



ANNUAL REPORT - 2018 FINANCIAL STATEMENTS AND REVIEW OF THE 2016-2017 FINANCIAL STATEMENTS

Reference texts: AMF General Regulation, Article 223-1

Before the close of each annual accounting period, the AMF, like ESMA and other regulators, identifies the accounting and financial issues that seem important with a view to raising awareness among listed companies, including their audit committees, and their statutory auditors. In this way, the AMF helps ensure that savings are protected and investors are properly informed through the presentation of high-quality accounting and financial disclosures.

However, the task of setting and interpreting international accounting standards is assigned exclusively to the IASB and the IFRS Interpretations Committee.

These recommendations are intended primarily for companies that prepare their financial statements in accordance with IFRS under the European Union's IAS Regulation No 1606/2002.

Some of the recommendations below call on companies to provide descriptions or explanations in their financial statements. Not all of the issues arising from particular standards will be relevant to all companies and the level of detail of the information provided will also have to be adapted to the relative importance of the issue.

ESMA has identified European common enforcement priorities¹ focusing on the standards entering into force on 1 January 2018 (IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*) and on 1 January 2019 (IFRS 16 – *Leases*), as well as issues relating to financial disclosures more broadly (non-financial performance and alternative performance measures).

The AMF's recommendations are consistent with those issued by ESMA. References to the ESMA document are made to facilitate the link between the two documents. In some cases, the AMF has tailored the issues to the specific context in France. The AMF has also provided a more in-depth examination of leases, particularly in the context of the first interim financial statements published in accordance with IFRS 16.

Neither ESMA nor the AMF have made recommendations on the application as from 1 January 2019 of IFRIC interpretation 23 – *Uncertainty over Income Tax Treatments*. The AMF notes, however, that application of this interpretation will require a certain effort on the part of companies, and the impacts could be significant (in terms of measurement, classification and information in the notes).

Also, as stated in the previous ESMA and AMF recommendations, since the United Kingdom's vote to leave the European Union, the exit procedure will likely eventually have financial consequences that will have to be disclosed to the market. The AMF calls on potentially affected companies to disclose the risks, strategies implemented, exposures and, when known, impacts (impairments, restructurings, taxes, etc.) to the market.

¹ [ESMA Public Statement – European common enforcement priorities for 2018 annual financial reports –ESMA32-63-503](#)

Lastly, the AMF and ESMA stress that Argentina's classification as a hyperinflationary country under IFRS as from 1 July 2018 will have accounting and financial impacts that must be presented in the financial statements and in the financial disclosures by companies with significant exposure to this country.

The AMF's review of the financial statements

The AMF presents statistical and explanatory information about the work done in connection with its review of the financial statements of listed companies between October 2017 and September 2018.

The AMF remains available to listed companies and their statutory auditors to discuss any issues related to financial disclosures and, more specifically, to application of IFRS, including in advance of the publication of their financial statements.

Publication of a summary document of the AMF's accounting recommendations

In July 2018, the AMF published a document² summarising all of its recommendations related to financial statements under IFRS (2006 to 2017). This document facilitates access to prior recommendations by providing clear content allowing readers to perform a simple search by topic.

² [AMF Recommendation – DOC-2018-06 - Summary of financial statement recommendations applicable as at 1 January 2018](#)

1. THE AMF'S REVIEW OF THE FINANCIAL STATEMENTS	5
1.1 Ex post review of the financial statements	5
1.1.1 Selection of issuers reviewed as part of the Corporate Accounting and Auditing Directorate's 2018 work programme and type of review.....	5
1.1.2 Recommendations and areas of improvement for companies.....	5
1.2 Review of financial statements in initial public offering prospectuses.....	7
1.3 Other prospectuses	8
1.3.1 Pro forma information.....	8
1.4 Advance review of an accounting treatment, discussions with issuers.....	8
1.5 Specific topic: new statutory auditors' reports.....	9
2. IMPORTANCE OF RELEVANT AND PROPORTIONATE INFORMATION	9
3. IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS	10
3.1 Transition disclosures	10
3.2 Specific aspects of the analysis	10
3.2.1 Identification of performance obligations and revenue recognition.....	10
3.2.2 Allocation of the price to multiple performance obligations.....	11
3.2.3 Principal versus agent assessment	11
3.3 Information to be disclosed in the notes	11
3.3.1 Accounting policies, judgements and estimates	11
3.3.2 Contract assets and contract liabilities.....	12
3.3.3 Disaggregation of revenue	13
3.3.4 Transaction price allocated to the remaining performance obligations.....	13
4. IFRS 9 – FINANCIAL INSTRUMENTS.....	14
4.1 Transition disclosures	14
4.2 New disclosures in the notes in relation to hedging transactions	14
4.3 IFRS 9 impairment model	15
4.3.1 Significant change in credit risk.....	15
4.3.2 Incorporating forward-looking information into the determination of lifetime expected losses	15
4.3.3 Disclosure of reconciliations from opening to closing balances	16
4.4 Classification and measurement of financial assets.....	16
4.5 Specific considerations for insurance activities	17
4.6 Presentation of interest revenue on the income statement	17

- 5. IFRS 16 – LEASES 17
 - 5.1 Areas of focus of the standard **Erreur ! Signet non défini.**
 - 5.1.1 Determination of the lease term 18
 - 5.1.2 Discount rate 18
 - 5.2 Deferred taxes and IAS 12 exemption 18
 - 5.3 Transition disclosures 19
 - 5.3.1 Information to be disclosed to the market 19
 - 5.3.2 Transitional provisions: a few clarifications 20
 - 5.4 First interim financial statements published under IFRS 16 20
- 6. TOPICS RELATED TO OTHER PARTS OF THE ANNUAL REPORT 21
 - 6.1 Non-financial information 21
 - 6.1.1 Environmental matters 22
 - 6.1.2 Lack of policy on a significant identified risk 22
 - 6.1.3 Disclosure and selection of key performance indicators (KPIs) 22
 - 6.2 Alternative performance measures 23

1. THE AMF'S REVIEW OF THE FINANCIAL STATEMENTS

1.1 Ex post review of the financial statements

The AMF presents a summary of its review of the financial statements. The information covers the reviews conducted between October 2017 and September 2018 and the main topics that were the impetus for the AMF's work and commentary. There is a continuum between the reviews of financial reports conducted by the market regulator, used to identify difficulties in applying accounting standards, and the choice of topics discussed in the AMF's recommendations on financial statements.

The reviews of accounting matters by AMF staff between October 2017 and September 2018 involved 80 issuers, 68 registration documents and 12 annual reports.

1.1.1 Selection of issuers reviewed as part of the Corporate Accounting and Auditing Directorate's 2018 work programme and type of review

Each year, the AMF uses three criteria to select a panel of issuers whose financial statements will be reviewed — risks, rotation and random selection — in accordance with ESMA's guidelines on enforcement of financial information:

- In its risk analysis, the AMF considers, in particular, market criteria (capitalisation or free float and how they may have changed, for example) and financial indicators (ratios, changes in key figures, financial or market transactions), as well as more general criteria (sector-related issues, for example).
- The rotation-based approach ensures that the financial statements of issuers in a given compartment are reviewed at least once over a given period.
- Lastly, the random selection approach is used for Euronext Compartment C companies, which exist in larger numbers and have lower capitalisations, and for companies that only issue bonds.

For the companies selected in 2018, 81% of issuers were selected on a risk-based criterion (67% in 2017), 13% on the rotation criterion (17% in 2017), and 6% randomly (16% in 2017). The increase in risk-based selection for this financial year stemmed mainly from the addition of companies that were planning major market transactions.

