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Notes on the consolidated financial statements

Required disclosures in the notes on the legal status of IFRS

The notes to IFRS consolidated financial statements prepared in the EU must contain disclosures on newly adopted standards and interpretations (IAS 8.28) as well as on standards and interpretations that have been issued but not yet adopted (IAS 8.30). The following provides an overview of the current status of the standards and interpretations issued by the IASB that have to be reported on pursuant to IAS 8.28 and IAS 8.30 in IFRS consolidated financial statements prepared in the EU as of 31 December 2017.

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

IAS 8.28 requires the disclosure of new and amended standards and interpretations when their initial application has an effect on the reporting period or any prior period. The scope of application of IAS 8.28 therefore extends to all changes in accounting policies that result from the initial application of a new or amended standard or interpretation. For example, the disclosures in the notes must then include the following in relation to the new standard or interpretation:

- Title of the standard or interpretation
- When applicable, a description of the transitional provisions
- Nature and change in accounting policy
- Amount of the adjustment for each financial statement line item affected (including earnings per share) for the beginning of the prior year, for the prior year and for the year, where practicable.

It must also be noted that the disclosures pursuant to IAS 8.28 are also required in the case of early voluntary adoption of new standards or interpretations.

Note: The following table provides an overview of rules under IAS 8.28 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2017 as well as a general assessment in terms of their effect on accounting practice. It is not necessary to list all of the regulations. If necessary, a general wording can be included after the explanation of the new standards and interpretations as well as of their effects which states for example that the other standards and interpretations subject to mandatory adoption in the EU for the first time as of 1 January 2017 do not have any material effect on the consolidated financial statements.

Standard or interpretation	Title	IASB effective date*	Date of first-time application in the EU*	Effect**
Amend. IAS 7	Statement of Cash Flows	1 January 2017	1 January 2017	Industry-specific or company-specific significance
Amend. IAS 22	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 January 2017	Industry-specific or company-specific significance

* For financial statements for annual periods beginning on or after this date.
** The general assessment in terms of effects on accounting practice serves as a guide – the individual effects on the individual company must be explained separately.

Amendments to IAS 7 "Statement of Cash Flows"

The amendments aim to ensure that entities provide disclosures that enable users of financial statements to better evaluate changes in liabilities arising from financing activities.

The IASB states that one way to fulfill the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Based on the example presented below, the reconciliation should be prepared such that it provides sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

Example: Reconciliation from the opening balance to the closing balance

	31 December 2016	Cash		Non-cash		31 December 2017
in EUR k			Acquisition	Exchange rate change	Changes in fair value	
Long-term loans	22,000	-1,000	-	-	-	21,000
Short-term loans	10,000	-500	-	200	-	9,700
Lease liabilities	4,000	-800	300	-	-	3,500
Assets to secure long-term loans	-675	150	-	-	-25	-550
Total liabilities from financing activities	35,325	-2,150	300	200	-25	33,650

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"

The amendments serve to clarify various questions concerning the recognition of deferred tax assets.

One of those questions related to the recognition of deferred tax assets for unrealized losses on (available-for-sale) debt instruments measured at fair value. The amendments to IAS 12 clarify that an unrealized loss from such a debt instrument leads to a deductible temporary difference if the tax base of the debt instrument is its cost. This applies regardless of whether the holder expects to hold the instrument to maturity in order to recover the nominal value or to sell the instrument.

IAS 12 also contains further clarification on the determination and recognition of deferred tax assets:

- In principle, an overall assessment is required for all temporary differences to determine whether sufficient taxable profits are expected to be available in future in order to realize the temporary differences and thus whether recognition of deferred tax assets is justified. However, this is only the case if the applicable tax law does not restrict the offsetting of

tax losses. If tax law distinguishes between different types of taxable profits, a separate assessment of whether a deferred tax asset can be recognized must be performed for each part of the taxable profit.
- Under the newly introduced IAS 12.29A, a company can assume when estimating future taxable profit that an asset can be realized at above its carrying amount, provided that such realization is probable.
- The taxable profit against which a company examines the recognition of a deferred tax asset is the taxable income before reversal of deductible temporary differences (see IAS 12.29 (a) (i)), as otherwise items would be recorded twice.

New or amended standards and interpretations not applied (IAS 8.30)

According to IAS 8.30, standards or interpretations already issued by the IASB must be disclosed if they are not yet subject to mandatory application in the reporting period and were not early adopted.

