

# IFRS compared to French GAAP

AN OVERVIEW



# summary

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\*The areas covered by this section have been reallocated to other sections due to changes in the IFRS framework.

# Foreword

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We are pleased to present this new edition of our comparison between IFRS and French accounting rules. This publication has been updated for the impacts of the new international standards related to revenue (IFRS 15), financial instruments (IFRS 9), leases (IFRS 16) and of the interpretation IFRIC 23 on tax uncertainties. It also covers the impacts of the latest French accounting rules related to mergers, financial instruments and changes in accounting policies.

The objective of this publication is to present an overview of main IFRS accounting principles and to highlight the main differences between those principles and French accounting rules.

We do not seek to present all differences that could occur between IFRS and French accounting principles, but instead we focus on the differences that we regularly see as we deliver GAAP conversion services. Also, it should be noted that this publication is not to be used in isolation as the GAAP assessment tool for a specific entity.

This publication is designed for you if you are in any of the following situations:

**You are interested in an overview of IFRS**

**You are considering implementing a transition to IFRS**

**You would like to better understand the IFRS entries to be recorded to prepare your reporting package for your parent company**

We hope you will find this publication useful and would be delighted to assist you with your projects involving accounting or financial reporting issues.

We are grateful for the assistance of the members of our Department of Professional Practice in reviewing the publication, under the supervision of Emmanuel Paret.

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## Organisation of the publication

This publication is a summary of the key provisions of IFRS and highlights the main differences with French accounting rules for separate and consolidated financial statements of companies in the industrial and commercial sectors.

Specificities related to banking or insurance companies are not addressed by this publication. In particular, IFRS 17 *Insurance contracts* is not addressed in our publication.

This publication is based on the IFRS framework as adopted by the European Union and applicable mandatorily as at January 1st, 2019, and on French accounting rules that are effective on January 1st, 2019. This edition therefore includes provisions related to new international standards and interpretations related to revenue (IFRS 15), financial instruments (IFRS 9<sup>1</sup>), leases (IFRS 16) and tax uncertainties (IFRIC 23).

This publication does not discuss changes that are likely to be implemented in the near future in French accounting rules related to revenue recognition and preparation of consolidated financial statements.

### Link with Insights into IFRS

The sections in this publication match the chapters in our publication *Insights into IFRS*, which discusses the provisions of IFRSs and KPMG's interpretations in detail. Therefore,

should you wish to know more about any section of *IFRS compared to French GAAP*: an overview, you can refer to the corresponding chapter of *Insights into IFRS*.

### Presentation of the main differences with French accounting rules

The main differences are highlighted in inserts labelled "Main differences with French accounting rules".

On a particular subject, a difference may exist between French accounting rules for separate financial statements and IFRS whereas there is no difference between French accounting rules for consolidated financial statements and IFRS. In that case, it will read "in separate financial statements..." before the difference is stated.

In case a difference only relates to consolidated financial statements, it will read "in consolidated financial statements..." before the difference is stated.

If a difference is highlighted with no further precision, then it means that this difference exists between French accounting rules for both separate and consolidated financial statements and IFRS. However, some sections are relevant only for consolidated financial statements (for example, 2.6 Business combinations).

## Illustrated instructions for use

**3.2 Property, plant and equipment**

Currently effective: IAS 16  
Related standards: IFRS 13, IFRS 15, IFRS 16, IFRIC 1

**Initial recognition**

Property, plant and equipment is initially recognised at cost (which includes acquisition costs such as purchase taxes and professional fees) when control is obtained.

Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.

The cost includes the estimated cost of dismantling and removing the asset and restoring the site.

The cost includes borrowing costs, if any (see 4.6).

If payment is deferred beyond normal credit terms, the cost of the asset is the cash price equivalent.

**MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES**

- The notion of control is also used in French accounting rules but there are exceptions to this general principle.
- In separate financial statements, the acquisition costs may either be included in the cost of property, plant and equipment, which is the reference method, or expensed as incurred. (PCG art. 213-8)
- The cost of the asset is not affected if payment is deferred consistent with the principle that transactions should be recorded at their face value - see 1.2).
- It is possible to include borrowing costs in the cost of property, plant and equipment or not (no reference method). (Code de Commerce R123-173/2 and PCG art. 213-9/1)

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The provisions related to accounting for Property, Plant and Equipment that are described in this section mainly derive from IAS 16 as applicable in the European Union as at January 1st, 2019.

Some provisions from IFRS 13, IFRS 15, IFRS 16 and IFRIC 1 may also apply.

This difference only exists between French accounting rules for separate financial statements and IFRS. In consolidated financial statements prepared in accordance with French accounting rules, the acquisition costs are included in the cost of the asset as under IFRSs.

This difference exists between French accounting rules for both separate and consolidated financial statements and IFRS.

<sup>1</sup> This publication does not cover the option to continue to apply the provisions of IAS 39 related to hedge accounting.



# Background



# 1.1 Introduction

**Currently effective: IFRS Foundation Constitution, IASB and IFRS Interpretations Committee Due Process Handbook, Preface to IFRSs, IAS 1**

## IFRS Standards

IFRS is a set of globally accepted standards for financial reporting applied primarily by listed entities in over 160 countries.

Individual standards and interpretations are developed and maintained by the IASB and the IFRS Interpretations Committee.

IFRS is designed for use by profit-oriented entities.

## Compliance with IFRS

Any entity claiming compliance with IFRS complies with all standards and interpretations, including disclosure requirements, and makes an explicit and unreserved statement of compliance with IFRS.

The overriding requirement of IFRS is for the financial statements to give a fair presentation (or a true and fair view).

# 1.2 The Conceptual Framework

**Currently effective: Conceptual Framework for Financial Reporting**

## Purpose

The Conceptual Framework is a point of reference :

- for the IASB and the IFRS Interpretations Committee in developing and maintaining standards and interpretations; and
- for preparers of financial statements in the absence of specific guidance in IFRS.

The Conceptual Framework does not override any specific IFRS.

## Objective of general purpose financial information

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

## Qualitative characteristics of useful financial information

For financial information to be useful, it needs to be relevant to users and give a true and faithfully represent what it purports to represent. The usefulness of financial information is enhanced by its comparability, verifiability, timeliness and understandability.

## Financial statements and the reporting entity

The Conceptual Framework sets the objective of financial statements, describes their types and provides the definition of a reporting entity.

Financial statements are prepared on a going concern basis, unless management intends, or has no alternative other than, to liquidate the entity or to stop trading.

## The elements of the financial statements

The Conceptual Framework sets out the definitions of "assets" and "liabilities". The definitions of "equity", "income" and "expenses" are derived from the definitions of assets and liabilities.



## Recognition and derecognition

Any item meeting the definition of assets, liabilities, equity, income or expenses is recognised in the financial statements, unless it affects the relevance or the faithful presentation of the information provided.

An item is derecognised from the financial statements when it no longer meets the definition of an asset or liability. This is accompanied by appropriate presentation and disclosure.

## Measurement

The Conceptual Framework describes two measurement bases and the factors to consider when selecting a measurement basis :

- historical cost: under the historical cost basis, an asset or liability is measured using information derived from the transaction price and that measurement is not changed unless it relates to impairment of an asset or a liability becoming onerous.
- current value: under the current value basis, an asset or liability is measured using information that reflects current conditions at the measurement date.

Current value measurement bases include fair value, value in use and fulfilment value that are based on present values of cash flows, and current cost.

## Presentation and disclosure

The Conceptual Framework includes high-level concepts that describe how information is presented and disclosed in financial statements.

The Conceptual Framework also outlines principles for the IASB to follow when deciding whether an item of income and expenses should be included in profit or loss or other comprehensive income (OCI) and if it should be reclassified from OCI to profit or loss.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Accounting practices are usually governed by laws, decrees, regulations and ministerial orders. The legal and regulatory texts are based on the French Commercial Code (Code de Commerce), which provides the framework for general accounting rules. The requirements are set out in the General Chart of Accounts (PCG, Plan Comptable Général), which was reorganised in 2014 by the Accounting Standards Authority (ANC, Autorité des Normes Comptables).

- There is no documented conceptual framework. However, the Code de Commerce sets out the general principles (which are also included in the PCG) that should be applied to prepare financial statements. These principles are generally aligned with IFRS with the following exceptions:
  - prudence in French accounting rules as opposed to neutrality in IFRS,
  - obligation to account for transactions at their face value,
  - prohibition to restate the opening balance sheet in French rules, i.e. the opening balance sheet for a given financial year must correspond to the closing balance sheet for the previous financial year,
  - no "substance over form" principle in separate financial statements. This principle may apply in certain cases in consolidated financial statements.
- There are no equivalents to the notions of "comprehensive income" and "other comprehensive income".



# GENERAL ISSUES





# 2.1 Form and components of financial statements

Currently effective: IAS 1

Related standards: IFRS 10, IFRS 11, IAS 27, IAS 28

## Complete set of financial statements

A complete set of financial statements comprises the following:

- a statement of financial position (balance sheet),
- a statement of profit or loss and other comprehensive income (in one or two statements),
- a statement of changes in equity,
- a statement of cash flows,
- notes, including accounting policies,
- comparative information,
- a statement of financial position as at the beginning of the preceding period ("third statement of financial position") in certain circumstances.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- A complete set of financial statements includes:
  - a balance sheet,
  - a profit or loss statement,
  - the notes to the financial statements, including the statement of changes in equity and the cash flow statement (both of which are optional in separate financial statements),
  - comparative information.
- There are no equivalents to the notions of "comprehensive income" and "other comprehensive income".
- A "third balance sheet" is never required.
- In general, the notes to financial statements are less detailed. In addition, there are simplified models for separate financial statements for small companies and some information is not required below certain thresholds. [CRC 99-02- section IV]

## Reporting date

The reporting date may change only in exceptional circumstances.

## Comparative information

Comparative information is required for the immediately preceding period. Additional comparative information may be presented if it is compliant with IFRS.

## Type of financial statements

IFRS sets out the requirements that apply to consolidated, individual and separate financial statements if local legislation allows separate financial statements to be prepared in IFRS, which is not the case in France.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

There is no equivalent to the notion of individual financial statements.

## Consolidated financial statements

An entity with one or more subsidiaries presents consolidated financial statements unless it is a qualifying investment entity (see 5.6) or specific exemption criteria are met.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Entities with exclusive control, joint control or significant influence over one or more other entities must prepare consolidated financial statements, unless an exemption applies. Consolidated financial statements are prepared in accordance with either IFRS or French accounting rules. However, entities that only hold investments under significant influence are not required to prepare consolidated financial statements. [Code de Commerce L233-16, 17 and 17-1, CRC 99-02 §1000]
- A specific regulation of the Accounting Regulation Committee, CRC Regulation 99-02, applies for the preparation of consolidated financial statements under French accounting rules. Rules for consolidated financial statements are derived from rules for separate financial statements.



However there are several differences:

- some additional options exist,
- some options available in separate financial statements are not available in consolidated financial statements,
- the use of methods that are qualified as “preferential” is encouraged in consolidated financial statements, and
- entries recorded solely for tax legislation purposes are eliminated.

## Individual financial statements

An entity with no subsidiaries but with investments in associates or joint ventures prepares individual financial statements if those investments are accounted for using the equity method, unless specific exemption criteria are met.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

An entity with no exclusively or jointly controlled investees but with investments under significant influence may prepare consolidated financial statements in which the investments are equity accounted on a voluntary basis.

## Separate financial statements

An entity that is not required to prepare consolidated or individual financial statements is permitted, but not required, to present separate financial statements. Alternatively, separate financial statements may be prepared in addition to consolidated or individual financial statements.

Local rules may require the preparation of separate financial statements, as is the case in France.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- All entities are required to prepare separate financial statements in accordance with the PCG, even if consolidated financial statements are prepared. Separate financial statements cannot be prepared in accordance with IFRS. [Code de commerce L123-12 et seq.]

- All companies are required, for their separate financial statements, to use the same chart of accounts in their general ledger, to follow the same accounting rules (which are strongly influenced by tax laws) and to use the same standard formats to present their balance sheet, income statement and notes to the financial statements. These requirements are set out in the PCG.

## Presenting pro forma information

In our view, it is acceptable to present pro forma information if it is allowed by local regulations and relevant stock exchange rules and if certain criteria are met.

In France, pro forma information can be presented only in limited circumstances (e.g. in case of business combinations).

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

Restated information (which is qualified as pro forma) is required in the notes to financial statements in case of a change in accounting policy or error correction.



# 2.2 Changes in equity

Currently effective: IAS 1, IAS 8

## Presentation of the statement of changes in equity

A statement of changes in equity (and related notes) reconciles opening to closing amounts for each component of equity.

All owner-related changes in equity are presented in the statement of changes in equity separately from non-owner changes in equity.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, a statement of changes in equity may be presented in the notes, but this is not mandatory and no model is provided.
- In consolidated financial statements, it is mandatory to present a statement of changes in equity in the notes. A model is provided by CRC 99-02 and differs from the provisions of IFRS. In particular, this statement includes only changes attributable to owners. [CRC 99-02 §424]

## Changes in accounting policies and errors

Generally, accounting policy changes and corrections of prior-period errors are made by adjusting opening equity and restating comparatives unless this is impracticable.

An entity presents separately in the statement of changes in equity:

- the total adjustment resulting from changes in accounting policies; and
- the total adjustment resulting from the correction of errors.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- in the event of an error correction, the impact is recognised in profit or loss for the period, except when it relates to a transaction that was recognised directly in equity. Prior periods are not restated. The impact of material error corrections is presented in a separate line in the profit or loss statement, below operating result (or in a separate line of retained earnings). [PCG art. 122-6]
- in the event of a change in accounting policy:
  - the impact is calculated retrospectively net of tax and recognised in equity at the beginning of the current period (and not at the beginning of the first comparative period presented). Prior periods are not restated. [PCG art. 122-3]
  - however, in separate financial statements, the impact can be presented in a separate line in the profit or loss statement below operating result if this is justified for tax reasons. [PCG art. 122-3]



# 2.3 Statement of cash flows

Currently effective: IAS 7

## Presentation of the cash flow statement

The cash flow statement presents the reconciliation of the opening and closing cash balances.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, the presentation of a cash flow statement is optional [PCG art. 810-7]. Following the 1st March 1984 law related to preventing business difficulties, entities with more than 300 employees or a turnover of more than €18 million must present a statement that has similarities with a cash flow statement ("tableau de financement").
- The cash flow statement can be reconciled with net debt rather than cash. In this case, some cash flows may be presented on a net basis. [CRC 99-02 §42613]

## Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows include certain short-term investments and, in some cases, bank overdrafts.