The AMF also included additional targeted reviews of several issuers, focusing on one or more specific topics, depending on the latest developments or on the problems encountered.

In 2018, comprehensive reviews were conducted (i.e. covering all of the issuer's financial statements) of 79% of the companies selected over the period compared with 75% in the prior period. The targeted reviews mainly concerned the early application of new standards, transactions or the monitoring of major transactions where control was obtained or lost, and financial restructurings.

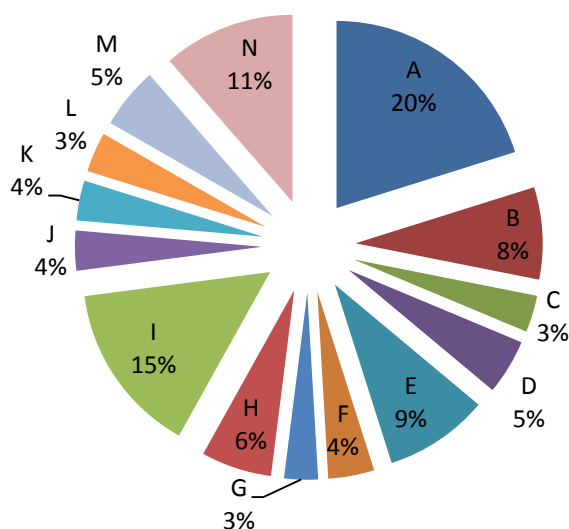
1.1.2 Recommendations and areas of improvement for companies

In the letters it sends after completing its review, the AMF makes recommendations and suggests areas of improvement. The recommendations are routinely monitored during the next annual accounting period. Areas of improvement generally cover issues that would become relevant if they were to intensify significantly in the future or those that are less important in the context of the accounting period reviewed.

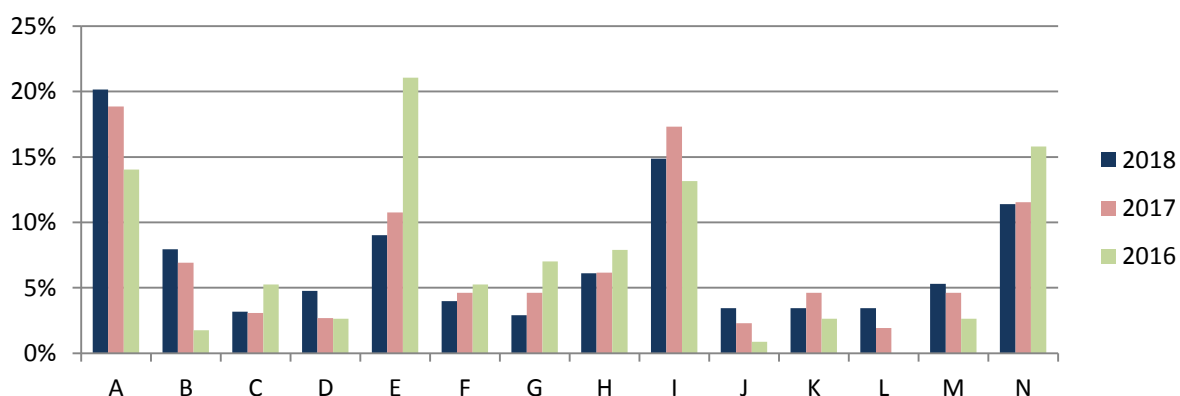
For the period analysed (October 2017 to September 2018), 76% of finalised reviews led the AMF to make recommendations or suggest areas of improvement to the company (87% in the prior period). In nearly a quarter of the cases, the reviews did not result in any specific action (13% last year).

The average number of recommendations and areas of improvement per review was 5.6 for the period, an increase from 2.8 in the prior period, reflecting the higher percentage of areas of improvement suggested and an increase in the number of companies reviewed, given the risks identified for these companies.

Breakdown of recommendations and areas of improvement by topic



Change in the breakdown of recommendations and areas of improvement by topic over the last three periods



A: Presentation of financial statements (IAS 1, IAS 8)	H: Operating segments (IFRS 8)
B: Statement of cash flows (IAS 7)	I: Financial instruments and fair value (IAS 32, IAS 39, IFRS 7, IFRS 9, IFRS 13)
C: Consolidation of associates (IAS 27, IAS 28, IFRS 10, IFRS 11, IFRS 12)	J: Share-based payments, employee benefits (IFRS 2, IAS 19)
D: Business combinations (IFRS 3)	K: Provisions (IAS 37)
E: Impairment testing (IAS 36)	L: Earnings per share (IAS 33)
F: Income taxes (IAS 12)	M: Revenue (IAS 18, IAS 11, IFRS 15)
G: Assets held for sale and discontinued operations (IFRS 5)	N: Other (IAS 21, IAS 2, IAS 24, IFRS 16, IAS 38, IAS 20, IAS 16)

The most common topics addressed in the recommendations and areas of improvement in 2017-2018 were broadly consistent with those in 2016-2017:

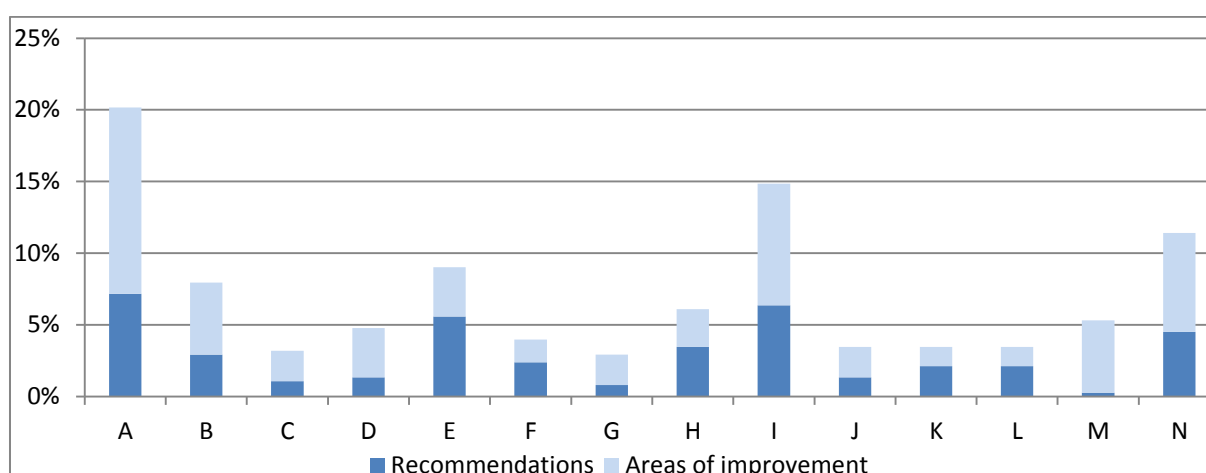
- In terms of the presentation of financial statements (20%), the AMF's main recommendations and areas of improvement concerned the clarity of the labels of the financial aggregates presented in the income statement in light of the additions made in 2016 by IAS 1.85A regarding subtotals (in

particular, amounts recognised and measured in accordance with IFRS, consistency over time, clarity of the labels). There is also the matter of differentiating between current and non-current operating items, in that the AMF considers that a structurally recurring item, such as asset amortisation, including when it relates to the revaluation of an asset as part of a business combination, cannot be classified as non-current.

- Regarding the statement of cash flows (8%), the main comments concerned, first, the importance of including references to the notes to enable readers to understand the key changes in this table and, second, application of the amendment to IAS 7 requiring a reconciliation between the statement of cash flows and changes in debt.
- The recommendations and areas of improvement related to financial instruments (15%) more specifically concerned the description of the key characteristics of certain instruments and, when they are measured at fair value, the key valuation assumptions used.
- The number of recommendations and areas of improvement related to earnings per share increased. They mainly concerned the provisions of IAS 33.52-53 on the inclusion of contingently issuable shares if they are dilutive in the calculation of diluted earnings per share.

