers reviewed as part of the Corporate Accounting and Auditing Directorate's (DAC) work schedule and type of review	13
5.1.2. Recommendations sent to issuers.....	13
5.2. Review of financial statements included in IPO prospectuses.....	15
5.3. Other prospectuses	15
5.4. Review prior to an accounting treatment	16

1. Importance of relevant, consistent and readable information

The issue of presenting primary financial statements, as well as the readability and relevance of the information provided in the notes, is one of the main features of the IASB's Better Communication in Financial Reporting project.

This is a topic close to the heart of regulators, and the AMF is no exception, as demonstrated by the publication in 2015 of its Guide to the Relevance, Consistency and Readability of Financial Statements, which aimed to provide companies with ideas and examples so they could improve the content and presentation of the information disclosed in financial statements.

The AMF welcomes the steps taken by a growing number of French companies to restructure their notes to financial statements so that items are grouped by theme and there is consistency across their financial reporting. The AMF encourages companies to continue in this vein.

1.1. Materiality principle

IAS 1.31 specifies that, even if a specific disclosure is required by IFRS, it need not be provided if the information resulting from that disclosure is not material. Conversely, companies should look at whether additional information not specifically required by IFRS should be provided, with regard to IAS 1.117-125-129, in order to enable understanding of a material transaction or event and its impact on the financial position and performance of the company.

Recommendation:

It is important that companies continue to work on the notion of the materiality of information provided in financial statements by examining which items should be presented in the context of the period under review, deleting immaterial information and providing more details on information that is material from a qualitative or quantitative perspective.

In September 2017, the IASB published a Practice Statement³ on materiality. The text is not binding but it may help companies to integrate the complex materiality principle into their financial statements insofar as it contains a suggested approach and examples showing how the IASB proposes to apply the materiality principle to financial statement items in certain specific situations, such as related-party transactions, covenants, etc.

Recommendation:

The AMF has observed that, in their financial statements, some companies present principles that are not applicable in view of their transactions and operations (hedging, joint operation accounting methods, etc.), while others present practical or operational simplifications which have immaterial impact. The AMF urges companies not to mention these in the notes because, as indicated in IAS 1.30A, they obscure material information.

Another important element highlighted in the AMF's guide was the importance of involving the governance bodies and audit committee, particularly upstream, in the process of drawing up the financial statements. We feel this is particularly important in the context of the new IFRS and the bigger role played by the audit committee.

1.2. Amendment to IAS 7- *Statement of Cash Flows*

As part of its plans to improve disclosure in the notes to financial statements, the IASB has published an amendment to IAS 7 – *Statement of Cash Flows* which applies to financial years beginning on or after 1 January 2017 and will be adopted by the European Commission before the end of the year.

This amendment aims to provide additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities by distinguishing between the different types of changes (IAS 7.44A). This is disclosures that have been long-awaited by users of financial statements of industrial and commercial companies, who attach considerable importance to the statement of cash flows and sometimes find it hard to evaluate the changes therein or reconcile them with the other components of the financial statements.

³ IASB - IFRS Practice Statement: Application of Materiality to Financial Statements

<http://www.ifrs.org/-/media/project/disclosure-initiative/disclosure-initiative-materiality-practice-statement/ed-practice-statement.pdf>

Recommendation:

The AMF urges corporate companies, pursuant to the new requirements of IAS 7.44A and B, to present changes in liabilities arising from financing activities in a tabular format as suggested in IAS 7.44D and the illustrative example E, where this is deemed more appropriate for presenting clear and concise information and fulfilling the objectives of the amendment.*

In addition, pursuant to IAS 1.111 and 113, companies are urged to provide comments on these changes and tie them in with the other components of the financial statements.

* Cf. ESMA ECEP page 4 Reconciliation of liabilities arising from financing activities in IAS 7

2. IFRS 15

IFRS 15 - *Revenue from Contracts with Customers* comes into force on 1 January 2018. It includes new principles for recognising revenue and new requirements with regard to disclosures in the notes.

Recommendation:

As part of implementing IFRS 15, some items require in-depth analysis (e.g. recognition of revenue from the sale of licences, evaluation of variable consideration and the items presented below). It is therefore important to follow the five steps set out by the standard before concluding there is no impact.

Cf. ESMA ECEP page 9 IFRS 15 Revenue from contracts with customers par. 1

2.1. Agent vs. principal

IFRS 15 B34-38 bases the analysis on the concept of transfer of control of the goods or services, whereas IAS 18 analysis was based on the notion of transfer of risks and rewards.

Recommendation:

The AMF invites all companies with significant contracts under which a third party provides goods or services to their customers (distributor, supplier or subcontractor, for example) to perform a detailed analysis of these contracts in light of the IFRS 15 measures before deciding whether to retain the accounting methods established in accordance with IAS 18.