For example, the following disclosures are required in the notes:
- Title of the new standard or new interpretation
- Nature of the impending change in accounting policy
- Date by which application of the standard or interpretation is required
- Date as at which the company plans to apply the standard or interpretation
- Expected impact on the financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

Note: The following table provides an overview of rules under IAS 8.30 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2017. A distinction is made between standards that have been endorsed in the EU (if applicable by means of early voluntary adoption) and those that have not yet been endorsed in the EU. In addition, a general assessment in terms of their effect on accounting practice is provided. Standards and interpretations of fundamental significance as well as those that are expected to have an impact on the financial statements should be discussed in the notes. It is not necessary to provide a full presentation of the new or amended standards and interpretations not applied.

If several new standards or new interpretations will not have a material effect on a company, a wording can be used that neither describes nor lists the corresponding standards and interpretations without a material effect. For example this could take the form of a general statement that, apart from the standards and interpretations described in detail, the other standards and interpretations issued by the IASB are not expected to have a material effect on the consolidated financial statements. In addition, the company can make a general statement when applying the standard or interpretation that early adoption of the new standard or interpretation is not planned.

Standard	Title	IASB effective date*	Expected date of first-time application in the EU*	Effect*
EU endorsement completed by 31 December 2017				
IFRS 9	Financial Instruments	1 January 2018	1 January 2018	Fundamental significance
IFRS 15	Revenue from Contracts with Customers	1 January 2018	1 January 2018	Fundamental significance
Clarifications to IFRS 15	Clarifications to Revenue from Contracts with Customers	1 January 2018	1 January 2018	Fundamental significance
Amend. IFRS 4	Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018	1 January 2018	Industry-specific or company-specific significance
IFRS 16	Leases	1 January 2019	1 January 2019	Fundamental significance

Standard	Title	IASB effective date*	Expected date of first-time application in the EU*	Effect*
EU endorsement still outstanding (as of 31 December 2017)				
Amend. IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	Postponed	Industry-specific or company-specific significance
IFRS 14	Regulatory Deferral Accounts	1 January 2016	Not endorsed by the EU	
Annual Improvements to IFRSs (2014-2016 Cycle)	Amendments to IFRS 1, IFRS 12*** and IAS 28	1 January 2018	1 January 2017 / 1 January 2018	Industry-specific or company-specific significance
Amend. IFRS 2	Clarifications of Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 January 2018	Industry-specific or company-specific significance
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Amend. IAS 40	Classification of Property Under Construction	1 January 2018	1 January 2018	Industry-specific or company-specific significance
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	1 January 2019	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2015-2017 Cycle)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019	1 January 2019	Industry-specific or company-specific significance
Amend. IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019	1 January 2019	Industry-specific or company-specific significance
IFRS 17	Insurance Contracts	1 January 2021	Pending	Industry-specific or company-specific significance

* For financial statements for annual periods beginning on or after this date.
** The general assessment in terms of effects on accounting practice serves as a guide – the individual effects on the individual company must be explained separately.
*** Endorsement did not take place in the fourth quarter of 2017 as planned. The planned date of first-time application is 1 January 2017.

IFRS 9 "Financial Instruments"

In July 2014, the IASB completed its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" by publishing the final version of IFRS 9 "Financial Instruments". IFRS 9 introduces a uniform approach for classifying and measuring financial assets. The subsequent measurement of financial assets will in future be based on three categories with different value measures and a different recognition of changes in value. Assets are categorized depending on the contractual cash flows of the instrument as well as the business model in which the instrument is held. For financial liabilities, by contrast, the existing categorization requirements in IAS 39 were largely carried over into IFRS 9. IFRS 9 also provides a new impairment model that is based on the expected credit defaults.

IFRS 9 also contains new regulations on the application of hedge accounting in order to better present the risk management activities of an entity, in particular with regard to the management of non-financial risks. Furthermore, additional disclosures are required in the notes as a result of IFRS 9.

Note: Information concerning the amendments issued on 12 October 2017 to IFRS 9 "Financial Instruments" in relation to prepayment features can be found below on p. xx "IASB publishes amendments to IFRS 9".