Breakdown of recommendations and areas of improvement in the 2017-2018 period

This chart shows the breakdown between recommendations and areas of improvement in the 2017-2018 period.



For the presentation of financial statements, most of the AMF's comments were areas of improvement due to the lack of prescriptive provisions detailed in IAS 1 on these issues and the discussions now underway at the IASB on the presentation of performance. Similarly, regarding revenue recognition, the AMF's comments were areas of improvement because these reviews were carried out just before the transition to IFRS 15.

1.2 Review of financial statements in initial public offering prospectuses

The financial statements of 23 companies were reviewed in connection with initial public offering prospectuses between October 2017 and September 2018.

Financial statements reviewed in connection with initial public offering prospectuses			
	2015-2016	2016-2017	2017-2018
Total	24	24	23
Of which IFRS	17	18	(1) 15
Of which French standards	7	6	8

(1) 10 Euronext and 5 Euronext Growth

These 23 reviews resulted in the following requests:

- 10 changes to financial statements before their publication.
- 4 new notes to be included in the financial statements in the prospectus.
- 18 supplements to the prospectus, relating to subjects referenced in the financial statements.
- 14 specific recommendations for future financial statements.

The main issues related to adding important information for the reader, such as disclosures on the significant impact of IFRS 15, the schedule for significant financial debt, and the treatment of research and development expenses.

The AMF cannot review the financial statements of initial public offering prospectuses until the financial statements have been approved by the company's competent body (board of directors, management board) and the audit work has been finalised or nearly finalised. If the financial statements are amended in the course of the work on the prospectus, they must once again be approved by the competent body.

1.3 Other prospectuses

1.3.1 Pro forma information

The AMF also reviews the pro forma financial information presented in an information document for a merger/takeover or a prospectus for the issue of equity securities or bonds refinancing a major acquisition. For the period analysed, the AMF reviewed eight information documents or prospectuses containing pro forma information.

Although, strictly speaking, these are not IFRS financial statements, this pro forma financial information is developed on the basis of IFRS principles, which will then be used in the issuer's consolidated financial statements. As such, the AMF pays particularly close attention to the accounting treatments applied to this information.

The AMF notes that the pro forma information cannot reflect transactions not directly related to the transactions that the issuer is currently restating in said pro forma information (restructurings, for example).

The AMF also draws companies' attention to the importance of presenting in the explanatory notes the assumptions used to classify financial debt as a consequence of any change of control clauses.

The AMF also notes that, pursuant to ESMA's questions and answers³, any issuer who would voluntarily like to provide pro forma information in a registration document or prospectus must also include a report from its statutory auditors on this information. This mainly occurs with bond prospectuses.

1.4 Advance review of an accounting treatment, discussions with issuers

In 2017, as in 2016, the AMF discussed accounting analyses with five companies in advance of the publication of their financial statements. The main issues addressed included the application of standards relating to consolidation (acquisition or loss of control), as well as the future application of IFRS 15.

The AMF also holds meetings in the first quarter of every year with a number of Compartment A companies. The main purpose of these meetings is to raise questions about structural accounting issues encountered during the period.

The AMF also met with several Compartment A companies in the fall of 2018 ahead of implementation of IFRS 16 in order to discuss the expected effects, the problems and major accounting policies applied, and the companies' draft financial disclosures on this subject.

³ [ESMA - Questions and Answers – Prospectuses \(28th updated version\)](#)

1.5 Specific topic: new statutory auditors' reports

Apart from a few non-calendar year ends, the financial statements reviewed by the AMF during the period were the first financial statements for which statutory auditors had to implement the new requirements for reports introduced by the European Audit Regulation and Directive.

The format and content of the audit report on the consolidated financial statements and individual financial statements of all companies listed on a regulated market have changed, as this report must now include the key audit risks.

The audit committees of these same companies also have a new statutory auditors' report that sets out the results of the statutory audit, the scope of this audit, and information on the conditions under which this audit was conducted.

In the course of its reviews, the AMF learned about the main audit risks referenced in the report with respect to, among others, the key judgements and major sources of estimates disclosed by the company.

The AMF asked several companies for a copy of the statutory auditors' report to the audit committee, as permitted by law. Reading these reports helped clarify its understanding of the financial statements. The AMF will continue to request this report, whenever it believes it will be helpful to its reviews.

2. IMPORTANCE OF RELEVANT AND PROPORTIONATE INFORMATION

Against the backdrop of the implementation of major new standards, the question of the presentation, readability and relevance of financial statements remains an important topic for regulators, and for the AMF in particular.

The IASB continues to work to improve financial communication and financial statements with its *Better Communication in Financial Reporting* project. At the end of 2017, it published two documents that will be helpful to companies that wish to further their discussions on this subject: a Practice Statement on materiality⁴ and case studies⁵ describing real examples of actions that improve the readability of financial statements (e.g. notes that are more specific, more comparable, better formatted, etc.).

It is also important to continue to work on applying the materiality principle, in particular when implementing new standards, in order to raise questions about the non-material information to be deleted and the items that require more specific development.

In 2018, the AMF monitored application of its guide to the relevance, consistency and readability of the notes to financial statements⁶ published in 2015 by the CAC 40 and Next 20 companies. It found that:

- 35% restructured their accounting policies to present the policy and the related financial data together;
- 20% took a more visual approach and included charts;
- 54% reorganised the notes to the financial statements to group issues together (e.g. note on WCR, general section on financing, etc.).

Recommendation

The AMF welcomes the initiatives undertaken by a growing number of companies to improve the readability and relevance of their financial statements, and encourages companies to continue to discuss these topics, with the help of publications from the IASB and the AMF.

To that end, the AMF stresses the consistency needed when determining the level of detail adopted for each subject, whether between the other financial disclosures and the financial statements or within the financial statements.

For example, a matter mentioned as a major event or a key judgement for the company in the financial statements or a company disclosure will naturally be addressed in greater detail in the notes from the

⁴ [IASB - Making Materiality Judgments: Practice Statement 2](#)

⁵ [IASB - Better Communication in Financial Reporting](#)

⁶ [AMF - guide to the relevance, consistency and readability of financial statements](#)

various necessary accounting perspectives (impact, sensitivity, analysis performed, etc.). Similarly, when a topic is specified as a key audit point in the statutory auditors' report and when it relates to financial statement figures or aggregates, it should have already been discussed specifically in the notes, for example under key judgements.

3. IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 – *Revenue from Contracts with Customers* is applicable to all financial years beginning on or after 1 January 2018.

Even for companies where the impact is non-existent or non-material during the transition, IFRS 15 changes or clarifies the basic concepts and principles of revenue recognition, the provisions to be followed when recognising costs related to performance obligations, and the disclosures made in the notes. It is therefore important that all companies adopt these new provisions and approaches.

3.1 Transition disclosures

Based on the information provided about the transition to IFRS 15 in the interim financial statements of CAC 40 companies⁷ at 30 June 2018, the AMF's findings were as follows:

- 82% specified the transition method adopted (56% chose the full retrospective method);
- All the companies that chose the modified retrospective method and for which the impacts were material presented, as required by the standard, quantitative information for financial year 2018 calculated in accordance with the provisions of IAS 11 and IAS 18 (this information is key since it enables users to understand the standard's impact on trends given that comparative periods are not restated);
- Almost all of the companies in the sample that chose the full retrospective method presented an income statement and balance sheet reconciliation between the comparative data published and the data restated for IFRS 15. The others stated that the impact of the transition was not material;
- 21% stated that they were materially affected by IFRS 15 (telecom, aerospace, software and services sectors);
- 42% presented the quantitative impacts of IFRS 15 by explaining the changes by topic.