## Operating, investing and financing activities

The statement of cash flows presents cash flows during the period, classified by operating, investing and financing activities.

An entity presents its cash flows in the manner most appropriate to its business. Cash flows related to interest, dividends and income taxes are presented in separate lines.

An entity chooses its own policy for classifying the interest and dividends paid and received. It applies the chosen presentation method consistently:

- interest and dividends paid: operating or financing activities,
- interest and dividends received: operating or investing activities.

Taxes paid are classified as operating activities unless it is practicable to identify them with, and therefore classify them as, financing or investing activities.

Cash flows relating to the acquisition (loss) of control of subsidiaries are presented separately and classified as investing cash flows. Cash flows relating to changes in interest without loss of control in subsidiaries are classified as financing cash flows.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There are generally fewer reconciling items, as there are fewer non-cash entries under French accounting rules.
- Dividends paid are classified as financing activities.
- Taxes paid or received are generally presented as operating cash flows, but it is recommended to present them as investing cash flows when they relate to significant gains on disposals.
- Cash flows relating to interest and income taxes are not necessarily presented in separate lines.
- The impacts of changes in the scope of consolidation (with or without a change in control) are presented as investing cash flows in a separate line. [Avis OEC No. 30]

## Direct vs indirect method

Cash flows from operating activities may be presented under either the direct method or the indirect method.

## Foreign currency cash flows

Foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).

## Offsetting

Generally, all financing and investing cash flows are reported gross. Cash flows are offset only in limited circumstances.



## Changes in liabilities related to financing activities

To help users evaluate changes in liabilities related to financing activities, an entity provides a disclosure, including cash and non-cash changes.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

The analysis of changes in liabilities related to financing activities is not required.

# 2.4 Fair value measurement

Currently effective: IFRS 13

## Scope

The standard applies to most fair value measurements and disclosures (including measurements based on fair value) that are required or permitted by other IFRSs.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

Financial statements are generally prepared on a historical cost basis. Measurement at fair value or current value is less frequent compared to IFRS.

## Fair value principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date – i.e. an exit price.

Market participants are independent of each other, they are knowledgeable and have a reasonable understanding of the asset or liability, and they are willing and able to transact.

Fair value measurement assumes that a transaction takes place in the principal market (i.e. the market with the greatest volume and level of activity) for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.



## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, there is no use of fair value (or current value), except for impairment tests (see 3.10) and derivatives (see 7.2).
- In consolidated financial statements, fair value (or current value) is also not used, except in the context of business combinations (see 2.6).

### Valuation approaches and techniques

There are three general approaches to valuation, with various techniques applied under those approaches:

- the market approach: e.g. quoted prices in an active market;
- the income approach: e.g. discounted cash flows; and
- the cost approach: e.g. depreciated replacement cost.

### Inputs to valuation techniques

A fair value hierarchy is established based on the inputs to valuation techniques used to measure fair value.

A premium or discount (e.g. a control premium) may be an appropriate input to a valuation technique, but only if it is consistent with the relevant unit of recognition.

### Fair value hierarchy

The inputs are categorised into three levels (Levels 1, 2 and 3), with the highest priority given to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority given to unobservable inputs.

Appropriate valuation technique(s) should be used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### Fair value measurement

Fair value on initial recognition generally equals the transaction price.

Non-financial assets are measured based on their "highest and best use" – i.e. the use that would maximise the value of the asset (or group of assets) for a market participant.

In the absence of quoted prices for the transfer of the instrument, a liability or an entity's own equity instrument is valued from the perspective of a market participant that holds the corresponding asset. Failing that, other valuation techniques are used

to value the liability or own equity instrument from the perspective of a market participant that owes the liability or has issued the equity instrument.

The fair value of a liability reflects non-performance risk, which is assumed to be the same before and after the transfer of the liability.

Certain groups of financial assets and financial liabilities with offsetting market or credit risks may be measured based on the net risk exposure.

For assets or liabilities with bid and ask prices, an entity uses the price within the bid-ask spread that is most representative of fair value in the circumstances. The use of bid prices for assets and ask prices for liabilities is permitted.

Guidance is provided on measuring fair value when there has been a decline in the volume or level of activity in a market, and when transactions are not orderly.

### Disclosures

A comprehensive disclosure framework is designed to help users of financial statements assess the valuation techniques and inputs used in fair value measurements, and the effect on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.



# 2.5 Consolidation

Currently effective: IFRS 10

## Entities included in consolidated financial statements

The notion of “consolidation” under IFRS includes only the investor and its subsidiaries, i.e. controlled interests.

An entity that controls one or more entities presents consolidated financial statements unless it is a qualifying investment entity (see 5.6) or specific exemption criteria are met.

Venture capital organisations, mutual funds, unit trusts and similar entities that do not qualify as investment entities are not exempt from the requirements of the standard and their subsidiaries are consolidated.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In French accounting rules, the notion of “consolidation” includes the investor, entities that are controlled exclusively and jointly and entities under significant influence of the investor all of them being qualified as subsidiaries. This section only discusses differences related to controlled subsidiaries. Differences related to jointly controlled entities and entities under significant influence of the investor are discussed in sections 3.6 and 3.5 respectively. [CRC 99-02 §1000]
- A controlled subsidiary may be excluded from the scope of consolidation in the event of severe and lasting restrictions that affect the ability to transfer cash. [CRC 99-02 §101]
- A controlled subsidiary is excluded from the scope of consolidation if it is acquired solely for the purpose of being sold. [CRC 99-02 §101]
- There is no equivalent to the notion of investment entity.

## Single control model

An investor controls an investee when the investor is exposed to (has rights to) variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Control involves power, exposure to variability of returns and a linkage between the two.

Control is assessed on a continuous basis.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

Exclusive control is defined as the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities. [CRC 99-02 §1002]

## Step 1 - Understand the investee

Control is generally assessed at the level of the legal entity. However, an investor may have control over only specified assets and liabilities of the legal entity (a “silo”), in which case control is assessed at that level if certain conditions are met.

The purpose and design of the investee does not in itself determine whether the investor controls the investee. However, it plays a role in the judgement applied by the investor in all areas of the control model. Assessing purpose and design includes considering the risks that the investee was designed to create and to pass on to the parties involved in the transaction, and whether the investor is exposed to some or all of those risks.

The “relevant activities” of the investee – i.e. the activities that significantly affect the investee’s returns – need to be identified. In addition, the investor determines whether decisions about the relevant activities are made based on voting rights.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There are no equivalent provisions.



## Step 2 – Power over relevant activities

Only substantive rights are considered in assessing whether the investor has power over the relevant activities of the investee.

If voting rights are relevant for assessing power, then the investor considers potential voting rights that are substantive, rights arising from other contractual arrangements and factors that may indicate de facto power – e.g. the investor has a dominant shareholding and the other vote holders are sufficiently dispersed.

If voting rights are not relevant for assessing power, then the investor considers evidence of the practical ability to direct the relevant activities (the most important factor), indications of a special relationship with the investee, and the size of the investor's exposure to variable returns from its involvement with the investee. An entity in which voting rights are not relevant is generally qualified as a structured entity.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Only actual voting rights are taken into account for the assessment of power (potential voting rights are generally ignored). [CRC 99-02 §10051]
- The notion of de facto control is different. De facto control is demonstrated when the investor has appointed a majority of the members of the managerial bodies for two successive financial years. There is a presumption of de facto control if for two successive financial years,
  - the investor holds more than 40% of the voting rights and
  - no third party holds, directly or indirectly, a greater proportion. [CRC 99-02 §1002]
- There is no equivalent to the notion of entities for which voting rights are not relevant (or structured entities). However, there are specific provisions to assess control of "special purpose entities", and in particular special-purpose entities resulting from securitisation arrangements and UCITS. These provisions differ from IFRS. [CRC 99-02 §10052, Avis CU CNC 2004-D (special-purpose entities resulting from securitisation arrangements), CNC press release February 2005 (UCITS)]

## Step 3 – Exposure to variability in returns

Returns are broadly defined and include not only direct returns (e.g. dividends, interest and changes in the fair value of an investment), but also indirect returns (e.g. achieving economies of scale, cost savings and other synergies).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent to the notion of exposure to variable returns.

## Step 4 - Linkage

If the investor (decision maker) is an agent, then the link between power and returns is absent and the decision maker's delegated power is treated as if it were held by its principal(s).

To determine whether it is an agent, the decision maker considers:

- substantive removal and other rights held by a single or multiple parties;
- whether its remuneration is on arm's length terms;
- its other economic interests; and
- the overall relationship between itself and other parties.

An entity takes into account the rights of parties acting on its behalf in assessing whether it controls an investee.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There are no equivalent provisions.

## Subsidiaries' accounting policies

Uniform accounting policies are used throughout the group.





## Non-controlling interests

“Ordinary” non-controlling interests (NCI) are measured at fair value, or at their proportionate interest in the net assets of the acquiree, at the date of acquisition. Ordinary NCI are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation. “Other” NCI are generally measured at fair value.

Losses in a subsidiary may create a debit balance in NCI.

NCI in the statement of financial position are classified as equity but are presented separately from the parent shareholders’ equity.

Profit or loss and other comprehensive income (OCI) for the period are allocated between NCI and the shareholders of the parent.

An obligation to purchase non-controlling interests results in the recognition of a financial liability for the fair value of the exercise price (see 7.3).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Other shareholders’ shares in consolidated entities are “minority interests”. This notion is narrower than the notion of “non-controlling interests”. Minority interests are always measured based on their proportionate share of the acquiree’s identifiable net assets at the acquisition date. [CRC 99-02 §210]
- Losses in a controlled subsidiary do not create a debit balance in minority interests, unless the minority shareholders agree to bear their proportion of the losses. [CRC 99-02 §270]
- An obligation to purchase minority interests does not generally result in the recognition of a financial liability for the fair value of the exercise price. Depending on the circumstances and the entity’s strategy, it may either be recognised as a derivative in isolated open position or be treated as a transaction with an optimisation component without risk. In all cases, information is disclosed in the notes to financial statements. [PCG art. 628-16 and 18]

## Intra-group transactions

Intra-group transactions are eliminated in full.

## Loss of control

On the loss of control of a subsidiary, the assets and liabilities of the subsidiary and the carrying amount of the NCI are derecognised. The consideration received and any retained interest (measured at fair value) are recognised.

Any amounts recognised in OCI are reclassified as required by other standards. Any resulting gain or loss is recognised in profit or loss.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

In case of partial sale involving a loss of control, the retained interest is not revalued. [CRC 99-02 §23111 and 23112]

## Changes in ownership interest while retaining control

Changes in the parent’s ownership interest in a subsidiary without a loss of control are recognised for as equity transactions and no gain or loss is recognised.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In case of increase in ownership interest: additional goodwill is recognised without assets and liabilities being revalued after the date of acquisition. [CRC 99-02 §230]
- In case of decrease in ownership interest: a gain is recognised in the profit or loss statement. [CRC 99-02 §23110]

## Disclosures

Detailed disclosures are required, including in respect of unconsolidated structured entities (see 5.10).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The information disclosed in the notes is generally less detailed.



# 2.6 Business combinations

**Currently effective: IFRS 3**  
**Related standard: IFRS 13**  
**Forthcoming: amendments to IFRS 3**

## Scope

Business combinations are recognised according to the acquisition method (acquisition accounting), with limited exceptions. See 5.13 for transactions under common control.

## Identifying a business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

A business is an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors by way of dividends, lower costs or other economic benefits.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

The notion of "business combination" is not defined.

## Identifying the acquirer

The acquirer in a business combination is the combining entity that obtains control of the other combining business or businesses.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

The notion of "reverse acquisition" does not exist. Therefore, in a business combination, the accounting acquirer is generally the legal acquirer.

## Determining the date of acquisition

The date of acquisition is the date on which the acquirer obtains control of the acquiree, which is usually the date when the shares are transferred.

## Consideration transferred

Consideration transferred by the acquirer, which is generally measured at fair value at the date of acquisition, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer.

Any contingent consideration is recognised at fair value as part of consideration transferred at the acquisition date. If the contingent consideration is classified as an asset or liability, it is subsequently remeasured at fair value, with changes in fair value recognised in profit or loss.

Costs incurred for the business combination are excluded from the consideration transferred, and are recognised as an expense when incurred.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The notion of "consideration transferred" does not exist. The notion of "acquisition cost" applies instead. [CRC 99-02 §210]
- Acquisition costs incurred for the acquisition are included in the acquisition cost net of tax. [CRC 99-02 §210]
- Contingent price adjustments are included in the acquisition cost at the acquisition date only if they are probable and can be estimated reliably. Subsequent changes in the estimate of contingent price adjustments are recognised in goodwill. [CRC 99-02 §210]

## Determining what is part of the business combination

Any items that are not part of the business combination transaction are recognised outside the acquisition accounting. In particular, there are specific provisions for pre-existing relationships between the acquirer and the acquiree, for payments to employees or former owners of the acquiree and for the replacement of share-based payments granted to employees or former owners of the acquiree.



### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

There are no similar requirements, which may lead to differences in practice.

## Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and the liabilities assumed are recognised separately from goodwill at the date of acquisition if they meet the definition of assets and liabilities and are exchanged as part of the business combination. They are measured at the date of acquisition at their fair values, with limited exceptions.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The notion of "goodwill" is not exactly the same in French accounting rules and IFRS. [CRC 99-02 §21]
- No deferred tax is recognised in relation to intangible assets that are not amortised and that cannot be disposed of separately from the acquired entity (see 3.13). [CRC 99-02 §313]
- Identifiable assets and liabilities are recognised at their "acquisition date value". This value can be the market value, the replacement value or the discounted value depending on the nature of the item. This is generally close to fair value. [CRC 99-02 §21121]
- Contingent liabilities are not recognised, even in business combinations (see 3.12). [CRC 99-02 §21122]

## Measurement of non-controlling interests

The acquirer in a business combination can elect, on a transaction-by-transaction basis, to measure "ordinary" non-controlling interests (NCI) at fair value (in which case goodwill is qualified as "full goodwill"), or at their proportionate interest in the net assets of the acquiree (in which case goodwill is qualified as "partial goodwill"), at the date of acquisition.