IFRS 15 "Revenue from Contracts with Customers" and Clarifications to IFRS 15

The new IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" as well as the associated interpretations. IFRS 15 sets a comprehensive framework to determine whether, at what amount and at what time revenue is recognized. The core principle of IFRS 15 is that an entity should recognize revenue if the goods have been delivered or service has been provided. In the standard, this core principle is implemented using a five-step model. Firstly, the relevant contracts with the customer and the performance obligations therein have to be identified. Revenue is then recognized at the amount of the expected counterperformance for each separate performance obligation at a point in time or over time. In addition, IFRS 15 contains detailed application guidance on a large number of individual topics (e.g. contract amendments, sales with a right of return, treatment of contract costs, extension options, licensing, principal versus agent relationships, bill-and-hold arrangements, consignment arrangements). The scope of disclosures in the notes is also extended. The aim of the new disclosure requirements is to provide information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Clarifications to IFRS 15 "Revenue from Contracts with Customers"

On 12 April 2016, amendments to IFRS 15 were issued by the IASB and are applicable – like the standard itself – to annual periods commencing on or after 1 January 2018. Early adoption is permitted. The amendments serve to clarify the key principles of the standard and relate to the identification of distinguishable performance obligations of a contract, determining whether a company is the principal or agent in a transaction, determining whether income from granting licenses is recognized over time or at a point in time, as well as expedients for the transition rules for modified and completed contracts.

Note: For further details in relation to the clarifications to IFRS 15, we refer to earlier IFRS Link October 2016.

Amendments to IFRS 4: Application of IFRS 9 "Financial Instruments" together with IFRS 4 "Insurance Contracts"

The IASB amendments to IFRS 4 from 12 September 2016 aim to remove any uncertainty surrounding the different timings of the date of first-time application for IFRS 4 "Insurance Contracts" and IFRS 9 "Financial Instruments" and are applicable for the first time as of 1 January 2018.

Companies that issue insurance contracts that fall within the scope of IFRS 4 have been granted two options.

In accordance with the overlay approach, companies adopting IFRS 9 for the first time can reclassify part of the income and expenses resulting from qualifying assets from the income statement to other comprehensive income. This allows the companies not to show in the income statement any temporary volatilities resulting from the application of IFRS 9 before applying IFRS 17.

The second option applies to companies predominantly engaged in issuing insurance contracts that fall within the scope of IFRS 4. These companies can postpone the adoption of IFRS 9 until no later than 1 January 2021 and can continue to apply IAS 39 until that date (temporary exemption approach).

IFRS 16 "Leases"

Under IFRS 16, the distinction made up to now between operating leases and finance leases will no longer apply with respect to the lessee. For all leases, the lessee recognizes a right of use to an asset and a lease liability. The right of use is amortized over the contractual term in line with the rules for intangible assets. The lease liability is recognized in accordance with the rule for financial instruments pursuant to IAS 39 (or IFRS 9 in future). Write-downs on the asset and interest on the liability are presented separately in the income statement. There are exemptions when accounting for short-term leases and low-value leased assets.

The disclosures in the notes to the financial statements will be extended and should provide a basis for users to assess the amount, timing as well as uncertainties in relation to leases.

For lessors, however, the rules in the new standard are similar to the previous rules in IAS 17. They will continue to classify leases either as a finance lease or an operating lease.

Annual Improvements to IFRSs (2014-2016 Cycle) – Amendments to IFRS 1, IFRS 12 and IAS 28

On 8 December 2016, the IASB issued the Annual Improvements to IFRSs (2014-2016 Cycle). The amendments relate to three IFRS standards:

IFRS 1 "First-time Adoption of International Financial Reporting Standards":
Essentially, the short-term exemptions for first-time adopters were deleted, because these have become obsolete over time.

IFRS 12: "Disclosure of Interests in Other Entities":
Due to the interaction of the disclosure requirements of IFRS 5 and IFRS 12, there was uncertainty regarding whether the disclosure requirements of IFRS 12 also apply to interests that are classified as held for sale, as held for distribution to owners or as discontinued operations. Clarification followed that the disclosure requirements of IFRS 12 also apply to interests covered by the scope of IFRS 5. The only exception is for investments in subsidiaries, joint ventures and associates classified as held for sale pursuant to IFRS 5. These disclosures pursuant to IFRS 12 do not have to be made for such companies.

IAS 28: "Investments in Associates and Joint Ventures":
IAS 28 provides an option regarding the measurement of certain investments. According to that option, investments can be measured using the equity method or at fair value through profit or loss (FVTPL). In the past it was unclear whether the fair value option should be based on the respective investment (investment-by-investment choice) or on a consistent policy choice. The proposed amendment now clarifies that the option to measure an investment in an associate or joint venture held by a venture capital organization or other qualifying entity can be elected on an investment-by-investment basis.