Cf. ESMA ECEP page 10 IFRS 15 Revenue from contracts with customers par. 2

2.2. Financing component

IFRS 15 requires analysis to be carried out to determine whether or not a contract contains a significant financing component, particularly if there is more than a year between transfer of, and payment for, the goods or services, and sets out the reasons why such a delay in payment may be caused by something other than a financing component (IFRS 15.60 et seq.). In cases of existence of financing component, the entity adjusts the recognised revenue so that the transaction price reflects what the customer would pay in cash for the goods or services, and recognises the financing component in interest income or expense. The standard specifies that the discount rate, which shall not be updated after initial recognition of the contract under the terms of IFRS 15.64, should also reflect the credit characteristics of the party receiving financing as well as any collateral or security provided by the customer or the entity, which may affect the rate.

Recommendation:

The AMF is adamant about the importance of affected companies determining whether or not a contract contains a financing component, even in a low interest rate environment.

If the financing component is not recognised because it is not significant, the AMF recommends that companies ensure they do not lose the analysis they have carried out because it may be used again for similar future agreements which may have a significant financing component.

Cf. ESMA ECEP page 10 IFRS 15 Revenue from contracts with customers par. 4

2.3. Costs incurred over the life of a contract

The standard distinguishes a certain number of costs incurred over the life of a contract (costs of obtaining, fulfilling and renewing the contract, for example) by specifying their accounting treatment (IFRS 15.91 et seq.). Some of these costs must be capitalised if certain conditions are fulfilled.

Outside of IFRS 15, the IFRS already include provisions stating which costs should and should not be capitalised (IAS 38, IAS 2 and IAS 16). IFRS 15.BC307 states that where other standards preclude the capitalisation of certain costs, these costs cannot be capitalised under IFRS 15. Moreover, IAS 38.67 and 68 list the costs that can and cannot be capitalised for an internally generated intangible asset. For example, under the terms of IAS 38.67, staff training costs cannot be capitalised.

Recommendation:

The AMF again stresses the importance of ensuring that the costs of fulfilling a contract do not fall under the scope of another standard before assessing the asset recognition criteria in IFRS 15.95.

Cf. ESMA ECEP page 10 IFRS 15 Revenue from contracts with customers par.6

2.4. Measuring progress

IFRS 15 describes the analysis that should be performed to determine if a performance obligation is satisfied at a point in time or over time (IFRS 15.35 to 38)

If the performance obligation is deemed to be satisfied over time, the standard states that the associated revenue should be recognised using the method that best represents the gradual transfer to the client of control of the goods or services.

Reminder:

Pursuant to IFRS 15.B15, the method used to measure progress should provide a faithful depiction of the entity's performance in measuring the goods or services over which the customer has obtained control. As such, methods based on external milestones (e.g. units produced or delivered, services provided) are not acceptable if they require recognition of significant work in progress over which the customer has control at the end of the reporting period.

Cf. ESMA ECEP page 9 and 10 IFRS 15 Revenue from contracts with customers par.2 and 3

In French off-plan property agreements (known as VEFA contracts), all incurred costs, including provision of the land, are generally representative of the pattern at which control of the entire asset is transferred, in particular because the legal transfer of ownership of all existing elements (land and part of the construction) to the customer takes place upon signature of the contract.

2.5. Information on the transition

The AMF has reviewed the information provided in this area in the 2016 annual and 2017 half-yearly financial statements of CAC 40 and Next 20 companies as well as a sample of 86 comparable European companies⁴. The findings were as follows:

- Nearly all the French companies that mentioned IFRS 15 had improved their disclosure in the half-yearly financial statements, compared with over half the European companies. Just under a third of the French companies that mentioned IFRS 15 expect to be affected, compared with nearly half the European companies.
- For those that mentioned IFRS 15 (around one fifth of the French companies and one quarter of the European companies), there was almost a 50/50 split between those that have chosen the full retrospective transition approach and those that have chosen the modified retrospective transition approach.
- Three French companies and 10 non-French European companies provided an initial quantitative disclosure on the impact as at the transition date, for example a percentage change in revenues.

⁴ Cf. also ESMA's analysis of 47 European companies

<https://www.esma.europa.eu/file/23827/download?token=FLckp9KT>

- Both in France and elsewhere in Europe, the topics most frequently mentioned by companies that believe they are affected or are still analysing the situation are a different revenue recognition rhythm compared with existing standards, identifying performance obligations, measuring variable remuneration components, distinguishing between the agent and the principal, and recognising contract costs.

Recommendation:

The AMF urges companies to refer to the AMF's ad hoc recommendation on the implementation of IFRS 15⁵ within the context of preparing 2017 financial statements and presenting information within these financial statements in respect of the new standard.

The AMF reminds companies that they need to provide more detailed and specific qualitative disclosure in the 2017 financial statements than in previous years. Pursuant to IAS 8.30, the market expects the 2017 annual financial statements to make a quantifiable estimate of the impacts of IFRS 15. This information may be given as a magnitude of the impacts, and in the case of partial information companies should specify which elements are still being analysed.*

In addition, if the impact of first-time adoption is immaterial but other companies in their sector have already announced that they expect to experience material effects, the AMF urges companies to explain in the notes to the financial statements why they do not expect to be impacted as much.