"Other" NCI are generally measured at fair value.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Minority interests are measured based of their proportionate interest in the acquiree's identifiable net assets at the date of acquisition (which corresponds to the "partial goodwill" approach under IFRS). [CRC 99-02 §21121]

## Goodwill or a gain on bargain purchase

Goodwill is measured as a residual and is recognised as an asset. Goodwill is not amortised but is tested annually for impairment (see 3.3 and 3.10).

When the residual is a deficit (gain on a bargain purchase), it is recognised in profit or loss after reassessing the values used in the acquisition accounting.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Up until the annual periods beginning on or after 1 January 2016, positive goodwill was systematically amortised over a period reflecting the assumptions made and the objectives set at the time of the acquisition.
- Positive goodwill resulting from an acquisition occurring in an annual reporting period beginning on or after 1 January 2016 follows the below rules:
  - goodwill has an unlimited useful life: goodwill is not amortised but is tested for impairment at least annually;
  - goodwill has a limited useful life: goodwill is amortised on a straight-line basis over this period;
  - goodwill has a limited useful life and this useful life cannot reliably be estimated (exceptional case): an amortisation period of 10 years can be used. [CRC 99-02 §21130 and Code de Commerce R233-5]
- Positive goodwill resulting from an acquisition occurring in an annual reporting period beginning before 1 January 2016 follows the below rules:
  - the analysis could be revisited for each existing goodwill at the beginning of the first annual reporting period beginning on or after 1 January 2016, and the amortisation plan could be either modified or terminated (and replaced by impairment testing) prospectively, or
  - the previous amortisation plan could be continued. [CRC-99 02 §32011]



- When goodwill is negative, it is recognised as a liability, generally as part of provisions, and reversed in profit or loss over a period that reflects the assumptions made and the objectives set at the time of acquisition. It can be reversed immediately in profit or loss if the acquisition is a bargain purchase. Intangible assets for which there is no active market cannot be recognised if doing so implies to recognise or increase negative goodwill. *[CRC-99 02 §21131]*

## Step acquisitions

A previously held interest in the acquired entity is remeasured at fair value at the acquisition date through profit or loss.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The share previously held in identifiable net assets of the acquired entity is remeasured at the acquisition date through equity. *[CRC 99-02 §221 and 222]*

## Subsequent measurement and accounting

Adjustments to the acquisition accounting during the “measurement period” reflect additional information about facts and circumstances that existed at the date of acquisition. The measurement period terminates 12 months after the business combination at the latest.

These adjustments to the provisional amounts are recognised as if the recognition for the business combination had been completed at the acquisition date, which may result in changes to the comparative financial statements.

In general, items recognised in the acquisition accounting are measured and recognised in accordance with the relevant standards subsequent to the business combination.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The allocation period extends to the end of the financial year following that in which the acquisition took place. *[CRC 99-02 §2110]*
- Adjustments to provisional amounts are recognised in the accounting period in which they are identified, without any change in the comparative financial statements.



# 2.7 Foreign currency translation

Currently effective: IAS 21, IAS 29, IFRIC 22

## Determining the functional currency

An entity measures its assets, liabilities, income and expenses in its functional currency, which is the currency of the primary economic environment in which it operates.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

The criteria to determine the functional currency are less precise and closely related to whether or not the entity has economic and financial autonomy. [CRC 99-02 §320]

## Translation of foreign currency transactions

Transactions that are not denominated in an entity's functional currency are foreign currency transactions. They are translated at the spot rate at the date of the transaction; exchange differences arising on translation are generally recognised in profit or loss.

When advance consideration in foreign currency is received or paid, there is a date of transaction for each receipt or payment of advance consideration.

Presentation of exchange gains and losses in the profit or loss statement is not specified.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Unrealised foreign currency differences related to foreign transactions are not systematically recorded in profit or loss.

- In separate financial statements, unrealised foreign currency differences are recognised in specific captions of the balance sheet "Translation differences – Assets (Liabilities)". Generally, only unrealised foreign currency losses are recognised in profit or loss, through a provision.
- In consolidated financial statements, the preferential method is to recognise all unrealised foreign currency differences in profit or loss. However, it is also possible to maintain the method used in separate financial statements. [PCG art. 420-8, Avis CNC n° 2004-15 June 2004]
- There are no specific provisions for the translation of advance payments in foreign currency.
- Foreign currency differences related to customer receivables and supplier payables are mandatorily presented as part of operating result (and not as part of financing result). [PCG 946.65 and 947-75]

## Translation of the financial statements of foreign operations (from functional to presentation currency)

The financial statements of foreign operations are translated as follows:

- assets and liabilities are translated at the closing rate;
- income and expenses are translated at actual rates or appropriate averages; and
- equity components are translated at the exchange rates at the date of the relevant transactions.

Goodwill and fair value adjustments recognised in a business combination that relates to a foreign operation are considered assets of the foreign operation and are therefore expressed in its functional currency.

Exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income (OCI) and accumulated in a separate component of equity. The amount attributable to any non-controlling interests (NCI) is allocated to, and recognised as part of, NCI.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In consolidated financial statements, exchange differences arising on the translation of the financial statements of a foreign operation are recognised directly in equity. [CRC 99-02§ 32011]



- The treatment of goodwill and fair value adjustments related to foreign companies is not specified. In practice, there are three possible approaches:
  - goodwill and fair value adjustments are considered assets of the acquired foreign operation,
  - goodwill and fair value adjustments are considered assets of the acquiring entity, or
  - goodwill is considered an asset of the acquiring entity and fair value adjustments are considered assets of the acquired foreign operation.

### Foreign operations with the functional currency of a hyperinflationary economy

If the functional currency of a foreign operation is the currency of a hyperinflationary economy, then its financial statements are first adjusted to reflect the purchasing power at the current reporting date (see 2.10) and then translated into a presentation currency using the exchange rate at the current reporting date.

If the presentation currency is not the currency of a hyperinflationary economy, then comparative amounts are not restated.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In a hyperinflationary economy, the local currency cannot be the functional currency. The translation should be made using either of the following approaches:
  - translation from hyperinflationary currency to functional currency (which is generally the currency commonly used by the entity) using the "historical rate method" and then translation into the presentation currency following the usual rules.
  - adjustment for the effects of inflation and then translation from hyperinflationary currency to presentation currency following the usual rules. *[CRC 99-02 § 3211]*

### Sale or liquidation of a foreign operation

If an entity disposes of its entire interest in a foreign operation, or loses control over a foreign subsidiary or retains neither joint control nor significant influence over an associate or joint arrangement as a result of a partial disposal, then the cumulative exchange differences recognised in OCI are reclassified to profit or loss.

A partial disposal of a foreign subsidiary without the loss of control leads to a proportionate reclassification of the cumulative exchange differences in OCI to NCI.

A partial disposal of a joint arrangement or an associate with retention of either joint control or significant influence results in a proportionate reclassification of the cumulative exchange differences recognised in OCI to profit or loss.

#### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

In the event of a partial sale of a foreign operation, with or without loss of control, a portion of the foreign currency translation differences is reclassified to the profit or loss statement. *[CRC 99-02 §32011]*



# 2.8 Accounting policies, errors and estimates

**Currently effective: IAS 1, IAS 8**  
**Forthcoming: amendments to IAS 1 and IAS 8**

## Selection of accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.

If IFRS does not cover a particular issue, then management uses its judgement based on a hierarchy of accounting literature.

Unless otherwise specifically permitted by a standard, the accounting policies adopted by an entity are applied consistently to all similar items.

## Changes in accounting policy and correction of prior-period errors

An accounting policy is changed in response to a new or revised standard, or on a voluntary basis if the new policy provides reliable and more relevant information.

Generally, accounting policy changes and corrections of prior-period errors are made by adjusting opening equity and restating comparatives unless this is impracticable. Moreover, a statement of financial situation at the beginning of the earliest period presented ("third balance sheet") is disclosed if it is impacted (see 2.1).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- A change in accounting policy is possible only in the following cases:
  - there is a mandatory change in accounting rules, or
  - there is an option between several options and the change makes it possible to provide better financial information. Adopting a "reference method" is considered to be one means of providing better financial information, and such adoption cannot subsequently be reversed. [PCG art. 122-1 and 122-2]

- In the event of prior period error, the impact is recognised in profit or loss for the period, unless the error relates to a transaction recorded directly in equity. The impact of significant prior period corrections is presented in a separate line in the profit or loss statement, below operating result (or in a separate line of retained earnings). Prior periods are not restated. [PCG art. 122-6]
- In the event of a change in accounting policy:
  - the impact is calculated retrospectively, net of tax, and is recorded in equity at the beginning of the current period (and not at the beginning of the earliest period presented). Prior periods are not restated. [PCG art. 122-3]
  - however, in separate financial statements, it is possible to recognise the impact in a separate line in the profit or loss statement below operating result, if this is justified for tax reasons. [PCG art. 122-3]
- A "third balance sheet" is never required. Restated information can be disclosed in the notes to financial statements.

## Changes in accounting estimates

Changes in accounting estimates are recognised prospectively.

If it is difficult to determine whether a change is a change in accounting policy or a change in estimate, then it is treated as a change in estimate.

## Change in classification or presentation

If the classification or presentation of items in the financial statements is changed, then comparatives are restated unless this is impracticable. Moreover, a statement of financial situation at the beginning of the earliest period presented ("third balance sheet") is disclosed if it is impacted (see 2.1).

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

- Prior periods are not restated. [Code de Commerce L123-17, PCG art. 121-5, 122-1, 122-2, 122-5]
- A "third balance sheet" is never required. Restated information can be provided in the notes to financial statements.



## Key judgements and estimation uncertainties

Disclosure is required for judgements that have a significant impact on the financial statements and for key sources of estimation uncertainty.

# 2.9 Events after the reporting date

Currently effective: IAS 1, IAS 10

### Adjusting events

The financial statements are adjusted to reflect events that occur after the reporting date, but before the financial statements are authorised for issue by management, if those events provide evidence of conditions that existed at the reporting date.

### Non-adjusting events

Financial statements are not adjusted for events that are a result of conditions that arose after the reporting date, except when the going concern assumption is no longer appropriate.

### Identifying the key events

It is necessary to determine the underlying causes of an event and its timing to determine whether the event is adjusting or non-adjusting.

### Current vs non-current classification

The classification of liabilities as current or non-current is based on circumstances at the reporting date.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no obligation to classify items as current or non-current in the balance sheet.





## Earnings per share

Earnings per share is restated to include the effect on the number of shares of certain share transactions that happen after the reporting date.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

There is no obligation to restate earnings per share to include the effect of transactions occurring after the reporting date.

## Going concern

If management determines that the entity is not a going concern after the reporting date but before the financial statements are authorised for issue, then the financial statements are not prepared on a going concern basis.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The financial statements are not adjusted to take into account an event occurring after the reporting date that would indicate that the going concern principle is no longer appropriate, unless the event has a direct relationship with a situation existing at the reporting date. Information is provided in the notes to financial statements. *[PCG art. 831-2 and 831-4]*

# 2.10 Hyperinflation

Currently effective: IAS 21, IAS 29, IFRIC 7

## General requirements

If an entity's functional currency is hyperinflationary, then its financial statements are restated to express all items in the measuring unit current at the reporting date.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

French accounting rules only deal with groups having interests in an entity operating in an hyperinflationary economy (the translation methods to be applied in this case are described in 2.7), whereas IAS 29 also applies when the reporting entity itself has a functional currency which is that of a hyperinflationary economy. *[CRC 99-02 §3211]*

## Indicators of hyperinflation

Hyperinflation is indicated by the characteristics of the country's economy, and it is a matter of judgement when restatement for hyperinflation becomes necessary.

## Restating the financial statements in hyperinflation

- Step 1:** Restate the statement of financial position at the beginning of the reporting period by applying the change in the price index during the current period to all items.
- Step 2:** Restate the statement of financial position at the end of the reporting period by adjusting non-monetary items to current purchasing power terms.
- Step 3:** Restate the statement of profit or loss and other comprehensive income.
- Step 4:** Calculate the gain or loss on the net monetary position.



**MAIN DIFFERENCE  
WITH FRENCH ACCOUNTING RULES**

There are two possible methods for translating the financial statements of entities operating in hyperinflationary economies (see 2.7).

**Ceasing hyperinflationary accounting**

If an entity's functional currency ceases to be hyperinflationary, then the amounts reported in the latest financial statements restated for hyperinflation are used as the basis for the carrying amounts in subsequent financial statements.



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# STATEMENT OF FINANCIAL POSITION

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# 3.1 General

Currently effective: IAS 1

## Format of statement of financial position

Although IFRS requires certain items to be presented in the statement of financial position, there is no prescribed format.

Generally, an entity presents its statement of financial position classified between current and non-current assets and liabilities. An entity may present assets and liabilities in order of liquidity if this presentation provides reliable and more relevant information.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, the General Chart of Accounts (PCG) is generally used to classify assets and liabilities.
- In consolidated financial statements, only an indicative model (similar to that of the PCG) with minimum headings is provided. [PCG, CRC 99-02 §40]
- There is no distinction between current and non-current on the balance sheet.

## Current vs non-current

An asset is classified as current if it is expected to be realised in the normal operating cycle or within 12 months, it is held for trading or it is cash or cash equivalent.

A liability is classified as a current if it is expected to be settled in the normal operating cycle, it is due within 12 months or there are no unconditional right to defer its settlement for at least 12 months.

A liability that is payable on demand because certain conditions are breached is classified as current even if the lender has agreed, after the reporting date but before the financial statements are authorised for issue, not to demand repayment.