Note: The amendments to IFRS 12 are effective for reporting periods beginning on or after 1 January 2017. By contrast, the amendments to IFRS 1 and IAS 28 are not subject to mandatory adoption until reporting periods beginning on or after 1 January 2018.

Amendments to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"

In response to the scope for interpretation arising on account of a lack of specific rules in IFRS 2, the IASB published amendments to IFRS 2 "Share-based Payment" on 20 June 2016. These relate to three specific areas:

- Inclusion of guidelines on the effect of vesting conditions on the fair value of cash-settled share-based payments
  - Financial reporting in line with equity-settled share-based payment transactions
- Classification of share-based payment transactions with a net settlement feature as equity instruments if a corresponding share-based payment transaction without a net settlement feature would also have to be classified as an equity instrument
- Inclusion of guidelines on accounting for a reclassification of cash-settled share-based payments to equity-settled share-based payment transactions
  - Derecognition of the liability originally to be settled in cash
  - Recognition of the liability to be settled in equity instruments at the proportionate fair value
  - Recognition of any difference from the carrying amount in the net profit or loss for the period.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

On 8 December 2016, the IASB issued IFRIC 22 "Foreign Currency Transactions and Advance Consideration". The draft provides guidelines for determining the exchange rate in foreign currency transactions pursuant to IAS 21 "The Effects of Changes in Foreign Exchange Rates" and for foreign currency transactions where advance consideration is paid (non-monetary items).

The draft interpretation states that the relevant date for determining the exchange rate for payments in advance received or made is the earlier of the following two dates:

- Date of initial recognition of the non-monetary prepayment asset or non-monetary deferred income liability (advance payment)
- Date that the asset, expense or income (or part of it) is recognized in the statement of financial position or income statement.

Currency translation differences between the date of payment and the date on which the performance obligation is fulfilled must be recognized as an exchange gain/loss.

Note: IFRIC 22 is relevant for the construction industry in particular, as regular advance payments are made in that industry for long-term construction contracts.

Amendments to IAS 40 "Classification of Property Under Construction"

On 8 December 2016, the IASB issued amendments to IAS 40 "Investment Property".

The reason for the amendment was the definitive list included in IAS 40 to date of circumstances where a reclassification to or from investment properties is permissible. Based on the wording of the standard, reclassification was only permissible in the cases explicitly listed, meaning that it was not clear for example whether a property under construction or under development could be reclassified from inventories (IAS 2 "Inventories") to investment properties if there was evidence of a change of use.

The clarifications provided mean that the list which was exhaustive in the past is now a non-exhaustive list of examples.
This means that reclassification must take place if there is corresponding evidence (e.g. conclusion of a rental agreement).

Note: A change of use exists only if the property no longer meets the definition of an investment property. A mere change in the intentions of management in relation to the use of the property is not sufficient.

IFRIC 23 "Uncertainty over Income Tax Treatments"

On 7 June 2017, the IASB published IFRIC 23 "Uncertainty over Income Tax Treatments" developed by the IFRS Interpretations Committee.

IFRIC 23 sets out how to account for uncertainty in determining the taxable profit or tax loss, tax bases, unused tax losses, unused tax credits and tax rates.

The interpretation provides the following guidelines for income tax treatment pursuant to IAS 12:

- A reporting entity can use its discretion to determine whether to consider uncertain tax treatments (e.g. regarding tax-allowed depreciation and/or tax-free income) separately or jointly. This decision should be based on its expected acceptance by the tax authorities
- When determining the relevant income tax parameters, the entity must assess whether it is probable that the corresponding tax authorities will accept the respective tax treatment the entity has used or plans to use in the income tax returns.
- If it is probable that the tax treatment will not be accepted, the most likely amount or the expected value must be recognized, depending on which method better predicts the resolution of the uncertainty.

Note: The scope of IFRIC 23 is limited to the area of income taxes in this regard. Taking into account uncertainties for other tax types is still covered by the rules in IAS 37.

Amendments to IFRS 9 "Prepayment Features with Negative Compensation"

On 12 October 2017, the IASB issued amendments to IFRS 9 "Prepayment Features with Negative Compensation". The amendments concern limited adjustments to assessing the classification of financial assets with particular prepayment features and are to take effect as of 1 January 2019.

Note: Further information concerning the amendments to IFRS 9 can be found on p. xx "IASB publishes amendments to IFRS 9".