With regard to financial communication, the AMF urges significantly affected companies to present the main effects of the standard in an informative manner to the various financial market participants prior to adoption (e.g. in Q3 or 2017 annual results press releases). On this occasion, it will be helpful for the companies to present the expected impacts on the aggregates used in their financial reporting (e.g. alternative performance measures, forecasts and/or outlook).

Prior to publication, it is important that this information is reliable, i.e. that the company's governance bodies have been able to review it with considerable involvement from the statutory auditors.

**Cf. ESMA ECEP page 2 Implementation of major new standards and disclosure of their impact par.2-4*

2.6. First interim financial statements published under IFRS 15

IFRS 15 will be applied for the first time in the 2018 quarterly or half-yearly financial statements.

Interim financial statements are condensed and do not include all the components presented in annual financial statements pursuant to IAS 34. Nevertheless, IAS 34.16A(a) states that any changes to accounting principles must be presented.

Recommendation:

With this in mind, interim financial statements should include detailed and specific information about IFRS 15 so that readers can understand the main accounting analysis performed and conclusions drawn. Companies should focus on the parts of the standard that will impact them the most.

Reminder:

Even companies that experience little or no impact are required to provide much more advanced disclosure in the notes to their financial statements. Specifically, IAS 34.16A(I) requires disaggregated disclosure of revenue as per IFRS 15.114-115, with companies asked to ensure that the level of detail provided is consistent with the company's financial reporting and segment disclosure (IFRS 15.B88).

The AMF also reminds companies that IFRS 15.C4 to C8 lists a certain amount of information that should be disclosed in the notes to the financial statements on first adoption.

⁵ AMF Recommendation - Implementation of IFRS 15 - Revenue from Contracts with Customers – and related disclosures - DOC-2016-03

http://www.amf-france.org/technique/multimedia?docId=workspace://SpacesStore/1a818cb5-c8c4-45fb-9ade-9f29a84c0378_fr_1.0_rendition

3. IFRS 9

IFRS 9 – *Financial Instruments* will come into force on 1 January 2018. It includes new financial instrument accounting principles (classification, impairment and hedging) as well as significant new requirements for disclosure in the notes to the financial statements, particularly with regard to hedging.

3.1. Elements specific to industrial and commercial companies

In theory, IFRS 9 should have a less significant effect on most corporate companies, particularly as regards impairment and classification.

IFRS 9 requires the use of an impairment model based on expected losses across all financial assets, including trade receivables.

Recommendation:

In addition to the reclassification of certain financial assets such as UCITS shares and shares that were classified as available for sale under IAS 39, the AMF reminds companies of the importance of performing the analysis required by switching from an impairment model based on incurred losses to one based on expected losses. Significantly affected corporate companies should indicate how they have modelled expected losses (e.g. customer segmentation, provision matrix based on aging balance, etc.)

It is important that the information provided in the notes to the financial statements is proportionate to the expected impact and the analysis performed.

It is also important that companies analyse the consequences of the new hedge accounting principles and evaluate whether they would be applied. The result of this analysis and the decision made should be explained. In addition, IFRS 7 (as amended by IFRS 9) requires the 2018 financial statements to provide greater disclosure on hedging strategies and how they affect the accounts.

Cf. ESMA ECEP page 6 IFRS 9 Financial instruments, Specific considerations related to application of IFRS 9 for corporates

During the first half of 2017, the IASB and IFRS IC discussed the accounting for modification of financial liabilities that do not result in derecognition under IFRS 9⁶. IFRS 9.B5.4.6 makes provision for the applicable accounting treatment, which does not correspond to the method used by most companies under IAS 39.

Reminder:

In the event of modification of financial liabilities that do not result in derecognition, pursuant to IFRS 9.B5.4.6, companies should recalculate the amortised cost by discounting modified contractual cash flows at the original effective interest rate and recognise the difference with the previous amortised cost through profit and loss. The impact of applying this accounting treatment retrospectively should be recognised in opening shareholders' equity.

Cf. ESMA ECEP page 6 IFRS 9 Financial instruments, par. 1

Recommendation:

If there is a material impact from changing the accounting of modification of financial liabilities that do not result in derecognition, companies should provide a separate disclosure explaining the change of the accounting policy and its impact.

Cf. ESMA ECEP page 6 IFRS 9 Financial instruments, par. 1

⁶ IFRIC Update June 2017 - <http://www.ifrs.org/news-and-events/updates/ifric-updates/june/>

IASB Update July 2017 - <http://www.ifrs.org/news-and-events/updates/iasb-updates/july-2017/>

3.2. Elements specific to credit institutions

Prudential regulators are keeping a close eye on how credit institutions implement IFRS 9 by way of the ECB's thematic review and the EBA's impact assessments.