The AMF is pleased that the entire sample presented their transition methods and the information required when the modified retrospective method was used.

Recommendation

The AMF recommends presenting in the 2018 annual financial statements all of the specific information useful to readers regarding the transition to IFRS 15. As such, the AMF stresses the importance of:

- **breaking down the material impacts by topic (identification of distinct performance obligations, revenue recognition model, balance sheet reclassifications, etc.) and providing qualitative and quantitative information for each one;**
- **explaining in the notes why the impact is not material, for example, when other companies in the same sector have identified material impacts.**

See ESMA ECEP, page 2, Application of IFRS 15, par. 2 & Identification and satisfaction of performance obligation par. 1

3.2 Specific aspects of the analysis

The AMF has identified several areas of focus, notwithstanding other specific points to which companies that are materially affected will need to pay close attention (treatment of variable remuneration, timing of recognition of revenue recognised over time, costs of obtaining contracts, etc.).

3.2.1 Identification of performance obligations and revenue recognition

IFRS 15.35 specifies that a performance obligation is satisfied and recognised over time if at least one of the three criteria set out in this paragraph is met. Criterion (c) states in particular that “the entity's performance

⁷ Excluding financial institutions and companies with a non-calendar year end that have not yet applied IFRS 15.

does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date”.

In March 2018, the IFRS IC published three specific decisions⁹ on the identification of performance obligations (paragraphs 22 to 30 of the standard and the related Basis for Conclusions) and application of the paragraph 35 criteria (and of criterion (c) in particular). The AMF highlights the educational value of these IFRS IC decisions, which can help identify the questions to be asked and the reasoning to be followed when determining whether or not distinct performance obligations exist and how they are satisfied, even if these decisions address specific situations.

3.2.2 Allocation of the price to multiple performance obligations

When several performance obligations are identified in a contract, IFRS 15.76 requires that the transaction price of the contract be allocated among all performance obligations identified in proportion to their stand-alone selling prices (i.e. their price if they had been sold separately, IFRS 15.77). This analysis is particularly important when the timing of revenue recognition is significantly different for the different performance obligations.

Reminder

The AMF notes that if the stand-alone selling price of the different performance obligations identified in a contract is not directly observable, the company must estimate it to depict the amount of consideration to which it expects to be entitled in exchange for transferring the goods or services (IFRS 15.73). To do so, the company shall maximise the use of observable inputs for comparable goods (e.g. starting with observable prices and adjusting them to market conditions, type of customer, etc.) and apply estimation methods consistently in similar circumstances (IFRS 15.78 and BC269).

See ESMA ECEP, page 3, Application of IFRS 15, Allocation of transaction price to multiple performance obligations

3.2.3 Principal versus agent assessment

The general principle used to determine whether an entity is acting as an agent or a principal is based on the concept of control of the good or service before it is transferred to the customer (IFRS 15.B34A-B35). Paragraph B35A of the standard specifies the various items over which control may be obtained. Paragraph B37 provides a non-exhaustive list of the indicators to be analysed.

Recommendation

To determine whether the company is acting as an agent or a principal for a significant good or service promised to a customer, the AMF stresses that the indicators in the standard are not exhaustive. In any case, it is important to ensure compliance with the general principle of IFRS 15, namely obtaining control of the good or service before it is transferred to the customer.

See ESMA ECEP, page 3, Application of IFRS 15, Principal versus agent assessment

3.3 Information to be disclosed in the notes

IFRS 15.110 requires that the information to be disclosed in the notes to the financial statements be presented in such a way as to enable readers to understand “the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers”. It is also necessary to “aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics” (IFRS 15.111).

3.3.1 Accounting policies, judgements and estimates

As IAS 11 and IAS 18 have minimal requirements for the information to be disclosed in the notes, revenue recognition principles have often not been sufficiently discussed in the financial statements. Based on the 2018

⁹ [IFRS IC Update, Revenue recognition in a real estate contract, March 2018](#)

[IFRS IC Update, Revenue recognition in a real estate contract that includes the transfer of land, March 2018](#)

[IFRS IC Update, Right to payment for performance completed to date, March 2018](#)

interim financial statements, 67% of the companies in the sample updated their revenue recognition principles to reflect the specific nature of their activities.

Recommendation

Even when the standard does not have a material impact, the AMF believes it is important to update the accounting policies to account for the new provisions of the standard, and to base this presentation on the specific characteristics of the company's activities and contracts and not on a general description of the new IFRS 15 principles.*

For example, in the case of a material contract comprising several performance obligations, it is helpful to specify the nature of each performance obligation (e.g. the sale of equipment or a maintenance service), the analysis justifying their distinct nature, and the related revenue recognition event, and not just to state that revenue is recognised when control is transferred.*

For contracts falling within the scope of IFRS 15, IAS 37 applies when determining the existence and amount of provisions for onerous contracts. It would be helpful to specify the method used to determine whether contracts are onerous (type of costs considered) pending completion of the IFRS IC's and IASB's work on the subject.⁹

**See ESMA ECEP, page 2, Application of IFRS 15, par. 1, and page 4, Disclosure objectives of IFRS 15 and disclosures of significant judgements, par. 1 and 2*

Furthermore, on certain subjects, application of the standard requires the use of significant judgements.

Reminder

The AMF highlights the importance of specifying the key judgements made, for example when determining the following: (i) the timing of satisfaction of performance obligations (event, percentage-of-completion method used in the case of a performance obligation satisfied over time); (ii) the transaction price (variable consideration, discounts, etc.); and (iii) the amounts allocated to the performance obligations identified (IFRS 15.123-126).

Recommendation

The AMF calls on companies to present significant key judgements in the notes. For example, when there is a material impact related to the classification of the company as an agent or a principal for the transfer of a good or service to the customer, the AMF recommends providing details on the analysis performed and its impact on the financial statements. Similarly, where significant judgements concern the determination and allocation of the price, companies should provide information on the methods, assumptions and inputs used for that purpose, in particular for the determination of the stand-alone selling price.

See ESMA ECEP, pages 3 and 4, Application of IFRS 15, Disclosure objectives of IFRS 15 and disclosures of significant judgements

This information to be disclosed in the notes could also be provided in connection with the analysis of whether or not warranties or significant maintenance phases are distinct; the way in which the costs incurred over the life of the contract are recognised, if their impacts are material (see Recommendations for the 2017 financial statements, section 2.3); and the treatment of payments made to a customer.

3.3.2 Contract assets and contract liabilities

IFRS 15.105-109 describes the new presentation for balance sheet balances relating to contracts with customers by introducing the concepts of contract assets and contract liabilities.

Recommendation

Where there are significant contract assets or contract liabilities, it is important, under IFRS 15.116-119, to present, by type, changes in these items during the period (cumulative adjustments to revenue due to

⁹ [IFRS IC Update, Costs considered in assessing whether a contract is onerous, March 2018](#)

changes in the measure of progress, a change in an estimate of the transaction price, etc.) and to supplement this information with explanations about the composition and its main changes (relating, for example, to the payment terms depending on the company's activities).

See ESMA ECEP, page 3, Application of IFRS 15, Presentation of contract assets and liabilities upon transition

3.3.3 Disaggregation of revenue

IFRS 15.114 requires that companies present a disaggregation of revenue by category to show how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. IFRS 15.115 requires an explanation of the relationship between this disaggregation and the revenue information provided in the segment information.