Assets and liabilities that are part of working capital are classified as current even if they are due to be settled more than 12 months after the reporting date.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no distinction between current and non-current on the balance sheet. The distinction between short-term and long-term liabilities is generally disclosed in the notes to financial statements through a maturity analysis of payables. [PCG]

## Offsetting

A financial asset and a financial liability are offset if the criteria are met. Similarly, income tax balances are offset under certain circumstances. Other non-financial assets and non-financial liabilities cannot be offset.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Offsetting of financial assets and liabilities is possible only in case specific provisions apply. Those may differ from IFRS. [Code de Commerce L123-19 and PCG art. 112-2]



# 3.2 Property, plant and equipment

**Currently effective: IAS 16**  
**Related standards: IFRS 13, IFRS 15, IFRS 16, IFRIC 1**

## Initial recognition

Property, plant and equipment is initially recognised at cost (which includes acquisition costs such as purchase taxes and professional fees) when control is obtained.

Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.

The cost includes the estimated cost of dismantling and removing the asset and restoring the site.

The cost includes borrowing costs, if any (see 4.6).

If payment is deferred beyond normal credit terms, the cost of the asset is the cash price equivalent.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The notion of control is also used in French accounting rules but there are exceptions to this general principle.
- In separate financial statements, the acquisition costs may either be included in the cost of property, plant and equipment, which is the reference method, or expensed as incurred. [PCG art. 213-8]
- The cost of the asset is not affected if payment is deferred (consistent with the principle that transactions should be recorded at their face value - see 1.2).
- It is possible to include borrowing costs in the cost of property, plant and equipment or not (no reference method). [Code de Commerce R123-178/2 and PCG art. 213-9/1]

## Subsequent measurement

Subsequent expenditure is capitalised if it is probable that it will give rise to future economic benefits.

Changes to an existing decommissioning or restoration obligation are generally added to or deducted from the cost of the related asset.

## Depreciation

Property, plant and equipment is depreciated over its expected useful life.

Estimates of useful life and residual value, and the method of depreciation, are reviewed as a minimum at each reporting date. Any changes are recognised prospectively as a change in estimate.

No specific depreciation method is required, and the method that best reflects the consumption of economic benefits should be elected. Possible methods include the straight-line method, the diminishing-balance (or reducing-balance) method, the sum-of-the-units (or units-of-production) method, the annuity method and renewals accounting. The use of the revenue-based depreciation method is prohibited.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, special depreciation allowances ("amortissements dérogatoires") may be recorded for the difference between the useful life of an asset and the depreciation period acceptable for tax purposes. [PCG art. 214-8]
- The revenue-based depreciation method is not explicitly prohibited. However, no differences are expected in practice because this method does not reflect the consumption of economic benefits generated by the asset.

## Component accounting

When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.

Major inspections for faults that occur on a regular basis are identified separately and recognised as components.



### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Expenses for major maintenance and inspections can be recorded either as components or as provisions for major maintenance and inspections (see also 3.12). [PCG art. 214-10]

## Revaluations

Property, plant and equipment may be revalued to fair value if fair value can be measured reliably. All items in the same class are revalued at the same time, and the revaluations are kept up to date.

When the revaluation model is chosen, changes in fair value are generally recognised in other comprehensive income.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is no possibility to revalue an asset class in isolation: all tangible and financial assets are revalued at the same time. A revaluation may be carried out occasionally either voluntarily or as required by law.
- The revaluation gain is recognised in equity. [Code de Commerce L123-18 and PCG art. 214-27]

## Retirements and disposals

The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

The date of disposal is the date on which the recipient obtains control of the asset (see 4.2), unless the disposal is by sale-and-leaseback (see 5.1).

Compensation for the loss or impairment of property, plant and equipment is recognised in profit or loss when it is receivable.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The date of disposal is generally the date of transfer of ownership.

# 3.3 Intangible assets and goodwill

Currently effective: IAS 38

Related standards: IFRS 13, IFRS 13, IFRS 16, IFRIC 12, SIC-32

## Definitions

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is identifiable if it is separable or arises from contractual or legal rights.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Goodwill arising from a merger is an intangible asset in separate financial statements. [PCG art. 942-20]

## Initial recognition and measurement

In general, intangible assets are initially measured at cost.

The initial measurement of an intangible asset depends on whether it has been acquired separately, has been acquired as part of a business combination or was internally generated.

Goodwill is recognised only in a business combination and is measured as a residual.

Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally-developed intangible assets.

Internal research expenditure is expensed as it is incurred.

Expenditure relating to internally-generated goodwill, customer lists, start-up costs, training costs, advertising and promotional activities, and relocation or a reorganisation is expensed as it is incurred. Start-up costs are also generally expensed.

Expenditure in respect of advertising and promotional activities (e.g. expenditures for advertising campaigns, samples, catalogues) is expensed when the benefit of those goods or services is available to the entity. When the goods or services are received (even if they are not used yet by the entity), it is not possible to recognise either an intangible asset or a prepaid expense.



## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, the acquisition costs may either be included in the cost of property, plant and equipment, which is the reference method, or expensed as incurred. [PCG art. 213-8]
- Internal development expenditure can either be capitalised if specific criteria are met (which is the reference method) or expensed as incurred. [Code de Commerce R123-186 and PCG art. 212-3/1]
- Start-up and similar costs may be either expensed, which is the reference method, or capitalised. Costs related to capital increases, mergers and demergers may be either capitalised, allocated to share premiums or expensed in profit or loss. [Code de Commerce R123-186 and PCG art. 212-9]
- In respect of advertising and promotional activities, the received goods and services which will be used in a subsequent financial year can be recognised as prepaid expenses (e.g. expenditures for advertising campaigns, samples, catalogues). [Bull. CNCC n°140 - 2005]

## Indefinite useful lives

Acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- See 2.6 for goodwill.
- There is no systematic annual impairment test for intangible assets with indefinite useful lives or which are not yet available for use. These assets are tested when there is an indication of impairment. [PCG art. 214-15]

## Finite useful lives

Intangible assets with finite useful lives are amortised over their expected useful lives.

No specific amortisation method is required. Possible methods include the straight-line method, the diminishing (or reducing-balance) method and the units-of-production method, and the method that best reflects the pattern of consumption of economic benefits should be elected. The use of the revenue-based amortisation method is restricted, and can be elected only if revenue is “highly correlated” with the consumption of economic benefits or if the intangible asset is defined directly with regard to a level of revenue.

## MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

Revenue-based amortisation methods are not prohibited. However, in practice, they are acceptable only in a limited number of cases.

## Subsequent expenditure

Subsequent expenditure on an intangible asset is capitalised only if the definition of an intangible asset and the recognition criteria are met.

## Revaluations

Intangible assets cannot be revalued to fair value unless there is an active market.

## MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

Intangible assets cannot be revalued. [Code de Commerce L123-18 and PCG art. 214-27]

## Retirements and disposals

The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

The date of disposal is the date on which the recipient obtains control of the asset (see 4.2).



# 3.4 Investment properties

**Currently effective: IAS 40**  
**Related standards: IFRS 13, IFRS 16, IAS 16**

## Scope

Investment property is property (land or building) owned or leased to earn rentals or for capital appreciation, or both.

IAS 40 applies to a right of use asset (see 5.1) if the underlying asset meets the definition of investment property.

A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out under a finance lease. Otherwise, the entire property is classified as property, plant and equipment, unless the portion of the property used for own use is insignificant.

If a lessor provides ancillary services and those services are a relatively insignificant component of the arrangement as a whole, then the property is classified as investment property.

## Recognition and measurement

Investment property is initially recognised at cost.

After initial recognition, all investment property is measured under either:

- the fair value model, subject to limited exceptions, or
- the cost model.

When the fair value model is chosen, changes in fair value are recognised in profit and loss.

Subsequent expenditure is capitalised only if it is probable that it will give rise to future economic benefits.

## Reclassification

Transfers to or from investment property are made only if there has been a change in the use of the property.

The intention to sell an investment property without redevelopment does not justify reclassification from investment property into inventory; the property continues to be classified as investment property until disposal unless it is classified as held-for-sale.

## Disclosures

Disclosure of the fair value of all investment property is required, regardless of the measurement model used.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The concept of investment property does not exist. Real estate assets are classified either as tangible assets if they are held for rental or as inventory if they are held for sale (e.g. for developers or property dealers). They are not recognised at fair value. The usual provisions relating to property, plant and equipment or inventories, as the case may be, apply.





# 3.5 Associates and the equity method

Currently effective: IAS 28, amendments to IAS 28

## Assessing whether an investee is an associate

The definition of an associate is based on significant influence, which is the power to participate in the financial and operating policy decisions of an entity.

There is a rebuttable presumption of significant influence if an entity holds 20 percent or more of the voting rights of another entity.

Potential voting rights that are currently exercisable are considered in assessing significant influence.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Only effective voting rights are taken into account to assess significant influence (potential voting rights are generally ignored). [CRC 99-02 §10051]

## Exceptions from applying the equity method

Generally, associates and joint ventures are recognised under the equity method in the consolidated financial statements.

Venture capital organisations, mutual funds, unit trusts and similar entities may elect to account for investments in associates and joint ventures at fair value through profit or loss on an investment-by-investment basis.

Equity accounting is not applied to an investee that is acquired with a view to its subsequent disposal if the criteria are met for classification as held-for-sale (see 5.4).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Only entities under significant influence of the investor are equity-accounted. Jointly controlled entities are consolidated by proportionate consolidation. [CRC 99-02 §110]
- Equity accounting is not applied if and only if the investee was acquired solely for the purpose of being sold. [CRC 99-02 §101]

## Applying the equity method

In applying the equity method, an investee's accounting policies should be consistent with those of the investor.

The investment in an equity accounted investee is initially recognised at cost. The cost, which includes acquisition costs, is allocated to the investor's share in fair value of acquired assets and liabilities and goodwill is calculated as a residual. Any excess is included in profit or loss in the period in which the investment is acquired.

The investment is subsequently adjusted for the investor's share of comprehensive income of the investee, which includes potential depreciation, amortisation and impairment related to fair value adjustments of investee's assets and liabilities at the acquisition date, and for dividends received from the investee.

If an equity-accounted investee incurs losses, then the carrying amount of the investor's interest is reduced to as low as zero. Further losses are recognised as a liability by the investor only to the extent that the investor has an obligation to fund losses or has made payments on behalf of the investee. The equity interest in an equity-accounted investee includes, for this purpose, the carrying amount of the investment under the equity method and other long-term interests that in substance form part of the entity's net investment in the associate or joint venture.

Unrealised profits and losses on transactions with associates are eliminated to the extent of the investor's interest in the investee.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Differences may arise in relation to specific transactions recognised by the equity-accounted investee (e.g. some equity transactions).



# 3.6 Joint arrangements

Currently effective: IFRS 11

## Identifying joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. There are two types of joint arrangements: a joint operation and a joint venture.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent to the concepts of joint operation vs joint venture. Regulation CRC 99-02 only specifies the accounting treatment of jointly controlled "entities". When jointly controlled operations are not housed in legal structures, they are recognised in accordance with the general rules applicable in separate financial statements. [CRC 99-02 §1003 and 110]

## Classifying joint arrangements

In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities related to the arrangement.

In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement.

A joint arrangement not structured through a separate vehicle is a joint operation.

A joint arrangement structured through a separate vehicle may be either a joint operation or a joint venture. Classification depends on the legal form of the vehicle, contractual arrangements and an assessment of "other facts and circumstances".

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent to the concepts of joint operation vs joint venture.

- Goodwill arising on the acquisition of an interest in an equity-accounted investee is presented separately from the investment, in the same caption as goodwill relating to fully consolidated subsidiaries. If it is negative, it is reversed in profit or loss over a period of time that reflects the assumptions used and the objectives set at the time of the acquisition. [CRC 99-02 §291 and 2113]
- If the equity-accounted investee incurs losses, after the investor's interest is reduced to zero, a provision is recognised if the investor has an obligation or has the intention to support the investee. For this purpose, the inclusion of other long term interests in the investor's interest may differ from IFRS because French accounting rules are less detailed in this area. [CRC 99-02 §292]

## Changes in the status of equity-accounted investees

On the loss of significant influence or joint control, the fair value of any retained investment is taken into account in calculating the gain or loss on the transaction that is recognised in profit or loss. Amounts recognised in other comprehensive income are reclassified to profit or loss or transferred within equity as required by other standards.

When an investor acquires an additional interest in an associate or joint venture while continuing to apply equity accounting, IFRS is silent on how to account for the additional interest. In our view, goodwill is calculated on the incremental interest acquired as a residual after valuing the incremental share of identifiable net assets at fair value, and the previously held interest is not remeasured.

See 2.6 when there is an acquisition of an entity which is previously equity-accounted (step acquisition).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- When an investor acquires an additional interest in an associate or joint venture while continuing to apply equity accounting, the previously held interest is remeasured. [CRC 99-02 §294]
- On the loss of significant influence, the retained interest is not remeasured. [CRC 99-02 §23112]



## Accounting for joint arrangements

A joint venturer accounts for its interest in a joint venture in the same way as an investment in an associate – i.e. generally under the equity method (see 3.5).

A joint operator recognises its assets, liabilities and transactions – including its share in those arising jointly – in both its consolidated and separate financial statements. These assets, liabilities and transactions are recognised in accordance with the relevant standards.

A party to a joint venture that does not have joint control accounts for its interest as a financial instrument, or under the equity method if significant influence exists (see 3.5).

A party to a joint operation that does not have joint control recognises its assets, liabilities and transactions – including its share in those arising jointly – if it has rights to the assets and obligations for the liabilities of the joint operation.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Jointly controlled entities are consolidated by proportionate consolidation. *[CRC 99-02 §110]*
- Jointly controlled operations not housed in legal structures are recognised in accordance with the general rules applicable in separate financial statements. This may differ from IFRS.

# 3.8 Inventories

Currently effective: IAS 2

## Definition

Inventories are assets:

- held for sale in the ordinary course of business (finished goods);
- in the process of production for sale (work in progress); or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services (raw materials and consumables).