3.2.1. IFRS 9 matters for consideration

3.2.1.1. Ongoing amendment

Although IFRS 9 was published in 2014 and adopted by the EU in 2016, the IASB has continued its standard setting activity by way of an amendment, which is currently being finalised, to the accounting classification of debt instruments bearing prepayment features with negative compensations. This amendment will clarify the conditions under which these instruments can be recognised at amortised cost or at fair value through comprehensive income, and will enter into force on 1 January 2019. Early application is permitted.

Companies that are materially affected by this amendment should monitor its finalisation and publication by the IASB and then its endorsement by the EU.

Recommendation:

Should the EU endorse the amendment to IFRS 9 regarding the accounting classification of debt instruments bearing prepayment features with negative compensations prior to the reporting date of 2018 interim financial statements, the AMF urges materially affected companies to early apply the amendment to ensure continuity in the accounting standards applied when IFRS 9 is adopted on 1 January 2018 and subsequently.

Moreover, the AMF advises materially affected companies to explain the effects of this amendment in the notes to their financial statements.

Cf. ESMA ECEP page 7 Specific considerations related to application of IFRS 9 for credit institutions, par. 5

3.2.1.2. Classification of financial assets

IFRS 9 introduces changes to the classification of financial assets that are analysed based on the instrument's contractual specifications and the business model used by the entity to manage each portfolio of instruments.

Reminder:

Pursuant to IFRS 9.B4.1.2B, analysis of the business model used to classify financial instruments must be based on objective facts supported by available qualitative and quantitative indicators, of which the standard contains a non-exhaustive list. It cannot be based on a mere assertion or intention.

Cf. ESMA ECEP page 7 Specific considerations related to application of IFRS 9 for credit institutions par.3

In addition, for a business model whose objective is to hold financial assets in order to collect contractual cash flows, IFRS 9 allows companies to sale assets in certain circumstances governed by IFRS 9.B4.1.2C-3B.

Recommendation:

Companies should internally draw up quantitative and qualitative operational indicators in order to qualify disposals of assets held for the purpose of collecting contractual cash flows, and implement supporting documentation to ensure that past or future disposals do not contravene the principles of the standard.

Cf. ESMA ECEP page 7 Specific considerations related to application of IFRS 9 for credit institutions par.3

3.2.1.3. Impairment model

IFRS 9 has introduced a complex new impairment model that requires methodological choices and core assumptions.

The AMF stresses that pursuant to IFRS 9.5.5.9 et seq., relevant analysis is required before it can be determined that the credit risk of a financial instrument has significantly increased since initial recognition. The AMF understands that the model most companies will use to determine whether credit risk has increased significantly will comprise relative and absolute triggers.

Recommendation:

Since this is considered to be the most complex aspect of the standard, the AMF underlines that the approach implemented should also take forward-looking information into account. Among other things, such an approach requires companies to ensure the data is consistent and reliable, implement ad hoc governance with a robust internal control system and perform ex-post controls.

In addition, if a combination of absolute and relative triggers are used to determine a significant increase in credit risk, the absolute triggers should not dominate the relative ones. This should ensure that the assumption of a low credit risk as per IFRS 9.B5.5.23 is not inappropriately extended, i.e. the assumption that a financial instrument cannot undergo a significant increase in credit risk if this risk is the same category as investment grade.

IFRS 9 has also amended IFRS 7 – *Financial Instruments: Disclosures* and requires a significant amount of additional information in the notes to the financial statements, and it is important that companies are ready for this.

Cf. ESMA ECEP page 7 Specific considerations related to application of IFRS 9 for credit institutions par.4 and 6

3.2.2. Information on the transition

The AMF has reviewed the information provided in this area in the 2016 annual and 2017 half-yearly financial statements of a dozen French and European credit institutions⁷. The findings were as follows:

- One third of the sample chose early application of the measures consisting of presenting in other comprehensive income the impact on financial liabilities measured under the fair value option, and mentioned the impact thereof.
- Two credit institutions provided initial quantitative information on the impact of the impairment model.
- As regards classification of the financial instruments, the French institutions provided detailed narrative disclosure on the expected changes and analyses for the main instruments concerned.
- Taking the whole sample into account, the disclosure in the half-yearly financial statements was slightly more advanced than in previous reporting periods, with more information provided on the new impairment model.
- Nearly the entire sample, and all the French companies, expects to avail themselves of the option to retain IAS 39's hedging provisions.
- The vast majority of banks do not expect to restate figures from comparative periods, as permitted by IFRS 9 on first-time adoption.

Recommendation:

The AMF urges companies to refer to its ad hoc recommendation on the implementation of IFRS 9⁸ within the context of preparing 2017 financial statements and presenting information within these financial statements in respect of the new standard..

The AMF reminds companies that they need to provided more detailed and specific qualitative disclosure in the 2017 financial statements than in previous years. Pursuant to IAS 8.30, the market expects the 2017 annual financial statements to make a quantifiable estimate of the impacts of IFRS 9. This information may be given as a magnitude of the impacts, and in the case of partial information companies should specify which elements are still being analysed.