As this information is required in interim financial statements under IAS 34.16A(I), the AMF's review showed that almost all of the companies in the sample provided a disaggregation of revenue but that this information most frequently corresponded to IFRS 8 segment information (already provided previously), to which a specific reference is made. Within the sample, 36% of companies provided another disaggregation of revenue and presented a disaggregation by type of product or service, by timing of revenue recognition or by nature of the performance.

Recommendation

The AMF underscores the importance of taking into consideration the principles and examples provided in IFRS 15.B88-B89 when determining the appropriate revenue disaggregation categories, so that readers can understand the main revenue drivers.

The AMF highlights the importance, when determining the level of disaggregation to be provided, of considering the information provided in the segment information as well as the presentation of activities included in other financial communication documents, including the registration document, where applicable.

This could entail a more detailed disaggregation than required by IFRS 8 and, where applicable, a fine-tuning of the information provided at 30 June 2018.

See ESMA ECEP, page 3, Application of IFRS 15, Disaggregation of revenue

3.3.4 Transaction price allocated to the remaining performance obligations

IFRS 15.120 requires that a schedule be provided highlighting the expected recognition period for revenue derived from the remaining performance obligations on existing contracts. This requirement concerns all contracts that have an original expected duration of more than one year, with the exception of revenue recognised under paragraph B16.

Some companies already include a backlog indicator in their financial disclosures. However, the calculation methodology may differ from what is required by IFRS 15 (contracts considered, amounts, etc.). Furthermore, some companies that had not previously provided this information will now be subject to this requirement.

Recommendation

IFRS 15.122 and example 42 require that a qualitative explanation be provided along with the quantitative information on transaction prices allocated to the remaining performance obligations in order to clearly indicate the significant consideration not presented in the schedule (certain variable components, for example).*

It is also important to provide an explanation for the significant changes and items presented in this schedule and the key calculation assumptions used (e.g. contracts and durations selected, variable consideration amounts and schedule).

For companies that already present a backlog, it would also be helpful to explain the main differences between this indicator and the information required by IFRS 15.120.

** See ESMA ECEP, pages 3 and 4, Application of IFRS 15, Disclosure objectives of IFRS 15 and disclosure of significant judgements, par. 1*

4. IFRS 9 – FINANCIAL INSTRUMENTS

The AMF has identified certain areas of focus but companies that are materially affected will need to pay close attention to other topics as well (analysis of the business model for the classification of financial assets, treatment of purchased or originated credit-impaired financial assets, etc.).

4.1 Transition disclosures

IFRS 7 – *Financial Instruments: Disclosures*, amended by IFRS 9, requires a set of disclosures with regard to initial application of IFRS 9 (IFRS 7.42I to 42S) for all companies, although financial institutions are the most affected.

Reminder

In the event of a liability modification that does not result in derecognition, under IFRS 9.B5.4.6, the company recalculates the amortised cost of the modified liability by discounting the revised contractual cash flows at the original effective interest rate and recognises the difference versus the previous amortised cost in profit or loss. The impact of retrospective application of this accounting treatment must be recognised in opening equity.

IFRS 9 is applied retrospectively (IFRS 9.6.5.15) for the methods used to account for the time value of an option when this option is viewed as a hedging cost.

Recommendation

The AMF notes the importance of updating the accounting policies (e.g. measurement of expected losses on receivables including trade and lease receivables, application of hedging provisions, use of practical expedients).*

The impacts of initial application of IFRS 9 on liability modifications, where significant, should also be presented and detailed separately.

** See ESMA ECEP, page 4, Application of IFRS 9, par. 2*

Based on the information provided on initial application of IFRS 9 by a sample of ten European banks (including four French banks) in their interim financial statements at 30 June 2018, the AMF notes that:

- All the banks chose not to restate their comparative information at 31 December 2017;
- The reclassifications between categories of financial assets and liabilities as well as the reconciliations between impairment amounts calculated in accordance with IAS 39 and the opening balance sheet amounts under IFRS 9 were generally presented for each balance sheet aggregate. However, the levels of detail and of explanation about the changes varied more widely.

Recommendation

Mainly for financial institutions:

The AMF highlights the importance, with respect to the transition, of providing detailed information on the reconciliation between IAS 39 and IFRS 9 impairments for each class of financial instruments.

The AMF also stresses the importance of specifically and non-generically supplementing the reconciliations (reclassifications and impairments) with narrative explanations of the main changes.

It would be appropriate, for example, to link the new IFRS 9 classification categories to the main types of financial instruments or portfolios carried on the balance sheet.

See ESMA ECEP, page 4, Application of IFRS 9, par. 1

4.2 New disclosures in the notes in relation to hedging transactions

Under IFRS 7.21A-24F, entities must present new information about their risk management strategy and the effects of hedging transactions on future cash flows (amount, timing and variability), as well as about their performance and balance sheet. Under IFRS 7.22A *et seq.*, this information about hedged items and hedging

instruments (including notional amounts), their impacts and their relationships with the relevant financial statement line items must be presented for each category of risk being hedged (interest rate risk, currency risk, commodity risk, etc.). The IFRS 7.IG13A-E examples suggest a tabular format.

Reminder

All companies that have significant hedging transactions will have to provide the new disclosures required by IFRS 7 on hedging transactions in their notes, including when they continue to apply the provisions of IAS 39 (as permitted under IFRS 9) or when the impacts related to application of the provisions of IFRS 9 in relation to hedge accounting are limited. These disclosures should be proportionate to the scope of the strategy and of the hedging activities undertaken.

See ESMA ECEP, page 5, Application of IFRS 9, Hedge accounting

4.3 IFRS 9 impairment model

The implementation of the new impairment model based on expected losses introduces a significant number of judgements and estimates, and entails the use of calculation models that are often complex. As such, both the assumptions adopted and the specific inputs and models used are factors that affect the variability of the impairments recognised.

4.3.1 Significant change in credit risk

The concept of significant increase in credit risk is critical to determining the amount of impairment recognised (12-month expected losses versus lifetime expected losses). IFRS 9.5.5.4 specifies that the assessment of this concept is based on reasonable and supportable information. IFRS 7.35F(a) and 35G(a)(ii) require that companies describe in their financial statements how they determined the significant increase in credit risk. In the financial statements at 30 June 2018 of the European sample analysed, almost all the institutions described the criteria used to assess the increase in credit risk from a mainly qualitative perspective (forbearance, for example). The methods used to assess the reversal of a significant increase in credit risk were more rarely provided and, most often, were presented generically (40% of companies).

Recommendation

Mainly for financial institutions:

The AMF recommends that entities present in the notes, in addition to the qualitative criteria considered when assessing a significant increase in credit risk, certain quantitative information such as the indicators (probability of default, rating) and methods used to set any thresholds.

The AMF also recommends that entities present the specific criteria used to assess a reversal of a significant increase in credit risk (shift from lifetime losses to 12-month losses) and specify, in particular, the length of the probation period used, where applicable.

IFRS 9.B5.5.1 and example 5 state that a significant increase in credit risk can, in some cases, be assessed at portfolio level. Where applicable, it would be helpful to indicate the approach adopted.

See ESMA ECEP, page 6, Application of IFRS 9 – Specific considerations related to application of IFRS 9 for credit institutions – Significant increase in credit risk

4.3.2 Incorporating forward-looking information into the determination of lifetime expected losses

Under IFRS 7.35G(a)(i) and 35G(b), the key inputs and assumptions used to calculate expected losses, as well as the approach adopted when incorporating forward-looking information into this calculation, as provided for in IFRS 9.5.5.4, should be presented in the financial statements. The European sample provided various levels of disclosure in the interim financial statements with respect to this forward-looking information: while almost all of the banks indicated the number of scenarios used in the macroeconomic assumption projections, less than half specified how these scenarios were weighted and the nature and quantification of the assumptions. Within the sample, 20% of companies presented these assumptions by scenario and by geographic region.