Annual Improvements to IFRSs (2015-2017 Cycle) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements"

The amendments relate to the measurement of interests held in a business. According to IFRS 3, when an entity obtains control of a business that is a joint operation, it must remeasure previously held interests in that business. By contrast, according to IFRS 11 when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 "Income Taxes"

The amendments clarify that all income tax consequences of dividends must be reported in the operating result. This presentation takes place regardless of how the taxes are incurred.

IAS 23 "Borrowing Costs"

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally. The prerequisite is that the debt capital must have originally been borrowed specifically for the procurement of the qualifying asset.

IAS 28 "Long-term Interests in Associates and Joint Ventures"

On 12 October 2017, the IASB published amendments to IAS 28 that contain clarifications regarding which investments fall within the scope of IFRS 9 "Financial Instruments".

Note: Further information concerning the amendments to IAS 28 can be found on p. xx "IASB finalizes amendments to IAS 28".

IFRS 17 "Insurance Contracts"
On 18 May 2017, the IASB published IFRS 17 "Insurance Contracts", which is to replace IFRS 4 "Insurance Contracts". The objective of the new standard is, by means of consistent and principles-based financial reporting, to provide relevant information for users of financial statements and to ensure uniform presentation and measurement of insurance contracts. The new recognition, measurement and presentation rules must be applied by companies with:
- insurance contracts and reinsurance contracts it issues,
- reinsurance contracts it holds, and
- investment contracts with discretionary participation features that a company issues, provided the company also issues insurance contracts.

If the primary purpose of a contract that meets the definition of an insurance contract under IFRS 17 is the provision of services for a fixed fee, IFRS 15 "Revenue from Contracts with Customers" can be used for the financial reporting instead of IFRS 17.

IASB

IASB publishes amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9 "Prepayment Features with Negative Compensation".

The amendments aim to clarify the classification of particular financial assets with prepayment features pursuant to IFRS 9 "Financial Instruments" and an aspect of accounting for financial liabilities following a modification.

Clarification of classification in the case of prepayment features with negative compensation
According to the old rules under IFRS 9, particular prepayment options would preclude financial instruments that otherwise only feature contractual cash flows that are solely payments of principal and interest on the principal amount outstanding from being measured at amortized cost or fair value through other comprehensive income. This related in particular to prepayment features where the lender could be forced to accept a prepayment amount that is substantially less than the unpaid amounts of principal and interest. This could be considered as a payment from the lender to the borrower and thus not as compensation from the borrower to the lender.

The IASB made an amendment so that such financial assets can be measured at amortized cost or at fair value through other comprehensive income. The authoritative factor for assessing whether the prepayment amount does not solely constitute payments of principal and interest on the principal amount outstanding is whether the party that terminates the contract early obtains reasonable compensation.

Changes regarding symmetric termination rights
The amendments concern only symmetric termination rights that can lead to settlement either of an early repayment penalty or an early repayment gain, depending on the interest rate prevailing at the time of early repayment. Up until now, the cash flow condition under IFRS 9 was not met if the lender had to pay a compensation payment when the borrower terminated the contract.

The existing rules on termination rights will not be changed. However, the amendments to IFRS 9 mean that the cash flow conditions continues to be met even if negative compensation is paid, allowing for measurement at amortized cost.

This applies regardless of the amount of the fair value of the prepayment feature upon initial recognition of the financial asset because – unlike the original draft (Exposure Draft ED/2017/3 dated 21 April 2017), which required the additional eligibility condition of an "insignificant fair value" – this additional condition was not included in the final amendments to IFRS 9.

Clarification regarding the modification of financial liabilities
The amendments clarify that, in the case of a restructuring of financial liabilities that does not result in their derecognition, the carrying amounts must be adjusted directly in profit or loss. In cases where only the effective interest rate was adjusted instead of amortized cost, the accounting may in future have to be adjusted with retrospective effect.

Note: EFRAG (European Financial Reporting Advisory Group) published the final endorsement advice in November 2017. The amendments to IFRS 9 apply with mandatory retrospective effect to annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IASB finalizes amendments to IAS 28

On 12 October 2017, the IASB issued amendments to IAS 28 entitled "Long-term Interests in Associates and Joint ventures".