Cf. ESMA ECEP pages 2 and 3 Implementation of major new standards and disclosure of their impacts par.2-4

Prudential regulators continue to reflect on the implementation of transitional arrangements relating to how IFRS 9 might affect prudential ratios, with the prudential treatment of accounting provisions unchanged so far⁹.

⁷ Cf. also ESMA's analysis of 48 European credit institutions
<https://www.esma.europa.eu/file/23827/download?token=FLckp9KT>

⁸ AMF Recommendation - Implementation and information to be disclosed under IFRS 9 – Financial instruments – DOC-2016-12
http://www.amf-france.org/technique/multimedia?docId=workspace://SpacesStore/a6bf218c-040f-4e19-8570-eaf8f8514b48_fr_1.0_rendition

Nevertheless, it is highly likely that specific prudential disclosure requirements (Pillar 3) will be tied in with transitional arrangements to ensure appropriate transparency on the impact of these measures.

Recommendation:

With regard to financial reporting, the AMF recommends that companies present the impacts of implementing IFRS 9 on governance (financial risk management, involvement of the audit committee) and on the aggregates used in their financial reporting (e.g. alternative performance measures, forecasts and/or outlook) in financial communication. The AMF urges significantly affected companies to present the main effects of the standard in an informative manner to the various market participants prior to adoption.

Prior to publication, it is important that this information is reliable, i.e. that the company's governance bodies have been able to review it with considerable involvement from the statutory auditors.

The AMF urges financial institutions, when they are disclosing on how IFRS 9 will impact prudential ratios in their financial reporting, to specify (where applicable) the transitional arrangements used to calculate these ratios and to publish the ratios both before and after application of such transitional relief.*

*Cf. ESMA ECEP page 7 Specific considerations for credit institutions par.2

3.2.3. First interim financial statements published under IFRS 9

IFRS 9 will be applied for the first time in the 2018 quarterly or half-yearly financial statements. Although the interim financial statements do not include all the disclosures of the annual financial statements pursuant to IAS 34, they will include the information required by IFRS 7.421 et seq on the transition.

Recommendation:

In addition to the information required on the transition, the AMF advises companies to ensure that the presentation and depth of information provided in the interim financial statements enables readers to understand the changes to accounting principles and methods brought about by the standard compared with IAS 39, including in relation to credit risk.

For example, companies will look at the way in which financial instruments are classified and the disclosures that should be provided with regard to the credit quality of their exposure (breakdown by bucket, type and category of financial assets).

In addition, the French Accounting Standards Authority (ANC) has updated its recommendation on the presentation of credit institutions' financial statements to take into account the changes introduced by IFRS 9¹⁰.

3.3. Application to insurance activities

In September 2016, the IASB published an amendment to IFRS 4 – *Insurance Contracts* enabling deferral of IFRS 9 application until 1 January 2021 if consolidating entity fulfils the criteria for having activities that are predominantly connected with insurance.

As part of the European Commission's adoption of this amendment, the Accounting Regulatory Committee issued a favourable opinion on the proposal to also allow financial conglomerates the option of deferring IFRS 9 adoption for legal entities in the insurance sector of a financial conglomerate, subject to compliance with certain measures governing the transfer of financial assets between the insurance sector and any other sector of the financial conglomerate.

⁹ Cf. Opinion of the European Banking Authority on transitional arrangements and credit risk adjustments due to the introduction of IFRS 9 EBA/OP/2017/02

<http://www.eba.europa.eu/documents/10180/1772789/EBA+Opinion+on+transitional+arrangements+and+credit+risk+adjustments+due+to+the+introduction+of+IFRS+9+%28EBA-Op-2017-02%29.pdf>

¹⁰ Recommendation 2017-02 on the format of the consolidated financial statements of credit institutions in accordance with international accounting standards

http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/1.%20Normes%20fran%c3%a7aises/Recommandations/RECO2017/Recommantation_%202017-02.pdf

Recommendation:

The AMF urges insurers and financial conglomerates that have chosen to defer application of IFRS 9 in full or for their insurance subsidiaries to notify the market of their decision in their 2017 financial statements and financial reporting.

Companies that meet the amendment criteria for having activities that are predominantly connected with insurance should explain the analysis carried out.

Financial conglomerates availing themselves of the option presented by the European Commission's adoption of the amendment should specify the steps they have taken to comply with the European Commission's criteria (in particular, the ban on transfers between the insurance sector and any other sector).

All companies deferring application of IFRS 9 should expand their disclosure in the notes to the financial statements, where applicable, to include elements such as the proportion of the group's main aggregates made up by non-IFRS 9 financial assets.

Moreover, upon first-time application of IFRS 9, additional information will have to be provided in the notes to the financial statements pursuant to IFRS 4.39E and G.

Cf. ESMA ECEP page 9 Specific considerations related to application of IFRS 9 for insurance undertakings/conglomerates par. 2-4

This amendment to IFRS 4 also allows IFRS 9 to be applied while recognising some of the fair-value changes of certain financial instruments in other comprehensive income. This is known as the overlay approach.