## Measurement

Generally, inventories are measured at the lower of cost and net realisable value. Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads. Cost includes also borrowing costs if applicable (see 4.6). The cost of inventory is generally determined under the first-in, first-out (FIFO) or weighted-average method. The use of the last-in, first-out (LIFO) method is prohibited.

Inventory costing methods – e.g. the standard cost or retail methods – may be used when the results approximate the actual cost.

If the net realisable value of an item that has been written down subsequently increases, then the write-down is reversed.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- It is possible to include borrowing costs in the cost of inventory or not (no reference method). *[Code de Commerce R123-178-2 and PCG art. 213-9/1]*
- In practice, other differences may arise in the valuation of inventories, as French accounting rules are less detailed, for example regarding trade discounts or transportation costs. *[PCG art. 213-31]*



## Recognition as an expense

The cost of inventory is recognised as an expense when the inventory is sold.

# 3.9 Biological assets

**Currently effective: IAS 41**  
**Related standard: IFRS 13**

## Scope

Living animals or plants, except for bearer plants, are in the scope of the standard if they are subject to a process of management of biological transformation.

## Measurement

Biological assets in the scope of the standard are measured at fair value less costs to sell unless it is not possible to measure fair value reliably, in which case they are measured at cost.

Gains and losses from changes in fair value less costs to sell are recognised in profit or loss.

## Agricultural produce

Agricultural produce harvested from a biological asset is measured at fair value less costs to sell at the point of harvest. After harvest, the inventories standard generally applies (see 3.8).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Living animals or plants are generally classified either as tangible assets or as inventories depending on their intended use. *[PCG agricole and Avis CNC n°2002-15 on the accounting rules applicable to forestry investment companies]*



# 3.10 Impairment of non-financial assets

**Currently effective: IAS 36**  
**Related standards: IFRS 13, IFRIC 10**

## Scope

The impairment standard covers a variety of non-financial assets, including:

- property, plant and equipment ;
- intangible assets and goodwill ; and
- investments in subsidiaries, associates and joint ventures.

## Identifying the level at which assets are tested for impairment

Whenever possible, an impairment test is performed for an individual asset. Otherwise, assets are tested for impairment in cash-generating units (CGUs). Goodwill is always tested for impairment at the level of a CGU or a group of CGUs.

A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof.

Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. The allocation is based on the level at which goodwill is monitored internally, restricted by the size of the entity's operating segments before aggregation (see 5.2).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent to the notion of CGU in French accounting rules. However, this IFRS notion is often used in practice to define the level at which impairment tests are performed.

## Determining when to test for impairment

Impairment testing is required when there is an indication of impairment.

Annual impairment testing is required for goodwill and intangible assets that either are not yet available for use or have an indefinite useful life. This impairment test may be performed at any time during the year, provided that it is performed at the same time each year.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- See 2.6 for impairment of goodwill.
- There is no annual impairment test for intangible assets with indefinite useful lives or that are not yet available for use. These assets are tested when there is an indication of impairment. [PCG art. 214-15]

## Measuring an impairment loss

An impairment loss is recognised if an asset's or CGU's carrying amount exceeds the greater of its fair value less costs to sell and value in use.

Estimates of future cash flows used in the value in use calculation are specific to the entity, and need not be the same as those of market participants. The discount rate used in the value in use calculation reflects the market's assessment of the risks specific to the asset or CGU, as well as the time value of money.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- French accounting rules are less detailed.
- An impairment loss is recognised when the present value of an asset is less than its carrying amount. The present value is defined as the higher of the "market value" and the "value in use", both of which slightly differ from the IFRS notions. French accounting rules do not include detailed provisions regarding the determination of the "market value". The "value in use" corresponds to the estimated future economic benefits expected from the use of the asset and from its disposal, without further clarification. [PCG art. 214-6]



## Recognising an impairment loss

An impairment loss for a CGU is allocated first to any goodwill and then pro rata to other assets in the CGU that are in the scope of the standard.

An impairment loss is generally recognised in profit or loss.

## Reversal of impairment

Any impairment loss, other than the impairment of goodwill, may be reversed if certain conditions are met.

An impairment loss on an investment accounted for under the equity method may be reversed, even if the investment includes goodwill.

A reversal of an impairment loss is generally recognised in profit or loss.

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

An impairment loss on an investment accounted for under the equity method is generally allocated to goodwill and cannot therefore be reversed at a later date. [CRC 99-02 §21130]

# 3.12 Provisions, contingent assets and liabilities

**Currently effective: IAS 37,  
Related standards: IFRIC 1, IFRIC 5, IFRIC 6, IFRIC 21**

## Definitions

A provision is a liability of uncertain timing or amount that arises from a past event that is expected to result in an outflow of the entity's resources.

A contingent liability is a present obligation with uncertainties about either the probability of outflows of resources or the amount of the outflows, or a possible obligation whose existence is uncertain.

A contingent asset is a possible asset whose existence is uncertain.

## Recognition

A provision is recognised for a legal or constructive obligation if there is a probable outflow of resources and the amount can be estimated reliably. 'Probable' in this context means more likely than not.

A constructive obligation arises when an entity's actions create valid expectations of third parties that it will accept and discharge certain responsibilities.

A provision is not recognised for future operating losses.

A provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan (see 4.4).

Provisions are not recognised for repairs or maintenance of own assets or for self-insurance before an obligation is incurred.

A provision is recognised for a contract that is onerous.

A liability to pay a levy in the scope of IAS 37 is recognised when the activity that triggers the payment of the levy, as identified by the legislation, occurs.

Contingent liabilities are recognised only if they are present obligations assumed in a business combination – i.e. there is uncertainty about the outflows but not about the existence of an obligation. Otherwise, contingent liabilities are disclosed in the notes to the financial statements unless the likelihood of an outflow of resources is remote.



Contingent assets are not recognised in the statement of financial position. If an inflow of economic benefits is probable, then details are disclosed in the notes to the financial statements.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In practice, the recognition of levies (e.g. C3S, property tax, etc.) varies. The expense for the levy is generally recognised progressively over the year in which the tax is due or over the year in which the tax basis is used.
- Major maintenance and inspection expenses can be accounted for either as components or as provisions for major maintenance and inspection (see also 3.2). [PCG art. 214-9 and 10]
- Contingent liabilities are not recognised, even in a business combination. [CRC 99-02 §21122]
- In case of a restructuring plan, a provision for employment termination is recognised when the entity is clearly committed to terminating employment contracts, i.e. when there is a formal restructuring plan communicated to those affected by the plan. In most cases, the triggering event to recognise the provision is the same in French accounting rules and IFRS but there could be differences in specific cases (see 4.4). [PCG art. 322-10]

#### Measurement

A provision is measured at the “best estimate” of the expenditure to be incurred. Provisions are discounted if the effect of discounting is material.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Provisions may be discounted if the effect of discounting is material, but this is not mandatory. [CNCC Bulletin n°125, March 2002]

#### Reimbursements

A reimbursement right is recognised as a separate asset when recovery is virtually certain, capped at the amount of the related provision.

## 3.13 Income taxes

Currently effective: IAS 12  
Related standards: IFRIC 23, SIC-25

#### Scope

Income taxes are taxes based on taxable profits, and taxes that are payable by a subsidiary, associate or joint arrangement on distribution to investors.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The scope can differ. This is in particular the case for the following:

- French Value-Added Contribution (“Contribution sur la Valeur Ajoutée des Entreprises” – CVAE) considered as an operating expense and not as income tax in separate and consolidated financial statements prepared in accordance with French accounting rules; and
- French research tax credit (“Crédit Impôt Recherche” – CIR) considered as income tax in separate financial statements. Several approaches are acceptable in consolidated financial statements in accordance with French accounting rules.

#### Current tax

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for a period.

#### Deferred tax

Deferred tax is the amount of income taxes payable (recoverable) in future periods as a result of past transactions or events.



Deferred tax is recognised for the estimated future tax effects of temporary differences, unused tax losses carried forward and unused tax credits carried forward.

A deferred tax liability is not recognised if it arises from the initial recognition of goodwill.

A deferred tax asset or liability is not recognised if:

- it arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and
- at the time of the transaction, it affects neither accounting profit nor taxable profit.

Deferred tax is not recognised in respect of temporary differences associated with investments in subsidiaries, associates and joint arrangements if certain conditions are met. Tax effects on taxable temporary differences are not recognised if the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that it will be realised.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- It is possible to recognise deferred taxes in separate financial statements. However, this is rarely the case in practice. [IOEC Recommendation 1.20, February 1987]
- In consolidated financial statements, tax effects related to temporary differences associated with investments in subsidiaries, associates and joint ventures are recognised only when distributions have been decided or are probable. [CRC 99-02 §313-314]
- In consolidated financial statements, no deferred taxes are recognised on fair value adjustments of intangible assets acquired in a business combination that are not amortised and that cannot be sold separately (this is the case for certain brands). [CRC 99-02 §313]
- In consolidated financial statements, no deferred taxes are recognised for temporary differences resulting from hyperinflation adjustments. [CRC 99-02 §313]

### Measurement

Current and deferred taxes are measured based on rates that are enacted or substantively enacted at the reporting date.

Deferred tax is measured based on the expected manner of settlement (liability) or recovery (asset). There is a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered through sale.

Deferred tax is not discounted.

### Classification and presentation

The total income tax expense (income) recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss – i.e. in other comprehensive income or directly in equity – or arising from a business combination.

Income tax related to items recognised outside profit or loss is itself recognised outside profit or loss.

Changes in tax rates or changes in tax rules affect profit or loss unless they relate to deferred tax that was initially recognised in other comprehensive income or directly in equity.

Deferred tax is classified as non-current in a classified statement of financial position, separately from current tax assets and liabilities.

An entity offsets current tax assets and current tax liabilities only when it has a legally enforceable right to set off current tax assets against current tax liabilities, and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

An entity offsets deferred tax assets and deferred tax liabilities only when it has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity, or different taxable entities that intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Changes in tax rates or changes in tax rules affect profit or loss even if they relate to deferred tax that was initially recognised directly in equity. [CRC 99-02 §3151]
- Deferred tax liabilities are presented as “provisions for deferred taxes” in the balance sheet. [IOEC Recommendation No. 1.20, February 1987]
- Deferred tax assets and liabilities are presented separately from current tax assets and liabilities either in the balance sheet (with no distinction between current and non-current items) or in the notes. [CRC 99-02 §3152]





## Tax uncertainties (IFRIC 23)

If there is uncertainty about an income tax treatment, then the entity considers whether it is probable that the tax authority will accept the tax treatment included in its tax filing. The underlying assumption is that the tax authority will examine all amounts reported and will have full knowledge of all relevant information.

If the entity concludes that it is probable that the tax authority will accept its tax treatment, then it measures current and deferred taxes consistently with the tax treatment used or planned to be used in its income tax filing.

If an entity concludes that it is not probable that the tax authority will accept its tax treatment, then it reflects the effect of that tax uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. To do so, an entity uses either the most likely amount or the expected value method - whichever better predicts the resolution of the uncertainty.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The probability that the tax authority will not examine the amounts reported can be taken into account when assessing whether an uncertain tax position must give rise to a liability.
- If the tax uncertainty gives rise to a liability, it is presented as a provision and not as a tax liability. [*PCG art.322-1 to 322.6 and Avis CNC 2000-01 §5.8*]
- If the tax uncertainty gives rise to a right to receive cash (e.g. through a reimbursement), no asset is recognised until it is certain. [*Code de Commerce art. L123-21*]





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# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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# 4.1 Presentation of the statement of profit or loss and other comprehensive income

Currently effective: IAS 1

## Format of statement of profit or loss and other comprehensive income

Profit or loss and other comprehensive income (OCI), collectively referred to as “comprehensive income”, may be presented in either:

- a single statement, with profit or loss and OCI presented in two sections; or
- two statements: a “statement of profit or loss” displaying components of profit or loss, followed immediately by a “statement of comprehensive income” beginning with profit or loss and displaying components of OCI.

Although IFRS requires certain items to be presented in the statement of profit or loss and OCI, there is no prescribed format.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There are no notions of “comprehensive income” or “other comprehensive income”; only a profit or loss statement is presented.

## Expense classification in the profit or loss statement

Expenses may be presented either by nature (personnel costs, depreciation, and impairment) or by function (cost of sales, distribution costs, administrative costs).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

In separate financial statements, the profit or loss statement is mandatorily presented by nature. [PCG chart of accounts]

## Operating income

A separate line item for “operating income” is not required, and the concept is not defined in IFRS. If a separate line item for “operating income” is presented, it must include all activities that the entity may consider to be operating activities.

In France, the ANC recommendation 2013-03 dated November 7<sup>th</sup>, 2013, which relates to the format of IFRS consolidated financial statements, illustrates the presentation of the profit or loss statement with a distinction between “current operating income” and “other operating revenue and expenses”, the latter being used for the presentation of unusual, abnormal and rare events that could distort the entity’s performance.

The presentation or disclosure of items of income and expense characterised as ‘extraordinary items’ is prohibited.

In our view, use of the terms “unusual” or “exceptional” should be infrequent and reserved for items that justify a greater prominence.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- A split is required between result from recurring activities (including operating result and financing result), and exceptional result. [PCG art. 513-2]
- According to the PCG, “exceptional” items are not limited to items that are unusual, abnormal and rare.

## Share of the profit or loss of associates and joint-ventures accounted for using the equity method

The Group’s share in the earnings of equity-accounted interests is disclosed on a separate line.

According to the ANC recommendation 2013-01, the Group’s share in the earnings of equity-accounted interests may be disclosed within the operating income, between two subtotals, if the equity-accounted entity operates as an extension of the group’s activity.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The Group’s share in the profit or loss of equity-accounted investees is disclosed on a separate line below income tax. [CRC 99-02 §41]



## Offsetting

Items of income and expense are not offset unless this is required or permitted by another IFRS, or when the amounts relate to similar transactions or events that are individually not material.

## Alternative earnings measures

The presentation of alternative earnings measures (e.g. EBITDA) in the statement of profit or loss and OCI is not generally prohibited, if certain criteria are met.