The reason for these independent and narrow-scope amendments, which were still contained in the draft "Annual improvements to IFRSs (2015-2017 Cycle)" until May 2017, was a question submitted to the IFRS Interpretations Committee. It was unclear whether investments in associates and joint ventures recognized under IAS 28 are only excluded from the scope of IFRS 9 "Financial Instruments" if they are measured using the equity method or whether this also applies to investments that are not measured using the equity method.

The amendments now clarify for long-term interests that IFRS 9 "Financial Instruments" only applies to net investments in associates or joint ventures if they are not measured using the equity method.
The application of IFRS 9 to such investments relates not only to classification and measurement but also to impairment rules.

Note: The amendments apply to reporting periods beginning on or after 1 January 2019; voluntary early adoption is permitted. This allows entities to implement the amendments to IAS 28 together with IFRS 9 as of 1 January 2018. During first-time application, the amendments must be applied retrospectively. Exemptions for modified retrospective first-time application are possible if the entity does not implement the amendments to IAS 28 until after IFRS 9 is applied.

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IASB publishes exposure draft on IAS 8 entitled "Accounting Policies and Accounting Estimates"

On 12 September 2017, the IASB issued exposure draft ED/2017/5 "Accounting Policies and Accounting Estimates" concerning amendments to IAS 8 on distinguishing accounting policies from accounting-related estimates. The proposed amendments relate mainly to the following:

Accounting policies and accounting estimates
The draft provides a clearer distinction between accounting policies and accounting estimates by clarifying the definition of accounting policies and supplementing the definition of accounting estimates.

Selection of an estimation technique or valuation technique
Based on the proposed clarification, the selection of an estimation technique or valuation technique should constitute an accounting estimate.

IAS 2 Inventories
Selecting the procedure for allocating acquisition and production cost for interchangeable inventories now constitutes selecting an accounting policy rather than (as in the past) making an accounting estimate.

Note: The effective date for the amendments has not yet been set. The draft provides for prospective application of a change in accounting policy (e.g. transition to use of the components approach pursuant to IAS 16) if retrospective application is impracticable. The period for comments ended on 15 January 2018.

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Published exposure draft on the definition of "material"

On 2 October 2017, the IASB issued exposure draft ED/2017/6 "Definition of Material (Proposed amendments to IAS 1 and IAS 8)", which changed the definition of "material" as follows:

"Information is material if omitting, misstating or **obscuring** it c**ould reasonably be expected to influence** the decisions that the **primary users** of a specific reporting entity's general purpose financial statements make on the basis of those financial statements."

The reasons for the changed definition are as follows:

- **"could reasonably be expected to influence":**
  This addition should serve to limit the disclosures and not require too much information.
- **"obscuring":**
  The addition "obscuring material information" stemmed from the opinion that this could have similar effects as omitting or misstating material information.
- **"primary users":**
  Because the existing definition only refers to "users" and this term is open to interpretation, the Board listed examples of primary users.

Note: To provide support in determining materiality, the IASB issued a practice statement "Making Materiality Judgements". The content of the practice statement is described in more detail in the next section. The effective date has not yet been specified, but early adoption is to be permitted. The period for comments ended on 15 January 2018.

Practice statement "Making Materiality Judgements" issued

On 14 September 2017, the IFRS practice statement "Making Materiality Judgements" was issued by the IASB. The aim of the practice statement is to support management in reporting financial information in order to create more transparency for the different lenders.

The practice statement deals with the definition of "material" from IAS 1 and IAS 8. Amendments resulting from ED/2017/6 are included in the practice statement as subsequent amendments. Materiality judgments are broken down into the following four steps in the practice statement:

Step 1: Identify information that has the potential to be material
Step 2: Use quantitative (size criteria) and qualitative factors (characteristics) to assess whether the information identified is in fact material.
Step 3: Organize the information in the entity's financial statements.
The practice statement contains examples of different proposed structures, for example emphasizing material matters or tailoring information to the entity's own circumstances.
Step 4: Review whether information is material in the context of its financial statements as a whole.

Note: Because the practice statement is not a standard, but merely provides guidelines, there is no obligation to apply the statement. However, the topic of materiality is an important principle within IFRS and should be observed.

Update of the IFRS Taxonomy for the submission of electronic financial statements

The IFRS Taxonomy 2017 is a translation of the IFRSs into the business reporting language iXBRL (inline eXtensible Business Reporting Language) and has been updated since the IFRS Taxonomy 2015 was issued by the IFRS Foundation, most recently on 9 March 2017.