Recommendation:

If the overlay approach from the amendment to IFRS 4 is applied, all other IFRS 9 provisions apply, including those pertaining to disclosure in the notes to the financial statements. The AMF urges companies that have opted for the overlay approach to disclose this in their financial statements and financial reporting, and to disclose the expected effects of this approach pursuant to IAS 8.30.

Cf. ESMA ECEP p. 8 Specific considerations related to application of IFRS 9 for insurance undertakings/conglomerates par. 1

4. IFRS 16

IFRS 16 – Leases will come into force on 1 January 2019. It changes the accounting treatment of leases, particularly for lessees, requiring recognition of assets and liabilities for most leases, not only finance leases. It can be applied early as soon as it is adopted by the European Union. The adoption process is ongoing and should be finalised by the end of 2017, allowing companies to apply the standard early if they so wish.

The AMF's analysis of disclosure on IFRS 16 by CAC 40 and Next 20 companies in their 2017 half-yearly financial statements revealed that around a third have chosen not to apply the standard early, while a few companies have not yet decided. Half the companies in the sample said their analysis was ongoing.

Recommendation:

The AMF urges companies that have chosen to apply IFRS 16 early to make specific mention of this in their 2017 financial statements.

Pursuant to IAS 8.30, the AMF urges companies to present the expected impact of this new standard in their 2017 financial statements, separately from the impact of other new standards and with a description of the main elements of analysis and expected changes in an appropriate level of detail (by underlying asset type, for example).

Cf. ESMA ECEP page 11 IFRS 16 Leases par. 2

In its 2016 recommendations¹¹, the AMF urged companies to expand on their lease disclosure because it expected the market to use this information to improve its understanding of the different types of lease and provide a rough estimate of the related impact. With the application date of the standard approaching, these recommendations are now even more pertinent.

Recommendation:

The AMF urges companies to follow its ad hoc 2016 recommendations on disclosure upon implementation of IFRS 16. Disclosure should be gradually enhanced in each reporting period, specifying pursuant to IAS 8.30:

- **progress of work;**
- **significant accounting policy choices (e.g. transition approach);**
- **specific aspects of the standard that might have an impact, with an explanation of ongoing analysis;**
- **a qualitative indication of the magnitude of the expected impact on the financial statements on first-time adoption, and quantitative disclosure as soon as this is available or can be reliably estimated.***

Moreover, the AMF recommends that the companies in question present the expected impacts on the aggregates used in their financial reporting (e.g. alternative performance measures, the company's forecasts or outlook) in its financial communication.

* Cf. ESMA page 11 IFRS 16 Leases par.2

IFRS 16.C5 also allows two transition approaches: the retrospective approach and the modified retrospective approach. In both cases, the cumulative effect of first-time adoption is recognised in the opening shareholders' equity.

Pursuant to IFRS 16.C8 to C13, the modified retrospective approach enables companies to perform a simplified calculation to determine certain impacts of first-time adoption; it does not, however, enable presentation of a comparative period that has been restated according to IFRS 16.

Reminder:

If companies use the modified retrospective approach, they are reminded that, pursuant to IFRS 16.C7, comparative information is not restated.

Cf. ESMA page 11 Leases par.3

Recommendation:

If companies use the modified retrospective approach and wish to provide disclosure on previous periods away from their financial statements, this information would fall under the scope of AMF position 2015-12¹² on alternative performance measures.

5. AMF financial statement reviews

5.1. Ex-post review of financial statements

The AMF hereby presents an overview of its financial statement review work. The information provided below concerns the reviews conducted between October 2016 and September 2017 and the main topics that gave rise to work and commentaries by the AMF. There is continuity between the financial statement reviews conducted by

¹¹ Cf. AMF Recommendation - 2016 financial statements - DOC-2016-09 - §3 page 9

http://www.amf-france.org/technique/multimedia?docId=workspace://SpacesStore/79a7f860-5fbd-44e6-abc9-b1d8b2bd8393_fr_1.0_rendition

¹² Position DOC-2015-12 Alternative performance measures

http://www.amf-france.org/technique/multimedia?docId=workspace://SpacesStore/26cd1187-5ba7-44d9-89cc-f74d796332f2_fr_1.1_rendition

the market regulator, which identify certain difficulties in applying accounting standards, the selection of subjects for AMF recommendations ahead of financial reporting and the direction that will be taken by future reviews.

Of the reviews conducted by AMF teams between October 2016 and September 2017, 75% concerned registration documents and 25% concerned annual reports.

5.1.1. Selection of issuers reviewed as part of the Corporate Accounting and Auditing Directorate's (DAC) work schedule and type of review

Every year, the AMF uses three criteria to select a sample group of issuers whose accounts it will review: risk, rotation and random sampling, in compliance with ESMA's guideline on enforcement of financial information.

As part of its risk analysis, the AMF considers market criteria (e.g. capitalisation, floating capital) and financial indicators (e.g. ratios, changes in financial highlights, and financial or market transactions) that are specific to each issuer, but also more general criteria such as sector-based issues. The rotation approach ensures that the financial statements of companies in a given compartment are reviewed at least once during a given period. The random sampling approach is used for companies in Euronext's Compartment C, which are more numerous and have a smaller capitalisation.