National regulators may have more restrictive requirements. In France, the AMF (Autorité des Marchés Financiers) recommends presenting alternative earnings measures that are calculated in accordance with IFRS, but that are not subtotals, in the notes rather than in the profit or loss statement. The AMF recommends presenting alternative earnings measures that are not calculated in accordance with IFRS and are not detailed by operating segment outside of financial statements. *[AMF recommendations for 2017 annual accounts]*

## Other comprehensive income

OCI comprises items of income and expense that are not recognised in profit or loss.

Items of OCI are grouped into items that may be reclassified subsequently to profit or loss and those that will not be.

Reclassification adjustments from OCI to profit or loss are disclosed in the statement of profit or loss and OCI or in the notes.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The notion of "other comprehensive income" does not exist.

# 4.2 Revenue

Currently effective: IFRS 15

## Overall approach

The core principle of the standard is that revenue is recognised in the way that depicts the transfer of the goods or services to the customer at the amount to which the entity expects to be entitled.

An entity implements the core principle by applying a five-step, contract-based model to recognise and measure revenue from contracts with customers.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Revenue is recognised when the transaction is completed (i.e. the entity is entitled to payment and the amount of such payment is certain) and provided that it relates to the current period. *[Code de Commerce L123-21 and PCG art. 512-4]*
- Guidance for revenue recognition is less detailed.

## Step 1: Identify the contract

An entity accounts for a contract in accordance with the model when the contract is legally enforceable and all of the following criteria are met:

- the contract is approved and the parties are committed to their obligations;
- rights to goods or services and payment terms can be identified;
- the contract has commercial substance; and
- collection of the consideration is considered probable.

As a result, revenue cannot be recognised when control of a good or service is transferred without the collectability threshold being met at that date.

Several contracts entered into with the same customer may need to be combined for the application of the standard if certain criteria are met.



## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is no equivalent to the guidance related to identification of a contract with a customer.
- Revenue is recognised when the transaction is completed even if it is not probable at that date that the consideration will be paid. The risk is assessed through depreciation of the receivable. *[Code de commerce L123-21 and PCG art. 512-4]*
- It is generally not possible to combine several contracts for the purpose of revenue recognition.

### Step 2: Identify the performance obligations in the contract

A performance obligation is a promise to deliver a good or service that is distinct, in other words:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other goods or services in the contract.

An option to acquire additional goods or services that provides a customer with a material right, e.g. through a customer loyalty program, is a separate performance obligation.

An entity accounts for a series of distinct goods and services as a single performance obligation if they are substantially the same and have the same pattern of transfer.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There are no specific provisions in the PCG for contracts with multiple components. For such contracts, an acceptable approach is to account separately for services that are independent, and to account together for services that cannot be separated from a technical and financial point of view. In the latter case, if there are ancillary services, the entire transaction price is recognised as revenue when the main transaction is completed and the costs relating to the ancillary services may give rise to a provision. *[Bull. CNCC EC 2018-15]*

- There is no specific guidance regarding options to purchase additional goods or services, with the exception of loyalty programs which generally give rise to a provision, and not to deferred revenue. *[Avis 2004-E CU CNC October 2004]*
- There is no specific guidance regarding series of goods or services.

### Step 3: Determine the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring the goods or services to the customer. For instance, early payment discounts are a reduction of the transaction price.

In determining the transaction price, an entity considers the effects of

- variable consideration (including constraining estimates of variable consideration to the amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur);
- whether there is a significant financing component in the arrangement;
- consideration payable to the customer (if the following conditions are met) and;
- non-cash consideration measured at fair value.

The amounts due to customers are deducted from the revenue, unless they represent the payment of different goods or services, the fair value of which can be assessed reliably, and to the extent that the payment does not exceed the fair value of the goods or services. In some cases, they can be discounted if some conditions are met.

Sales- and usage-based royalties arising from licences of intellectual property are excluded from the transaction price and are generally recognised as the subsequent sale or usage occurs.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Early payment discounts are recorded as finance cost. *[PCG art. 946-66]*
- Variable consideration is recognised as revenue if it can be estimated reliably. *[Bull. CNCC 2013-32]*
- There is no equivalent to the guidance relating to consideration payable to a customer.
- Time value of money is not taken into account (transaction price is recorded at its face value).



## Step 4: Allocate the transaction price to the performance obligations in the contract

The transaction price is generally allocated to the performance obligations in a contract on the basis of relative stand-alone selling prices.

Discounts and variable consideration may be allocated to one or more specific performance obligations in certain circumstances.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The PCG does not prescribe how transaction price should be allocated when there are several components in a contract. In separate financial statements, transaction price is allocated to the components based on the prices that are indicated in the contract for the components. *[Bull. CNCC 2003-21]*

## Step 5: Recognise revenue

### Recognition over time

Except for distinct licences of intellectual property, which are subject to specific guidance in the standard, revenue is recognised over time if one of the following criteria is met.

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The entity's performance 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.

For each performance obligation satisfied on an ongoing basis, an entity elects a single method for measuring progress and applies it consistently. The measure can be either an output method or an input method, whichever best depicts performance. In practice, the method based on milestones may not faithfully depict performance, particularly if the milestones are widely spaced, and it therefore may not be appropriate.

Only revenue is recognised over time. Costs are recognised as expenses when they are incurred. As a result, the margin is the same over the term of the customer contract only in case the "cost to cost" input method is used.

Revenue from intellectual property licences that represent separate performance obligations is recognised over time if the licence represents the right to access the intellectual property, and at one point in time if the licence represents the right to use the intellectual property. Royalties attributable to licences of intellectual property that are based on sales or usage are generally recognised as revenue when sales or usage occur.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Whether revenue should be recognised over time or at one point in time depends on the qualification of the transaction and not on specific criteria.
  - Long term contracts can be recognised over time or at completion. *[PCG art. 121-5]*
  - If the transaction is a continuous service (e.g. maintenance service) or a discontinuous service with successive due dates (e.g. consulting services), it is generally recognised over time.
- For long term contracts, when revenue is recognised over time, the contract margin is also recognised over time. The recognised margin is calculated by applying the percentage of completion to the estimated margin at completion. The method to determine the percentage of completion must provide a reliable measure of work performed. It can be based on costs or physical measures or studies (for example milestones). *[PCG art. 622-2 and 622-3]*
- There is no guidance in the PCG in relation to revenue of licensing agreements.



## Point in time recognition

If a performance obligation is not satisfied over time, then the entity recognises revenue at the point in time at which it transfers control of the goods or services to the customer.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

For legal and tax reasons, revenue is generally recognised at the date of transfer of ownership. This can lead to differences with IFRS in some cases, for example for sales with repurchase options.

## Agent vs principal

When other parties are involved in a transaction with a customer, if the entity controls goods or the right to access services before transferring the goods or services to the customer, the entity is a principal and recognises revenue on a gross basis. Otherwise, the entity is an agent and recognises revenue on a net basis.

This analysis is performed for each performance obligation in the contract.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

In French accounting rules, there is a distinction between transactions performed by the entity on behalf of a third party which are recognised on a net basis, and transactions performed by the entity for its own account, which are recognised on a gross basis. These notions are based on legal and tax reasons and differ from the agent vs principal notions based on the principle of transfer of control. [PCG art. 621-11]

## Costs

The standard includes guidance on accounting for costs to obtain and costs to fulfil a contract that are not in the scope of another standard.

The costs to obtain a contract are capitalised only if they are incremental.

The costs to fulfil a contract that are in the scope of IFRS 15 are capitalised if they generate or enhance resources of the entity that will be used to satisfy the performance obligations in the future.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no guidance related to the cost of obtaining customer contracts, except for long term contracts. For such contracts, contract costs may include expenses incurred before the contract was signed in order to obtain it, if certain criteria are met. [Avis CNC n°99-10, 23 September 1999]

## Presentation

A contract asset is a right to consideration, in exchange for goods or services that the entity has transferred to a customer that is conditional on something other than the passage of time. A receivable is an unconditional right to consideration. Contract assets and receivables must be classified separately either in the statement of financial position or in the notes to financial statements.

A contract liability is an obligation to transfer goods or services for which consideration has been received or is due from the customer.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no notion of contract assets and liabilities. These are broadly similar in practice to the notions of "unbilled revenue" and "advances received" respectively. There is no specific guidance in terms of presentation.

## Disclosures

An entity provides specific quantitative and qualitative disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Disclosure requirements are less detailed.



# 4.3 Government grants

**Currently effective: IAS 20**  
**Related standards: IAS 41, SIC-10**

## Definition

Government grants are transfers of resources to an entity by a government entity in return for compliance with certain conditions.

## Recognition and measurement

Unconditional government grants related to biological assets measured at fair value less costs to sell are recognised in profit or loss when they become receivable; conditional grants for such assets are recognised in profit or loss when the required conditions are met.

Government grants that relate to the acquisition of an asset, other than a biological asset measured at fair value less costs to sell, are recognised in profit or loss as the related asset is depreciated or amortised.

Other government grants are recognised in profit or loss when the entity recognises as expenses the related costs that the grants are intended to compensate.

If a government grant is in the form of a non-monetary asset, then both the asset and the grant are recognised either at the fair value of the non-monetary asset or at a nominal amount.

Low-interest loans from a government may include components that need to be treated as government grants.

## Presentation

Government grants related to assets are presented as deferred income or as a deduction from the carrying amount of the related asset.

Government grants related to income are presented separately in profit or loss, or as a deduction from the related expense.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Grants received are not recognised as a deduction from the carrying amount of the related asset.
  - In separate financial statements, grants are recognised either in exceptional result or in equity. In the latter case, they are reclassified in profit or loss as the related asset is depreciated.
  - In consolidated financial statements, grants are recognised either in equity or in deferred revenue and reclassified in profit or loss as the related asset is depreciated.
- Low interest loans are recognised at their face value, without discounting. Therefore no component is treated separately as a grant. [PCG art. 941-13 and 312-1]





# 4.4 Employee benefits

Currently effective: IAS 19, IFRIC 14

## Overall approach

The standard specifies the accounting for various types of employee benefits including:

- short-term employee benefits, such as salaries, social contributions, paid absences, profit-sharing plans, benefits in kind;
- post-employment benefits, such as pensions and lump sum payments on retirement;
- other long-term employee benefits, such as long term bonus schemes;
- termination benefits.

Post-employment plans are classified as:

- defined contribution plans - plans under which an entity pays a fixed contribution into a fund and will have no further obligation; and
- defined benefit plans - all other plans.

Liabilities and expenses for employee benefits that are provided in exchange for services are generally recognised in the period in which the services are rendered.

The costs of providing employee benefits are recognised in profit or loss or other comprehensive income (OCI), unless other IFRSs permit or require capitalisation.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The reference method is to recognise provisions for all post-employment benefits. It is also possible not to account for post-employment benefits or to account only for a part of them, this latter option being eligible only for entities who used to recognise only a portion of post-employment benefits in the past (before Avis CU CNC 2000-A) and exceptionally in case of mergers. The unrecognised amount must be disclosed in the notes. [Code de Commerce L123-13 and PCG art. 324-1]

## Defined benefit post-employment plans

To account for defined benefit post-employment plans, an entity:

- determines the present value of a defined benefit obligation by applying an actuarial valuation method;
- deducts the fair value of any plan assets;
- adjusts for any effect of the asset ceiling; and
- determines service costs (including past services costs if applicable) and net interest on the net defined benefit liability, which are recognised in profit or loss; and
- determines the remeasurements of the net defined benefit liability (asset) to be recognised in OCI.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

It is recommended to use a retrospective actuarial method such as the projected unit credit method, based on estimated wages at career-end (with an exemption for entities with less than 250 employees). This method is not mandatory. [ANC Recommendation n° 2013-02, November 2013].

If such a method is used:

- two methods are possible for the recognition of actuarial gains or losses:
  - immediate and full recognition in profit and loss in the period in which they are incurred;
  - deferred recognition in profit or loss according to the "corridor method" (or any other method permitting a faster recognition of those actuarial gains or losses in profit or loss). [ANC Recommendation n° 2013-02, November 2013 §6262]
- there are several possible methods of calculating the return on plan assets (using either the expected return rate on plan assets or the discount rate of the defined benefit obligation), and of recognising past service costs (over several periods or immediately in profit and loss) as well as the change in the asset ceiling. Those methods are interrelated. [ANC Recommendation n° 2013-02, November 2013]



## Multi-employer plans

If insufficient information is available for a multi-employer defined benefit plan to be recognised as a defined benefit plan, then it is treated as a defined contribution plan and additional disclosures are required.

If an entity applies defined contribution plan accounting to a multi-employer defined benefit plan and there is an agreement that determines how a surplus in the plan would be distributed or a deficit in the plan funded, then an asset or a liability that arises from the contractual agreement is recognised.

## Other employee benefits

Short-term employee benefits - i.e. those that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service - are expensed as they are incurred, except for termination benefits.

The expense for long-term employee benefits, calculated on a discounted basis, and including remeasurements, is usually accrued over the service period.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- These benefits are recognised in accordance with general accounting rules for liabilities.
- In practice, long-term provisions (e.g. long-service awards) are generally discounted but it is not mandatory. *[Bulletin CNCC n°125, March 2002]*
- Time saving accounts (CET, Compte Epargne Temps) are accrued. *[PCG]*

## Termination benefits

A termination benefit is recognised at the earlier of:

- the date on which the entity recognises costs for a restructuring in the scope of the provisions standard (see 3.12) that includes the payment of termination benefits; and
- the date on which the entity can no longer withdraw the offer of the termination benefits.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

In the event of a restructuring plan, a provision for employment termination is recognised when the entity is clearly committed to terminating employment contracts, i.e. when there is a formal restructuring plan communicated to those affected by the plan. In most cases, the triggering event to recognise the provision is the same in French accounting rules and IFRS but there could be differences in specific cases. *[PCG art. 322-10]*



# 4.5 Share-based payments

Currently effective: IFRS 2

## Basic principles

Goods or services received in a share-based payment transaction are measured at fair value.

Equity-settled transactions with employees are generally measured based on the grant date fair value of the equity instruments granted.

Equity-settled transactions with non-employees are generally measured based on the fair value of the goods or services obtained.