Recommendation

Mainly for financial institutions:

The AMF calls on companies, when determining expected losses, to specify in the notes the nature of the macroeconomic information used by quantifying the most significant assumptions and explaining how this information was incorporated (e.g. the weighting of the assumptions).

See ESMA ECEP, page 6, Application of IFRS 9 – Specific considerations related to application of IFRS 9 for credit institutions – Incorporating forward looking information into ECL models

4.3.3 Disclosure of reconciliations from opening to closing balances

Pursuant to IFRS 7.35H-I, entities must present in the notes a reconciliation of the impairment amount between the opening and closing dates of the financial statements, by significant class of financial instrument, and explain how changes in the gross amount of financial assets during the period contributed to these changes.

Less than half of our European sample presented these statements of changes in impairment and gross amount. The level of detail provided in this respect varied, for both the types of changes presented and the approach used to analyse the instruments (e.g. by IFRS 9 asset category, by geographic region).

Recommendation

Mainly for financial institutions:

To enable users of financial statements to understand the factors that gave rise to changes in impairments during the financial year, the AMF highlights the importance of detailing the material sources of variations and of supplementing the quantitative information with specific narrative explanations by class of financial instrument.

For example, if the flows are significant, the AMF believes the amount of transfers from the “12-month expected loss” category to the “lifetime expected loss” category and vice versa should be disclosed separately. It is also important to disclose, for the gross amounts of assets, in addition to the impacts of new instruments and impacts related to transfers between categories, a breakdown of other significant changes (repayments, write-offs, currency effects, etc.).

See ESMA ECEP, pages 6 and 7, Application of IFRS 9 – Specific considerations related to application of IFRS 9 for credit institutions – Reconciliations

4.4 Classification and measurement of financial assets

IFRS 9 requires that two conditions be met for a financial asset to be measured at amortised cost (IFRS 9.4.1.2) or at fair value through other comprehensive income (IFRS 9.4.1.2A). While the assessment of the first condition relating to the business model is not based on an instrument-by-instrument approach (IFRS 9.B4.1.2), the analysis of the second condition relating to whether the contractual characteristics represent solely payments of principal and interest must be conducted on a case-by-case basis.

Recommendation

Mainly for financial institutions:

The AMF highlights that the analysis of the contractual characteristics of a financial asset when determining its classification according to IFRS 9 sometimes requires significant judgements.

For example, when the financial assets analysed are non-recourse (e.g. a loan where the lender is paid and repaid only with cash flows generated by the asset that is the subject of the loan), an analysis based on the underlying assets or cash flows (IFRS 9.B4.1.17) is needed to determine whether the payments received represent solely compensation for the passage of time and the credit risk borne.

The AMF recommends, when the use of judgement is material to determining the classification of significant instruments, that entities disclose in the notes the analysis performed and the judgements implemented, specifying the criteria considered and the type of product or activity in question.

See ESMA ECEP, page 7, Application of IFRS 9 – Specific considerations related to application of IFRS 9 for credit institutions – Solely Payments of Principal and Interest test

4.5 Specific considerations for insurance activities

The amendment to IFRS 4 – *Insurance Contracts*, published by the IASB in September 2016 and approved by the European Union in November 2017, allows companies whose activities are predominately connected with insurance to defer the application of IFRS 9 to 1 January 2021. This amendment to IFRS 4 also allows entities to apply IFRS 9 while recognising some of the changes in fair value of certain financial instruments in other comprehensive income (known as the overlay approach).

The European Commission has also authorised financial conglomerates to use this option provided they meet certain conditions.

As stated in the recommendations for the 2017 financial statements, it is important for companies that have chosen to defer application of IFRS 9 to provide the information required by IFRS 4.39B-J to enable readers to understand how the criteria (established by the standard or the European Commission) are met and to compare the insurance companies that apply the exemption with those that apply IFRS 9. The AMF also highlights that other disclosures are required in the notes, in particular under IFRS 4.39E(a) in relation to the classification and measurement of certain financial assets in accordance with IFRS 9 principles.

4.6 Presentation of interest revenue on the income statement

IAS 1.82(a) was amended in connection with the implementation of IFRS 9 and requires that entities present the amount of interest revenue calculated using the effective interest method on a separate line of the income statement.

IFRS 7.20(b) also requires that entities present, in the income statement or the notes, interest revenue and expense arising from these assets as well as from liabilities that are not measured at fair value through profit or loss.

Reminder

The AMF notes the March 2018 decision by the IFRS IC¹⁰ stressing that interest revenue calculated using the effective interest method and related to financial assets recognised at fair value through other comprehensive income or at amortised cost should be presented on a separate line (IAS 1.82(a)). Companies that wish to do so can present other material interest revenue on another separate line pursuant to IAS 1.97. IAS 1.82(ba) also requires that impairment losses on financial instruments (including reversals of impairment losses) be presented on a separate line of the income statement.

See ESMA ECEP, page 45, Application of IFRS 9 – Presentation of interest revenue

Regarding the presentation of financial statements, before the IFRS IC published its decision the ANC (*Autorité des normes comptables*, France's accounting standards authority) updated its recommendation on the format for presenting banks' consolidated financial statements, in the context of the entry into force of IFRS 9 (ANC Recommendation 2017-02¹¹).

5. IFRS 16 – LEASES

IFRS 16 – *Leases*, which replaces IAS 17 and the related interpretations, will enter into force on 1 January 2019 with early application permitted. It sets out a single principle for the recognition of leases for lessees with the recognition of an asset and a liability for most leases and no longer just for finance leases.

In addition to the points discussed below, the AMF notes that companies that are materially affected will need to pay very close attention to other topics (treatment of leasehold rights, of the property tax refunded to the lessor, of non-recoverable VAT, etc.).

¹⁰ [IFRS IC Update, Presentation of interest revenue for particular financial instruments, March 2018](#)

¹¹ [ANC - Recommendation no. 2017-02](#)

5.1 Specific aspects of the analysis

5.1.1 Determination of the lease term

The term of a lease is defined as the non-cancellable period during which the lessee has the right to use the underlying asset, together with the periods covered by (i) an option to extend the lease if the lessee is reasonably certain to exercise that option; and (ii) an option to terminate the lease if the lessee is reasonably certain not to exercise that option (IFRS 16.18).

The standard specifies that a lease is no longer enforceable when the lessee and lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty (IFRS 16.B34). Nevertheless, the standard provides no details on how to assess the insignificance of the penalty. To assess whether or not a lessee is reasonably certain to exercise an option within the enforceable period of the lease, paragraph B37 also states that the company must determine whether the lessee has an economic incentive to exercise this option and, to that end, lists examples of factors to consider.

Recommendation

The AMF notes the importance of considering, when determining the enforceable period of a lease, all of the contractual provisions and the applicable legislative framework (i.e. local conditions).*
Entities need to ensure the appropriateness of the assumptions used to estimate whether the lessee is reasonably certain to exercise the extension options and not exercise the termination options in the context of, among others, the group's strategy for the use of these assets. They also need, where applicable, to ensure consistency with the analysis performed for other related estimates, such as the depreciation period for the related tangible assets.

** See ESMA ECEP, page 8, Disclosure related to the expected impact of implementation of IFRS 16, par. 3*

In February 2018, the ANC posted on its website a statement of conclusions on the application of IFRS 16 to commercial leases in France¹² (known as 3/6/9 leases). The ANC concluded that the period during which a contract is enforceable will generally be nine years, leaving open the possibility of considering a different term in specific cases.