The Taxonomy 2017 complies with the IFRSs as issued by the IASB as of 1 January 2017, and contains the iXBRL labels for all IFRS disclosure requirements. The XBRL is used to prepare a digital financial report where the data are labeled and allocated clearly using the labels. Because the report is machine-readable, it is possible to exchange information directly.

To make it easier to prepare and use financial information digitally, the IFRS Foundation issued a preparer's guide for the IFRS Taxonomy on 14 December 2017.

All companies listed in the European Union are obliged from 1 January 2020 onward to submit their financial statements electronically in a uniform format across Europe (European Single Electronic Format, ESEF). For consolidated financial statements, the IFRS Taxonomy should be used. On 18 December 2017, ESMA (European Securities and Markets Authority) issued the final draft Regulatory Technical Standards to implement ESEF and other guidelines.

From 1 January 2022, the ESEF reporting duty covers not only the primary components of financial statements (statement of financial position, income statement and other comprehensive income, statement of changes in equity, statement of cash flows) as well as fundamental information on the entity, such as name, domicile and purpose of the entity, but also extensive disclosures, which must be allocated to an element of the Taxonomy as a text block.

For foreign issuers, IFRS financial statements must already be submitted in XBRL for annual periods ending on or after 15 December 2017. To this end, the US Securities and Exchange Commission has already updated its EDGAR submission system accordingly.

Note: The IFRS Taxonomy data can be downloaded from the website of the IFRS Foundation together with supporting materials. Use of the IFRS Taxonomy will lead to a once-off adoption effort for publicly traded entities in order to ensure a uniform chart of accounts worldwide. In addition, it will be important to ensure a functioning software interface.

Other standard setters

Q&A document on the introduction of IFRS for SMEs

The group for the introduction of IFRS for small and medium-sized entities (SMEs), the SME Implementation Group, supports the IASB by developing guidelines. On 14 December 2017, a Q&A document was issued on the accounting treatment of financial guarantee contracts issued by a parent company. The document deals with the accounting treatment in the separate financial statements of the parent company and can be downloaded from the IASB website.

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EU Endorsement

EU Endorsement Status Report

The following table contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since the last edition of IFRS LINK (endorsement). These are based on the EU Endorsement Status Report issued by EFRAG on 15 December 2017 (most recently published version prior to the reporting date 31 December 2017)

Standards	IASB entry into force	EU endorsement expected
IFRS 16: Leases (13 January 2016)	1 January 2019	31 October 2017
IFRS 17: Insurance Contracts (18 May 2017)	1 January 2021	Pending
IFRIC 22: Foreign Currency Transactions and Advance Consideration (8 December 2016)	1 January 2018	Q1/2018
IFRIC 23: Uncertainty over Income Tax Treatments (7 June 2017)	1 January 2019	2018
Amendments to standards		
IAS 7: Statement of Cash Flows (29 January 2016)	1 January 2017	6 November 2017
IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (19 January 2016)	1 January 2017	6 November 2017
IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4 (12 September 2016)	1 January 2018	3 November 2017
IFRS 15: Clarifications to Revenue from Contracts with Customers	1 January 2018	31 October 2017
IFRS 2: Classification and Measurement of Share-based Payment Transactions (20 June 2016)	1 January 2018	Q1/2018
Annual Improvements to IFRSs (2014-2016 Cycle): Amendments to IFRS 1, IFRS 12 and IAS 28 (8 December 2016)	1 January 2018 1 January 2017	Q4/2017*
IAS 40: Classification of Property Under Construction (8 December 2016)	1 January 2018	Q4/2017*
IFRS 9: Prepayment Features with Negative Compensation (12 October 2017)	1 January 2019	2018
IAS 28: Investments in Associates and Joint Ventures (12 October 2017)	1 January 2019	2018
Annual Improvements to IFRSs (2015-2017 Cycle) (12 December 2017)	1 January 2019	2018

* Endorsement had not taken place as of 31 December 2017.

ESMA

ESMA 2018 key audit areas

ESMA set out the following key audit areas in 2018 (for 2017 annual and consolidated financial statements):

1. Disclosure of the expected impact of the implementation of major new standards in the period of their initial application
2. Specific recognition, measurement and disclosure issues of IFRS 3 "Business Combinations"
3. Specific issues of IAS 7 "Statement of Cash Flows"

A detailed presentation of these key audit areas can be found on ESMA's homepage.