Of the companies picked in 2017, 67% were selected on a risk-based approach, 17% on the rotation approach and 16% using random sampling.

In addition to this selection, the AMF may perform additional reviews on some companies, focusing on one or more specific themes based on the environment at the time or issues it has previously encountered.

In 2017, approximately 75% of the reviews conducted were full reviews (i.e. concerning all the issuer's financial statements), compared with 79% in the previous period. The targeted reviews mainly concerned the amendment to IAS 38 on methods of depreciation and amortisation, debt restructuring or significant changes of control.

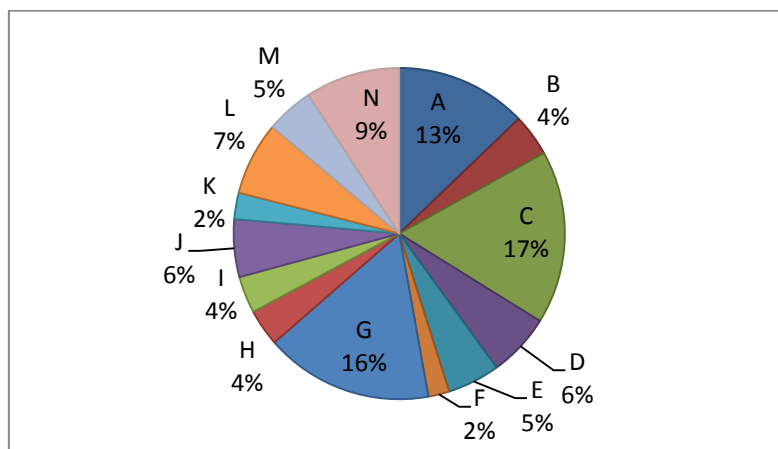
5.1.2. Recommendations sent to issuers

87% of the reviews completed during the period in question (October 2016 - September 2017) resulted in the AMF sending recommendations to the issuer (compared with 86% in the previous period). This means 13% of the reviews did not lead to any specific action.

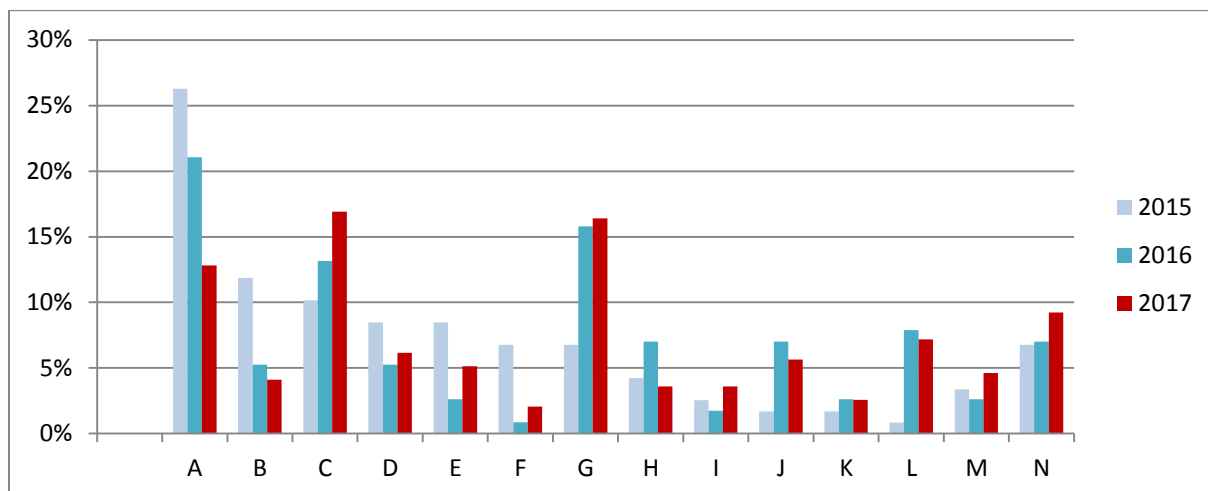
When recommendations are made, or when the AMF teams identify that a follow-up is needed in a particular area, the teams automatically perform a follow-up at the end of the next reporting period.

The average number of recommendations per review is fairly stable, rising from 2.4 to 2.8 in the most recent period.

The recommendations issued break down as follows by topic:



Change in breakdown of recommendation topics over the last three periods



A: Impairment test (IAS 36)

B: Consolidation and associates (IAS 27, IAS 28, IFRS 10, IFRS 11, IFRS 12)

C: Financial instruments and fair value (IAS 32, IAS 39, IFRS 7, IFRS 9, IFRS 13)

D: Income Taxes (IAS 12)

E: Provisions (IAS 37)

F: Share-based payment, employee benefits (IFRS 2, IAS 19)

G: Presentation of financial statements (IAS 1, IAS 7, IAS 8)

H: Related parties (IAS 24)

I: Intangible assets (IAS 38)

J: Assets held for sale and discontinued operations (IFRS 5)

K: Business combinations (IFRS 3)

L: Operating segments (IFRS 8)

M: Revenue (IAS 18, IFRS 15)

N: Other

The most common recommendation topics for 2016-2017 were financial instruments and fair value (17%), financial statements (16%) and impairment tests (12%).