In our view, an entity should choose an accounting policy to treat the employer's obligation to pay taxes related to share-based payments either as a provision in accordance with IAS 37 or under IFRS 2.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no fair value measurement of share-based payments. However, there is specific guidance for grants of stock options and free shares. [PCG 624-1 to 624-12]

## Equity-settled transactions with employees

For equity-settled transactions, an entity recognises a cost and a corresponding increase in equity. The cost is recognised as an expense over the vesting period unless it qualifies for recognition as an asset.

Initial estimates of the number of equity-settled instruments that are expected to vest are adjusted to current estimates and ultimately to the actual number of equity-settled instruments that vest unless differences are due to market conditions.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is specific guidance for grants of stock options and free shares.
- For grants of stock options and free shares, if the plan is settled through the issuance of new shares, then no expenses is recognised, and if the plan is settled through existing shares, then a provision is recognised over the vesting period for the expected capital loss at the date of the settlement. [PCG art. 624-5 and 6]

## Cash-settled transactions with employees

For cash-settled transactions, an entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset.

At each reporting date and at settlement date, the recognised liability is remeasured at fair value. The remeasurements are recognised in profit or loss.

## Employee transactions with a choice of settlement

Grants in which the counterparty has the choice of equity or cash settlement are recognised as compound instruments. Therefore, the entity accounts for a liability component and a separate equity component.

The classification of grants in which the entity has the choice of equity or cash settlement depends on whether the entity has the ability and intent to settle in shares.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance for grants with a choice of settlement.

## Modifications and cancellations of employee transactions

Modification of a share-based payment results in the recognition of any incremental fair value but not any reduction in fair value. Replacements are recognised as modifications.



Cancellation of a share-based payment results in accelerated recognition of any unrecognised expense.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance for modifications and cancellations of employee transactions.

### Group share-based payment arrangements

A share-based payment transaction in which the receiving entity, the reference entity and the settling entity are in the same group from the perspective of the ultimate parent is a group share-based payment transaction and is recognised as such by both the receiving and the settling entities.

A share-based payment that is settled by a shareholder external to the group is also in the scope of the standard from the perspective of the receiving entity, as long as the reference entity is in the same group as the receiving entity.

A receiving entity that has no obligation to settle the transaction accounts for the share based payment transaction as equity-settled.

A settling entity classifies a share-based payment transaction as equity-settled if it is obliged to settle in its own equity instruments; otherwise, it classifies the transaction as cash-settled.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance, but there is guidance relating to the recharge for both the receiving entity and the settling entity. [PCG art 624.10]

### Share-based payments with non-employees

Goods are recognised when they are obtained and services are recognised over the period in which they are received.

## 4.6 Borrowing costs

Currently effective: IAS 23

### Overall approach

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset generally form part of the cost of that asset.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

It is possible to include borrowing costs in the cost of property, plant and equipment or not (no reference method). [Code de Commerce R123-178/2 and PCG art. 213-9/1]

### Qualifying assets

A "qualifying asset" is one that necessarily takes a substantial period of time to be made ready for its intended use or sale.

### Borrowing costs eligible for capitalisation

Borrowing costs may include interest calculated under the effective interest method, certain finance charges and certain foreign exchange differences.

Borrowing costs are reduced by interest income from the temporary investment of borrowings.

### Period of capitalisation

Capitalisation begins when an entity meets all of the following conditions:

- expenditure for the asset is being incurred;
- borrowing costs are being incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the activities necessary to prepare the asset for its intended use or sale are substantially complete.



# SPECIAL TOPICS



# 5.1 Leases

Currently effective: IFRS 16

## Scope

The new standard applies to leases of property, plant and equipment and other assets, with only limited exclusions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If a service contract includes a lease, then the lease component must be identified.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Contracts are analysed according to their legal form. The identification of a lease component in a service contract is not mandatory.

## Accounting model

There are different accounting models for lessees and lessors:

- lessees apply a single on-balance sheet lease accounting model, unless they use the recognition exemptions for short-term leases and leases of low-value assets.
- lessors apply a dual model and classify leases as either finance or operating leases.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

A lease is classified as either a finance lease or an operating lease, for both lessees and lessors.

## Lessee accounting

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments over the lease term.

A lessee generally measures the right-of-use asset at cost less accumulated depreciation and accumulated impairment losses.

If a lessee elects a recognition exemption for a contract, then it recognises the related lease payments as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, a lessee recognises lease payments as an expense over the lease term for both operating leases and finance leases. When lease payments vary over time, they are recognised as an expense over the lease term either according to the contractual schedule or on a straight-line basis. [PCG art. 212-5, CNCC Bulletin n°162 EC 2010-69 and Avis OEC n°29]
- In consolidated financial statements, the capitalisation of finance lease contracts is the preferential method but it is not mandatory. [CRC 99-02 §300]

## Lessor accounting

Lease classification by lessors - i.e. as a finance or operating lease - is made at inception of the lease and is reassessed only if there is a lease modification. The classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee.

Under a finance lease, a lessor derecognises the leased asset and recognises a finance lease receivable.

Under an operating lease, the lessor treats the lease as an executory contract and recognises the lease payments as income over the lease term. The lessor recognises the leased asset in its statement of financial position.

Special requirements for revenue recognition apply to manufacturer or dealer lessors granting finance leases.



## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, finance leases and operating leases are treated as executory contracts with lease payments recognised as income over the lease term. [PCG art. 212-5]
- In consolidated financial statements, capitalisation of finance leases is the preferential method but it is not mandatory. [CRC 99-02 §300]
- For operating leases, when lease receipts vary over time, they can be recognised as income over the lease term either according to the contractual schedule or on a straight-line basis. [CNCC Bulletin n°162 EC 2010-69 and Avis OEC n°29]
- There is no specific guidance for manufacturer or dealer lessors.

### Sale-and-leaseback transactions

In a sale-and-leaseback transaction, the seller-lessee first determines if the buyer-lessor obtains control of the asset based on the requirements of IFRS 15 (see 4.2).

- If there is a sale according to IFRS 15, the gain or loss is limited to rights effectively transferred and the right of use asset is measured at the proportion of the previous carrying amount of the underlying asset.
- If the transaction does not qualify for sale accounting, then it is accounted for as a financing transaction: the transferred asset continues to be recognised and no gain is recognised.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In consolidated financial statements if the group does not apply the preferential method, and in separate financial statements, when the sale is followed by a finance lease, the capital gain is deferred and recognised in profit or loss over the lease term. [CRC 99-02 §300 and Avis OEC n°29]
- In consolidated financial statements if the group applies the preferential method, when the sale is followed by a finance lease, the capital gain is eliminated and the asset is maintained at its historical value. [CRC 99-02 §300 and Avis OEC n°29]

- When the sale is followed by an operating lease:
  - if the sale transaction is on market terms, the capital gain is recognised immediately in the profit or loss statement,
  - if the sale transaction is concluded at a price which is higher than the asset fair value, the surplus is deferred over the lease term. [Avis OEC n°29]

### Sub-lease transactions

In a sub-lease transaction, the intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. An intermediate lessor classifies a sublease with reference to the right-of-use asset arising from the head lease.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance.



# 5.2 Operating segments

Currently effective: IFRS 8

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Generally, guidance relating to segment disclosures is less precise and detailed.
- Very few segment disclosures are required in separate financial statements. A breakdown of revenue is required if the categories of activities or markets are significantly different). [PCG art. 833-14]
- In consolidated financial statements, less measures need to be presented by segment and the allocation rules are less detailed. [CRC 99-02 §425]

### Scope

An entity presents segment disclosures if its debt or equity instruments are traded in a public market or it files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, information is provided by business line and geographical area if the categories of activities or markets are significantly different, except for entities using the simplified financial statements model. An entity can elect not to present segment information if it could be prejudicial, provided that the entity discloses the fact that segment information is incomplete. [PCG art. 833-14]
- All entities preparing consolidated financial statements present segment disclosures. [PCG art. 833-14 and CRC 99-02 §425]

### Management approach

Segment disclosures are provided about the components of the entity that management monitors in making decisions about operating matters - i.e. they follow a "management approach".

Such components (operating segments) are identified on the basis of internal reports that the entity's chief operating decision maker (CODM) regularly reviews in allocating resources to segments and in assessing their performance.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Guidance is less precise. In consolidated financial statements, segment information should be based on the internal organization of the entity. [CRC 99-02 §425]

### Aggregating operating segments

The aggregation of operating segments is permitted only when the segments have "similar" economic characteristics and meet a number of other specified criteria.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance.

### Determining reportable segments

Reportable segments are identified based on quantitative thresholds of revenue, profit or loss, or assets.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is no equivalent guidance in separate financial statements.
- In consolidated financial statements, there is only one quantitative threshold. Segment disclosures have to be provided for each business line representing at least 10% of revenue, operating result, or non financial assets. [CRC 99-02 §425]





# 5.3 Earnings per share

Currently effective: IAS 33

## Scope

An entity presents basic and diluted earnings per share (EPS) if its ordinary shares or potential ordinary shares are traded in a public market, or it files, or is in the process of filing, its financial statements with a securities commission for the purpose of issuing any class of ordinary shares in a public market.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Fewer segment disclosures are required.
- In separate financial statements, only revenue is allocated by business line and geographic area if the categories of activities or markets are significantly different. [PCG art. 833-14]
- In consolidated financial statements, the following metrics have to be allocated by business line: revenue, operating result, non financial assets. Summarized financial statements are provided for entities that have financial statements structured differently from those of the other entities in the consolidation scope. [CRC 99-02 §425]

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- For consolidated financial statements, all entities disclose their earnings per share (basic and diluted) at the bottom of the profit or loss statement, even if they are not listed. [CRC 99-02 §41]
- There is no guidance regarding the disclosure of earnings per share in separate financial statements.

## Basic EPS

Basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted-average number of ordinary shares outstanding during the period.

## Diluted EPS

To calculate diluted EPS, an entity adjusts profit or loss attributable to ordinary equity holders, and the weighted-average number of shares outstanding for the effects of all dilutive potential ordinary shares.

Potential ordinary shares are considered dilutive only if they decrease EPS or increase loss per share from continuing operations. In determining whether potential ordinary shares are dilutive, each issue or series of potential ordinary shares is considered separately.

## Disclosing segment information

The amounts disclosed for each reportable segment are the measures reported to the CODM, which are not necessarily based on the same accounting policies as the amounts recognised in the financial statements.

Because segment profit or Loss, segment assets and segment liabilities are disclosed as they are reported to the CODM, rather than as they would be reported under IFRS, disclosure of how these amounts are measured for each reportable segment is also required.

Reconciliations between total amounts for all reportable segments and financial statement amounts are disclosed with a description of all material reconciling items.

General and entity-wide disclosures include information about products and services, geographical areas - including country of domicile and individual foreign countries, if they are material - major customers, and factors used to identify an entity's reportable segments. These disclosures are required even if an entity has only one segment.

## Comparative information

Comparative information is normally restated for changes in reportable segments.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance.



Contingently issuable ordinary shares are included in basic EPS from the date on which all necessary conditions are satisfied and, when they are not yet satisfied, in diluted EPS based on the number of shares that would be issuable if the reporting date were the end of the contingency period.

If a contract may be settled in either cash or shares at the entity's option, then it is presumed that it will be settled in ordinary shares and the resulting potential ordinary shares are used to calculate diluted EPS.

If a contract may be settled in either cash or shares at the holder's option, then the more dilutive of cash and share settlement is used to calculate diluted EPS.

For diluted EPS, diluted potential ordinary shares are determined independently for each period presented.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The concept of dilutive instruments is defined in relation to the benefit per share. *[Avis OEC n° 27 §8b]*
- For stock options, share purchase warrants and equivalent instruments, diluted earnings per share is calculated using either the treasury stock method or the theoretical investment method. *[Avis OEC n° 27 §8b]*

### Retrospective adjustment

If the number of ordinary shares outstanding changes without a corresponding change in resources, then the weighted-average number of ordinary shares outstanding during all periods presented is adjusted retrospectively for both basic and diluted EPS.

### Presentation and disclosures

Basic and diluted EPS for both continuing and total operations are presented in the statement of profit or loss and other comprehensive income (OCI) with equal prominence, for each class of ordinary shares that has a differing right to share in the profit or loss for the period.

Separate EPS information is disclosed for discontinued operations, either in the statement of profit or loss and OCI or in the notes to the financial statements.

Adjusted basic and diluted EPS based on alternative earnings measures may be disclosed and explained in the notes to the financial statements.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Diluted EPS is not disclosed in case net result is negative. *[Avis OEC n° 27 §8b]*
- Information requested in relation to EPS are less detailed. There is no information required in respect of continuing and discontinued operations, as these concepts do not exist in French accounting rules. Disclosure requirements are also generally less detailed for dilutive instruments.



# 5.4 Non-current assets held for sale and discontinued operations

**Currently effective: IFRS 5,  
Related standards: IFRS 13, IFRIC 17**

## Held for sale - Classification

Non-current assets and some groups of assets and liabilities (known as “disposal groups”) are classified as held-for-sale when their carrying amounts will be recovered principally through sale.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no specific guidance for held-for-sale assets, except in consolidated financial statements for subsidiaries and investments under significant influence (see below).

## Held for sale - Measurement and presentation

Assets classified as held-for-sale are not amortised or depreciated.

Non-current assets and disposal groups held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell, and are presented separately on the face of the statement of financial position.

The comparative statement of financial position is not re-presented when a non-current asset or disposal group is classified as held-for-sale.

## Held for distribution

The classification, presentation and measurement requirements that apply to items that are classified as held-for-sale also apply to a non-current asset or disposal group that is classified as held-for-distribution.

## Discontinued operations - Classification

A discontinued operation is a component of an entity that either has been disposed of or is classified as held-for-sale.

Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and to subsidiaries acquired exclusively with a view to resale.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no specific guidance for assets sold during the period or in a sale process at the reporting date, except in consolidated financial statements (see below).

## Discontinued operations - Presentation

Discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income (OCI).

The comparative statement of profit or loss and other comprehensive income (OCI) is re-presented for disclosing separately discontinued operations of the previous year.