Re 1: Disclosure of the expected impact of the implementation of major new standards in the period of their initial application

The key audit area relates to the notes disclosures under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" on new standards not yet effective and their expected impact on future financial statements. This applies in particular to IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers", which become applicable as of 1 January 2018, and IFRS 16 "Leases", which is mandatory for the first time from 1 January 2019.

Note: ESMA expects that the implementation projects (in particular for IFRS 9 and IFRS 15) will have been completed by the date of preparing the financial statements and thus that entity-specific quantitative and qualitative disclosures can be made concerning the impact and the options used.

Re 2: Specific recognition, measurement and disclosure issues of IFRS 3 "Business Combinations"

The report published by ESMA in 2014 on the review of the application of IFRS 3 "Business Combinations" retains its relevance due to the most recent enforcement activities. Therefore, particular attention must be paid to compliance with the standard in the treatment of intangible assets, adjustments during the measurement period, bargain purchases, mandatory tender offers, business combinations under common control, contingent payments and disclosures on fair value (e.g. consistent measurement parameters in the purchase price allocation and any subsequent impairment test).

Re 3: Specific issues of IAS 7 "Statement of Cash Flows"

For all reporting periods starting on or after 1 January 2017, information must be provided that enables users of financial statements to evaluate changes in financing activities. ESMA prefers the tabular format of presentation based on IAS 7 IE.E, where the development of "financial" liabilities is shown by means of cash and non-cash changes in the statement of reconciliation. Disclosures on the inclusion of certain components in cash and cash equivalents balances (e.g. overdraft facilities and balances from cash pool facilities) and on cash and cash equivalents balances with limited availability are also examined.

ESMA issues further Q & As on the Guidelines on Alternative Performance Measures

On 30 October 2017, ESMA (European Securities and Markets Authority) published further Questions and Answers (Q & As) on the Guidelines on Alternative Performance Measures issued in June 2015 (see also IFRS LINK March 2016 and May 2017). Listed companies must observe these Guidelines in their financial reporting as well as in ad hoc notices and/or in prospectuses. While the ESMA Guidelines do not constitute binding EU law and thus do not have any direct impact on the statutory enforcement procedure, the national Financial Reporting Enforcement Panels usually take these Guidelines into account provided they do not contravene national law.

Alternative performance measures include among others the ratios EBIT (Earnings before Interest and Taxes), EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) and ROCE (Return on Capital Employed).

The questions and answers on the Guidelines look at the definition of alternative financial ratios, the scope, exceptions, the definition of organic growth and handling fair value.

Note: The Q & As are available on the ESMA website.

ESMA: Enforcement decisions published

The national European enforcers audit the financial statements of companies with securities traded on a regulated market in Europe or in the process of admission to the market. The financial statements are prepared in accordance with the IFRSs and reviewed to determine the extent to which they comply with the IFRSs and other applicable reporting requirements, including the authoritative national legal requirements.

ESMA has developed a confidential database of enforcement decisions made by the individual European enforcers as a source of information in order to promote the appropriate application of IFRSs and thus provide companies using IFRS and their auditors with insights into the decision-making process of the European enforcers.

The following overview shows the most recent publications (up until 31 December 2017). The publications are available on the ESMA website.

Standard affected	Overview of matter	Source
IAS 36	Country risk premium in impairment test	Decision ref EECS/0117-01
IFRS 10, IFRS 11	Assessment of joint control	Decision ref EECS/0117-02
IFRS 13, IFRS 28	Valuation and equity method for participation with restrictions	Decision ref EECS/0117-03
IFRS 10, IFRS 11	Assessment of joint control	Decision ref EECS/0117-04
IAS 8, IAS 34	Restatement of comparative amounts	Decision ref EECS/0117-05
IAS 1, IAS 39	Disclosures on a reverse factoring transaction	Decision ref EECS/0117-06
IFRS 10	Assessment of control over investment funds	Decision ref EECS/0117-07
IFRS 13	Fair value measurement disclosures of unobservable inputs	Decision ref EECS/0117-08
IAS 18, IAS 37, IAS 39	Recognition and measurement of the proceeds from an arbitration agreement	Decision ref EECS/0117-09
IAS 36	Impairment test of trademarks	Decision ref EECS/0117-10
IAS 12	Recognition of deferred tax assets for carry forward of unused tax losses	Decision ref EECS/0117-11
IAS 39	Definition of 'economic environment' and separation of foreign-currency embedded derivatives in a power contract	Decision ref EECS/0117-12

Contact us

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