We note that recommendations relating to the presentation of financial statements (16% in 2016-2017 versus 7% in 2014-2015) and to financial instruments and fair value (17% in 2016-2017 versus 10% in 2014-2015) have increased for three years in a row.

While impairment tests remain an important topic with 12% of the recommendations in 2016-2017, this figure has halved in the last three years, pointing to an overall improvement in companies' disclosure and analysis in this area.

With regard to the presentation of financial statements, the AMF's main recommendations and actions concerned the financial aggregates presented in the income statement. The AMF has urged some companies to reclassify certain elements presented as non-current, such as the share of depreciation and amortisation of non-current assets resulting from remeasuring said assets at fair value following acquisitions, under current operating income. In the AMF's view, it was not possible to classify recurring items such as depreciation and amortisation as non-current and, moreover, the entire impairment expense of an asset could not be split into two components within an income statement by nature or within two separate aggregates of the income statement.

The AMF has also advised companies to omit from their primary financial statements aggregates which are not sub-totals and to put these in the notes to the financial statements, where they are calculated in accordance with IFRS principles. If these aggregates or indicators are calculated on the basis of principles that are not compliant with IFRS and not broken down by sector, the AMF asks companies to withdraw them from their financial statements and present them as alternative performance measures in other part of the financial communication.

In addition, the AMF has ensured that companies with a going concern risk describe the assumptions underlying the going-concern principle in sufficient detail in the notes to the financial statements, accompanied by supporting objective facts.

The increase in recommendations related to financial instruments is due partly to a larger number of financial institutions reviewed during the period (particularly bond issuers) and partly to the targeted reviews focused on debt restructuring, whereby analysis showed whether or not it was a substantial modification requiring the debt to be derecognised and the related impacts to be presented. The other recommendations issued in relation to financial instruments concern credit risk disclosure and the breakdown of receivables past due but not impaired.

“Others” includes miscellaneous topics such as leases or inventories.

5.2. Review of financial statements included in IPO prospectuses

Between October 2016 and September 2017, the AMF reviewed 24 companies’ accounts included in IPO prospectuses.

IPO prospectus financial statements reviewed			
	2014-2015	2015-2016	2016-2017
Total	38	24	24
of which IFRS	26	17	18
of which French GAAP	12	7	6

Requests were formulated in 19 cases:

- 7 pre-publication changes to financial statements, concerning in particular presentation of the income statement.
- 4 insertions to the prospectus of an additional note to the financial statements.
- 8 specific recommendations for the next set of financial statements.

With regard to IPO prospectuses, the AMF cannot review the financial statements prior to them being approved by the company’s competent governing body (board of directors or management board) and the audit work being completed or nearly completed. If the accounts are changed in the wake of the AMF’s review, they must be approved again by the competent governing body.

5.3. Other prospectuses

The AMF also reviews the pro forma financial information that appears in the prospectus for a merger/absorption or in the prospectus for a share or bond issue to refinance a significant acquisition.

Even if these are not strictly speaking IFRS-compliant financial statements, this pro forma financial information is based mainly on IFRS principles and core assumptions, which will then be used in the issuer’s consolidated financial statements. The recurring themes in this area concern the identification of the acquiring company. With this in mind, the AMF often needs a substantiated analysis of the IFRS 3.B14-B18 criteria to make sure of the analysis performed.

In addition, the AMF often demands that the assumptions used to determine the pro forma information and presented in the explanatory notes, for example in terms of how debt levels or shareholdings are affected by change-of-control clauses, or how goodwill is calculated, are sufficiently clear and precise.

Pursuant to IFRS 3.B64(q)(ii), upon publication of post-business combination financial statements, companies present the revenue and net income of the new group as if the acquisition date were the start of the financial year. In its reviews, the AMF attempts to connect this two information and understand the method used to calculate the items presented in the notes to the IFRS financial statements, and this should be provided more frequently.

5.4. Review prior to an accounting treatment

The AMF held discussions with five different companies about accounting analyses made by issuers prior to publishing their 2016 financial statements, compared with eight in the previous period.

As at the end of September 2017, five discussions had taken place in view of the 2017 half-yearly financial statements (unchanged from a year earlier). Just like in 2016, the main topics covered were, among others, application of IFRS 5, consolidation (gain or loss of control), going concern and refinancing.

In the first quarter of every year, the AMF holds meetings with some Compartment A companies in order to discuss core accounting issues that arose at the end of the previous reporting period.

The AMF will also meet with a few issuers in autumn 2017 ahead of the new IFRS 9 and IFRS 15 being implemented in order to discuss the expected impact of these standards, the main accounting principles and issues, and how the companies plan to disclose on the subject.