The analysis and term adopted must be duly justified.

5.1.2 Discount rate

The lease liability is initially recognised at the present value of the remaining lease payments. The discount rate to be used in the initial measurement is either the interest rate implicit in the lease¹³ or, if this rate is not readily determined, as is the case for property leases, the lessee's incremental borrowing rate¹⁴.

Recommendation

For this key assumption in measuring a lease liability, the AMF calls on companies to be vigilant in their analysis of the rate used by the lessee to discount the rent liability: the rate implicit in the lease must be "readily determined", while a combination of appropriate lessee-specific factors and data must be considered when determining the incremental borrowing rate.

5.2 Deferred taxes and IAS 12 exemption

Recognition of deferred tax on initial recognition of a right of use and of a lease liability by the lessee on the transition date is being discussed at the IFRS IC level: the question is whether or not it is possible to apply the initial recognition exemption for deferred taxes set out in IAS 12.15 and 24. This issue is still under discussion and, according to the IFRS IC, the initial recognition of deferred tax helps maintain the relevance of the effective tax rate.

¹² [ANC: Statement of conclusions on French commercial property leases](#)

¹³ "The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor".

¹⁴ "The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment". »

Recommendation

As the standard is not clear on whether deferred tax needs to be recognised on initial recognition of a right of use and a lease liability when implementing IFRS 16, for now the accounting method selected should be specified in the financial statements if the company is materially affected.

For companies that do not currently recognise deferred tax in this respect, any change in accounting method made voluntarily will be retrospective, including for finance leases under IAS 17 (see IAS 8.14(b)).

5.3 Transition disclosures

5.3.1 Information to be disclosed to the market

In its recommendations for the 2017 financial statements, the AMF encouraged companies to take a gradual approach to providing more specific disclosures to the market on implementation of IFRS 16.

The AMF reviewed the information provided on implementation of IFRS 16 in the 2017 financial statements and 2018 interim financial statements of 65 companies including those in the CAC 40 and NEXT 20. It found that:

- Almost all of the companies provided more specific disclosures in the interim financial statements.
- 65% did not provide information on which transition method they expect to apply, and 6% plan to apply the full retrospective method.
- 18% expect to be materially affected, of which 42% have quantified the impacts.
- 12% provided quantitative information on the impact of implementing the standard, of which 63% considered this impact to be material.
- More than two-thirds provided initial qualitative information: how the planned transition was handled internally, main difficulties encountered in the analyses performed, etc.
- The subjects that came up most frequently in companies' notes concerned difficulties related to estimating lease terms and determining discount rates.

Recommendation

The AMF notes the importance of providing better and more specific qualitative information in the 2018 financial statements than has been previously disclosed. The market continues to expect to be provided with quantitative information on the impacts of IFRS 16 that can be reasonably known or estimated, pursuant to IAS 8.30 and 31. This information could be provided as a rough estimate and if this information is only partial, the factors still being analysed should be specified.

It would be useful for the information disclosed to focus on the status of the work on implementing the standard, the nature and characteristics of the leases, the key assumptions used to measure lease liabilities and rights of use and how they are determined (including terms and discount rates), the practical expedients and exemptions applied, and the analyses performed to determine whether or not a contract is a lease (service contract or intangible asset, for example).

See ESMA ECEP, pages 8 and 9, Disclosure related to the expected impact of implementation of IFRS 16, par. 1, 2 & 3

Recommendation

The AMF highlights the importance of stating whether the amount of future minimum operating lease payments, disclosed pursuant to IAS 17, is a good indication of the amount of the lease liability that will be recognised on implementation of IFRS 16 or, on the contrary, if this amount is expected to differ significantly. If that is the case, entities should explain the major differences (incorporation of renewal or termination options, impact of discounting, etc.).

IFRS 16 could also affect the key indicators used by companies (EBITDA, net debt, etc.) in their financial statements. On this issue, it is worth noting that:

- IAS 1.55A and 85A specify that the subtotals presented in the primary financial statements must be the sum of the lines presented and labelled such that the line items of which they are composed can be clearly understood;
- in 2016, the AMF recommended, “if companies present in their financial statements non-segment financial measures that are not defined or required by IFRS, (...) (i) making sure that these measures are not based on non-IFRS compliant principles, (ii) making sure they are relevant and (iii) reconciling them with the primary financial statements”.

Recommendation

In terms of financial disclosures, the AMF encourages companies that are materially affected to provide the various financial market participants with easily understandable information on the main effects of the standard before it is applied (in the full-year 2018 disclosures, for example). At that time, it would be helpful to present the impacts expected in terms of financial disclosure aggregates (alternative performance measures, cash flows, forecasts and/or outlook for the company, for example). Before this information is published, it is important that it be reliable, i.e. that the company’s governance bodies have been able to review it with significant input from the statutory auditors.

5.3.2 Transitional provisions: a few clarifications

IFRS 16.C5 permits two transition methods, the full retrospective method and the approach known as the modified retrospective method.

The modified method allows entities, pursuant to IFRS 16.C8 to C13, to use a simplified calculation of certain impacts of initial application. In contrast, it does not allow them to present a comparative period restated in accordance with IFRS 16.

Recommendation

The AMF notes that, in accordance with IFRS 16.C7, the modified retrospective approach does not allow entities to restate the comparative information presented (in the primary financial statements and in the notes).

If a company so wishes, it may present, outside of the financial statements, adjusted information for prior periods, which would then fall within the scope of AMF position 2015-12¹⁵ on alternative performance measures.

See ESMA ECEP, page 9, Disclosure related to the expected impact of implementation of IFRS 16, par. 4

IFRS 16.C8 to C10 set out the procedures for applying the modified retrospective method to contracts previously recognised as operating leases.

Recommendation

If the modified retrospective transition method is used, the AMF recommends specifying in the notes the contract term used to determine the discount rate (i.e. remaining lease term or initial term) when this assumption is material.

See ESMA ECEP, page 9, Disclosure related to the expected impact of implementation of IFRS 16, par. 4

5.4 First interim financial statements published under IFRS 16

IFRS 16 will be applied for the first time to the 2019 quarterly or interim financial statements.

The interim financial statements are condensed and do not include all the information presented in the annual financial statements pursuant to IAS 34. However, paragraph 16A(a) of the standard requires that entities present any changes in accounting policies.

¹⁵ [AMF – Position DOC-2015-12: Alternative performance measures](#)

Reminder

The AMF notes that, on initial application, entities will, at the very least, have to provide the material information required by Appendix C of the standard, relating to initial application and to the transition method selected.

Recommendation

The AMF recommends that companies include in their first interim financial statements sufficiently detailed and specific information about IFRS 16 to enable readers to understand the key analyses and conclusions. Even when the standard does not have a material impact, it is important to update the accounting policies for leases to account for the new provisions of the standard.

6. TOPICS RELATED TO OTHER PARTS OF THE ANNUAL REPORT

6.1 Non-financial information

The AMF reminds the issuers concerned¹⁶ of the requirements of Article 19a of the Accounting Directive applicable in France, following its transposition, for financial years beginning on or after 1 September 2017¹⁷ relating to the inclusion of a non-financial statement in the management report. This new regulatory framework aims to improve transparency on aspects relating to environmental, social and employee matters, respect for human rights, and anti-corruption and bribery (the “non-financial information”). The AMF highlights that the non-financial disclosures must be relevant, material and entity-specific. To that end, the European Commission has published non-binding guidelines on non-financial reporting¹⁸ (the “EC Guidelines”) to help companies draw up relevant, useful and concise non-financial statements according to the requirements of the Directive. Companies that use these guidelines may also rely on national, European or international frameworks¹⁹. The recommendations issued by the AMF when it published its 2016 report on the social and environmental responsibility of listed companies remain relevant despite the developments in the regulatory environment.

Recommendation

Summary of the recommendation (published in November 2016 in the report on the social and environmental responsibility of listed companies):

The increasing volume of non-financial information should lead companies to focus on approaches that aim to simplify and enhance the relevance of this information. They may have to work on the brevity of their messages and on their selection of indicators. Some companies have made progress in prioritising their sustainable development challenges in view of their strategic priorities and stakeholder expectations, mainly through materiality studies. The AMF encourages this practice to the extent that it helps make the information more relevant and, as such, helps companies apply the “comply or explain” principle with more detailed explanations. The AMF also recommends, in the context of implementation of materiality studies, a great deal of transparency on the methodology used and on the results of the analysis of the social and

¹⁶ Companies whose securities are admitted for trading on a regulated market are concerned if they exceed the following thresholds: balance sheet total of €20 million or net turnover of €40 million and average number of permanent employees during the financial year of more than 500; companies whose securities are not admitted for trading on a regulated market are concerned if they exceed the following thresholds: balance sheet total of €100 million or net turnover of €100 million and average number of permanent employees during the financial year of more than 500. For more details please refer to Article R.225-104 of the Commercial Code.

¹⁷ For companies with a 31 December year end the first financial year concerned is the financial year ending 31 December 2018.

¹⁸ [Guidelines on non-financial reporting](#)

¹⁹ In that case, companies shall indicate the frameworks they relied on in accordance with Article 1 of the Directive.

environmental impacts of the company's activities so as not to highlight merely the financially material issues for its own business.

See ESMA ECEP, p. 8, Topics related to other parts of the annual report, Non-financial information

6.1.1 Environmental matters

Environmental matters and, more specifically, the fight against climate change, are now some of the most important sustainable development issues. As such, best practices would be to describe the policies adopted and, where applicable, the due diligence processes implemented to prevent, identify and mitigate the occurrence of environmental risks with a focus on the impacts on the climate of the company's operations and of the use of the goods and services it produces. This information shall include any key performance indicators relevant to assessing the outcome of the policies applied in this regard.

To meet the reporting requirements for environmental matters and as recommended in the EC Guidelines, companies are expected to disclose relevant information on the actual and potential impacts of their operations on the environment, and on how current and foreseeable environmental matters may affect their development, performance or position. For example, companies may need to consider whether, as a consequence of climate change, other risks, such as those arising from technological obsolescence or from the potentially abrupt need to shift from a carbon-intensive to a low-carbon technology, may have a particular impact on their business model.

Lastly, the impact of environmental matters and climate change may have adverse operational and financial consequences. Issuers should therefore provide disclosures on both of those aspects and explain the importance of these risks as well as any actions taken to mitigate them. In particular, with regard to climate change, issuers may consider, among the various other frameworks available, the recommendations and methodology developed by the Task Force on Climate-Related Financial Disclosures (TCFD²⁰).

6.1.2 Lack of policy on a significant identified risk

Article R. 225-105 of the Commercial Code states that *"Where the company does not pursue a policy in relation to one or more of these risks, the statement shall provide a clear and reasoned explanation for not doing so"*. It is possible that a company may not have developed policies for certain matters that it nonetheless considers important. In that case, the company must provide a clear and reasoned explanation for its decision and meet the other reporting requirements, i.e. it must describe how the identified risks, even though the issuer may have decided not to pursue a specific policy in relation thereto, could affect their business model, their operations, their financial performances and the impacts of their operations.

6.1.3 Disclosure and selection of key performance indicators (KPIs)

Issuers may disclose why certain KPIs were considered relevant to assessing the outcome of the policies applied to the main risks identified. To that end, issuers may apply the principles contained in the EC Guidelines which highlight, among other things, that issuers are expected to select the KPIs required to understand the changes in their performance and the impacts of their operations. These guidelines also encourage companies to publish broadly recognised KPIs (the ones that are most widely used in the sector, for example) to improve comparability for companies within the same sector or value chain. To improve the relevance of the information disclosed, companies may present KPIs in the context of targets and comparisons with other companies, where appropriate.

Furthermore, in line with the principles of the EC Guidelines, comprehensive information should be provided on the methodology adopted and the scope of the activities covered by indicator selected. The scope of the KPIs should be consistent with that used by the company in its internal management and risk assessment processes and any changes in the scope covered from one year to the next should be clearly explained. In that respect, the AMF refers issuers to the recommendations made in its reports on the social and environmental responsibility of listed companies.

²⁰ [FSB, Task Force on Climate-related Financial Disclosures, June 2017](#)

Recommendation

Summary of the Recommendation (updated in November 2016 in the report on the social and environmental responsibility of listed companies):

The AMF recommends that companies making use of quantitative indicators define them clearly, describe how they are calculated, and use them consistently from one period to another (insofar as the indicators still meet a need), by highlighting, where applicable, the most important indicators for their business. Lastly, it believes that it would also be useful if these indicators could be compared across companies, in particular within the same sector, and be reconciled with audited information whenever it is possible for some or all of the elements of the calculation.

See ESMA ECEP, p. 8, Topics related to other parts of the annual report, Non-financial information, Disclosure of non-financial KPIs

6.2 Alternative performance measures

AMF position 2015-12²¹ on alternative performance measures (APMs), based on ESMA's guidelines on this same topic, has been in force since 3 July 2016.

In view of its current application and the entry into force of new accounting standards on revenue recognition and financial instruments in 2018, and on leases in 2019, it may be helpful to review some of the principles of this position as their application may be even more important in this context.

Reminder

Pursuant to paragraph 8 of AMF position 2015-12, APMs must be defined (breakdown of the components of the indicator, calculation assumptions).

As such, if an organic growth measure is used, such as organic revenue, in light of the provisions of the position and of Question 15 of the questions and answers published in October 2017²², currency and scope impacts must be presented separately and must be defined.

See ESMA ECEP, page 11, Alternative Performance Measures, par. 2

Additionally, if concepts like non-recurring or unusual are used, it is important that these concepts not be used incorrectly. For example, as indicated in that position, items that affected past periods and are likely to affect future periods will only rarely be considered as non-recurring, infrequent or unusual.

Reminder

As specified in paragraph 10 *et seq.* of AMF position 2015-12, the labels used must reflect the content of the APM to avoid conveying misleading messages.

See ESMA ECEP, page 11, Alternative Performance Measures, par. 1

In the context of the implementation of new IFRSs, some companies may have to change the indicators they use or the definitions of these indicators.

Reminder

If an APM is redefined, pursuant to paragraph 29 of AMF position 2015-12, companies must explain the changes and their reasoning and provide amended comparative data.

Furthermore, it is also important to explain why the APMs are used so that users can understand their relevance and reliability (paragraph 21 of the position).

See ESMA ECEP, page 12, Alternative Performance Measures, par. 2&3

²¹ [AMF – Position DOC-2015-12: Alternative performance measures](#)

²² [ESMA – Questions and answers – Guidelines on Alternative Performance Measures](#)

Furthermore, the question of an APM's prominence in disclosures is often discussed with companies.

Reminder

To ensure that APMs are not presented more prominently than indicators stemming directly from the financial statements (paragraphs 23 and 24 of the position), companies are asked to refer to the questions and answers published by ESMA in October 2017, which provide specific information and useful examples in this regard (Question 9).

See ESMA ECEP, page 12, Alternative Performance Measures, par. 4