## Subsidiaries

Subsidiaries are consolidated even if they are held exclusively with a view to subsequent disposal. They are classified as held-for-sale and potentially as discontinued operations if they meet the relevant criteria.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In consolidated financial statements, subsidiaries are exempted from consolidation if – and only if – they were acquired exclusively with a view to subsequent disposal. [CRC 99-02 §101]
- Other subsidiaries held exclusively with a view to subsequent disposal are consolidated. If some criteria are met, their assets, liabilities, and profit or loss can be presented on separate lines as “Net assets or liabilities in course of disposal” and “Share of the group in profit or loss of subsidiaries in course of disposal”. [CRC 99-02 §23100]



## Joint ventures and associates

An investment in an associate or joint venture that is classified as held-for-sale is not equity-accounted.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

In consolidated financial statements, entities under significant influence are exempted from consolidation if – and only if – they were acquired exclusively with a view to subsequent disposal. [CRC 99-02 §101]

# 5.5 Related party disclosures

Currently effective: IAS 24

## Identifying related parties

Related party relationships include those involving control (direct or indirect), joint control or significant influence.

Key management personnel and their close family members are also parties related to an entity.

## Recognition and measurement

There are no special recognition or measurement requirements for related party transactions.

## Disclosures

The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.

No disclosure is required in consolidated financial statements of intra-group transactions eliminated in preparing those statements.

Comprehensive disclosures of related party transactions are required for each category of related party relationship.

Key management personnel compensation is disclosed in total and is analysed by component.

In certain instances, government-related entities are allowed to provide less detailed disclosures on related party transactions.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Generally less information is required.
- In consolidated financial statements and in separate financial statements for entities using the general model for the notes, disclosures are required only for significant transactions with related parties which were not entered into on terms equivalent to an arm's length transaction. [CRC 99-02 §425 and PCG art. 833-16]



- In separate financial statements for entities using the simplified model for the notes, only transactions with main shareholders and board members which were not entered into on terms equivalent to an arm's length transaction need to be disclosed. [Code de Commerce R123-197/1 and PCG art. 832-16]

## 5.6 Investment entities

**Currently effective: IFRS 10**  
**Related standards: IFRS 9, IFRS 13**

### Overall approach

A qualifying investment entity is required to account for investments in controlled entities - as well as investments in associates and joint ventures - at fair value through profit or loss.

As an exception, an investment entity consolidates a subsidiary that provides investment-related services or engages in permitted investment-related activities with investees.

### Qualifying investment entities

To qualify as an investment entity, an entity is required to meet three "essential" tests, and is expected to have one or more "typical" characteristics.

The "essential" tests are as follows:

- the entity obtains funds from one or more investors to provide those investors with investment management services;
- the entity commits to its investors that its business purpose is to invest for returns solely from capital appreciation and/or investment income; and
- the entity measures and evaluates the performance of substantially all investments on a fair value basis.

The "typical" characteristics are as follows:

- the entity has more than one investment;
- the entity has more than one investor;
- the investors are not related parties; and/or
- the entity has ownership interests in the form of equity or similar interests.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance.



## Parents of investment entities

The consolidation exception is mandatory for the parent of an investment entity that itself meets the definition of an investment entity.

The consolidation exception is not carried through to the consolidated financial statements of a parent that is not itself an investment entity - i.e. the parent is nevertheless required to consolidate all subsidiaries.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no similar exemption.

# 5.7 Non-monetary transactions

Currently effective: IFRS 15, IAS 16, IAS 38, IAS 40

## Definition

A non-monetary transaction is an exchange of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved.

## Exchanges of assets held for use

Exchanges of assets held for use are generally measured at fair value and result in the recognition of gains or losses.

As exceptions, exchanged assets held for use are recognised based on historical cost if the exchange lacks commercial substance or if fair value cannot be measured reliably for either the asset received or the asset given up.

## Barter transactions

Revenue is recognised for barter transactions unless the transaction is incidental to the entity's main revenue-generating activities or is with a counterparty in the same line of business to facilitate sales to customers or potential customers.

## Donated assets

Donated assets may be recognised in a manner similar to government grants unless the transfer is, in substance, an equity contribution.

## Transfers of assets from customers

If a customer contributes property, plant and equipment to provide access to a supply of goods or services, then an entity assesses whether it obtains control of the asset. If so, then it accounts for it as non-cash consideration in a contract with a customer (see 4.2).



## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is no equivalent guidance, except for barter transactions in which at least one of the exchanged elements relates to on line advertising. *[PCG 627-1]*
- Consequently, in practice, the accounting for assets received and related revenue may differ.

# 5.8 Accompanying financial and other information

**Currently effective: IAS 1, IFRS Practice Statement Management Commentary**

## General

An entity considers its legal or regulatory requirements in assessing what information is disclosed in addition to that required by IFRS.

Financial and non-financial information in addition to that required by IFRS is generally presented outside the financial statements as accompanying information, but may be presented within the financial statements if appropriate.

In France, it is required to disclose the following in addition to information required by IFRS in the notes to consolidated financial statements: average number of employees, auditors fees and supplementary information about the scope of consolidation (see 5.10), in accordance with ANC Regulation 2016-09.

## Types of financial and non-financial information

IFRS Practice Statement Management Commentary provides a broad, non-binding framework for the presentation of management commentary.

## Corporate governance disclosures

Although they are not required by IFRS, corporate governance disclosures may need to be provided under local legal or regulatory requirements.

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

This information is generally disclosed in the Management Discussions and Analysis report. Its content is regulated by law. *[Code de Commerce L232-1]*



# 5.9 Interim financial reporting

Currently effective: IAS 34, IFRIC 10

## Scope and basis of preparation

Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than an annual reporting period.

## Form and content

The following, as a minimum, are presented in condensed interim financial statements:

- condensed statement of financial position;
- condensed statement of profit or loss and other comprehensive income;
- condensed statement of cash flows;
- condensed statement of changes in equity; and
- selected explanatory notes.

The following, as a minimum, are presented in comparative information:

- statement of financial position as at end of the previous annual period;
- condensed statement of profit or loss and other comprehensive income, condensed statement of cash flows, and condensed statement of changes in equity for the comparable previous interim period.

## Recognition and measurement

Items are generally recognised and measured as if the interim period were a discrete period.

As an exception, income tax expense for an interim period is based on an estimated average annual effective income tax rate.

## Accounting policies

Generally, the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The guidance is broadly similar with differences in terms of comparative data.

It is mandatory to disclose:

- comparative annual profit or loss statement in addition to comparative intermediate profit or loss statement.
- comparative annual statement of cash flows and statement of changes in equity instead of comparative intermediate statement of cash flows and statement of changes in equity. *[CNC Recommendation 99-R-01]*





# 5.10 Disclosure of interests in other entities

Currently effective: IFRS 12

## Overall approach

An entity that holds interests in other entities (including those classified as held-for-sale) provides users with information that enables them to evaluate the nature and risks of holding those interests, as well as the effects of the interests on the entity's financial position, performance and cash flows.

In France, entities which do not disclose the complete list of their (consolidated and unconsolidated) investees in the notes to their consolidated financial statements must make such information available to third parties by other means and disclose that fact in the notes. This information may for instance be consulted on the entity's website. *[ANC Regulation n° 2016-09 and ANC Recommendation 2016-01]*

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Disclosures are generally less detailed.
- The extent of disclosures depends on the entity's consolidation method (full consolidation, proportionate consolidation, equity method, unconsolidated investment). Criteria used by the group to define its consolidation scope must be provided in notes to financial statements. Explanations about consolidation exemptions and specific cases must be disclosed (see 2.5). *[CRC 99-02 §422]*

## Interests in consolidated subsidiaries

If an entity has consolidated subsidiaries, then it provides information in its consolidated financial statements that helps users to understand the composition of the group and the interests of non-controlling interests (NCI) (see 2.5) in the group's activities and cash flows. This includes:

- the nature and extent of significant restrictions on the entity's ability to access or use assets or settle liabilities of the group;
- specific information on any subsidiaries with material NCI, such as financial information for the subsidiary and information about the proportion of NCI and accumulated NCI;
- the consequences of changes in its ownership in a subsidiary and of losing control; and
- the nature of and any changes in the risk associated with the interests in consolidated structured entities.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The following should be disclosed regarding material consolidated subsidiaries: identification (name and location of headquarters), share of equity held by group and method of consolidation. *[CRC 99-02 §422]*
- Notes to financial statements may include an analysis of the significant changes in minority interests, so as to supplement the statement of changes in consolidated equity. *[CRC 99-02 §424]*

## Interests in joint arrangements and associates

If an entity holds interests in joint arrangements and associates, then it provides information in its consolidated financial statement that helps users to understand the nature and risks associated with these interests.

This includes:

- significant restrictions on a joint arrangement's ability to transfer cash dividends or to repay loans and advances;
- the nature, extent and financial effect of holding an interest in a joint arrangement or an associate; and
- any commitments and contingent liabilities towards a joint arrangement or an associate.



### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Jointly controlled entities are consolidated using the proportionate consolidation method (see 3.6). [CRC 99-02 §110]
- The following must be disclosed in respect of equity-accounted investees: gross value, impairment, current year change, contributions to consolidated equity and net result. [CRC 99-02 §295 and 424]

### Interests in consolidated structured entities

If an entity holds interests in consolidated structured entities, then it discloses the terms of any contractual arrangement that could require it to provide financial support to the consolidated structured entity.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The concept of “structured entity” does not exist but there is a concept of ‘special purpose entity’ instead (see 2.5).
- No specific disclosures are required for consolidated special purpose entities.

### Interests in unconsolidated structured entities

If an entity holds interests in unconsolidated structured entities, then it provides disclosures that enable users to understand the specific risks arising from holding these interests and the nature of these interests. The required disclosures include:

- general information about interests in unconsolidated entities – e.g. the nature, purpose, size and activities of an unconsolidated structured entity; and
- information about the nature of risk – e.g. carrying amounts of assets and liabilities recognised in the consolidated financial statements, maximum exposure to loss from the holding and any commitments to provide financial support.

If an entity does not hold an interest in an unconsolidated structured entity, but has sponsored such an entity, then it discloses the following:

- the method for determining how a sponsored entity has been identified;
- income from the structured entity in the reporting period; and

- the carrying amount of all of the assets transferred to the structured entity during the reporting period.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- The concept of “structured entity” does not exist but there is a concept of ‘special purpose entity’ instead (see 2.5).
- Required disclosures for unconsolidated special purpose entities include the activity, assets, liabilities and net results of special purpose entities arising from securitisation arrangements. [CRC 99-02 §425]

### Investment entities

An investment entity (see 5.6) discloses quantitative data about its exposure to risks arising from unconsolidated subsidiaries.

To the extent that an investment entity does not have “typical” characteristics, it discloses the significant judgements and assumptions made in concluding that it is an investment entity.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance.



# 5.11 Extractive activities

Currently effective: IFRS 6, IFRIC 20

## Scope

Entities identify and account for pre-exploration expenditure, exploration and evaluation (E&E) expenditure and development expenditure separately.

There is no industry-specific guidance on the recognition or measurement of pre-exploration expenditure or development expenditure. Pre-exploration expenditure is generally expensed as it is incurred.

## E&E expenditure

Each type of E&E expenditure can be expensed as it is incurred or capitalised, in accordance with the entity's selected accounting policy.

Capitalised E&E expenditure is classified as either tangible or intangible assets, according to its nature.

## Stripping costs

Stripping costs incurred in the production phase of surface mining activities that improve access to ore to be mined in future periods are capitalised if certain criteria are met.

## Impairment

Some relief is provided from the general requirements of IFRS (see 3.10) in assessing whether there is any indication of impairment of E&E assets.

The test for recoverability of E&E assets can combine several cash-generating units, as long as the combination is not larger than an operating segment (see 5.2).

## MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is no detailed guidance for extractive activities. Exploration expenditures that are similar to applied research and development expenditures can be capitalised in this asset category. The starting point for depreciation is deferred until the end of research. *[Code de Commerce R123-188]*
- According to ANC Regulation 2014-05 related to the accounting of quarry land and drilling fees, the stripping costs are included in the cost of extracted materials. *[Presentation note of ANC Regulation 2014-05 § 5]*



# 5.12 Service concession arrangements

Currently effective: IFRIC 12, SIC-29

## Scope

IFRS provides specific guidance on the accounting by private sector entities (operators) for public-to-private service concession arrangements.

The interpretation applies only to those service concession arrangements in which the public sector (the grantor) controls or regulates the services provided, prices to be charged and any significant residual interest in the infrastructure.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There are specific accounting policies for public service concessions (CSP: Concessions de Service Public). They differ from IFRSs. [PCG art. 621-6 to 621-10]

## Operator's rights over the infrastructure

For service concession arrangements in the scope of the interpretation, the operator does not recognise public service infrastructure as its own property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is built or acquired by the operator as part of the service concession arrangement.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There are dedicated accounts in the balance sheet for assets used in the concession provided either by the grantor or the operator. [PCG art. 621-8 and 942-22]
- The credit entry for assets granted by the grantor for no consideration is to "other equity". [PCG art. 621-8 and 942-22]

## Items provided by the grantor

If the grantor provides other items to the operator, in exchange of services provided by the operator, that the operator may retain or sell at its option, then the operator recognises those items as its assets, with a liability for unfulfilled obligations.

## Recognition of construction or upgrade revenue

The operator recognises revenue and costs for services provided by applying the guidance in the revenue standard (see 4.2).

### MAIN DIFFERENCE WITH FRENCH ACCOUNTING RULES

The operator does not recognise any revenue from construction services.

## Recognition of consideration receivable for construction or upgrade services

The operator recognises consideration receivable from the grantor for construction or upgrade services - including upgrades of existing infrastructure - as a financial asset and/or an intangible asset.

The operator recognises a financial asset to the extent that it has an unconditional right to receive cash (or another financial asset) irrespective of the use of the infrastructure.

The operator recognises an intangible asset to the extent that it has a right to charge for use of the infrastructure.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is no consideration receivable from the grantor for construction services.
- Tangible (and intangible) assets used in the concession provided by the operator are recognised in dedicated accounts. They are neither intangible nor financial assets. [PCG art. 942-22]



## Subsequent accounting for financial and intangible assets

Any financial asset is recognised in accordance with the relevant financial instruments standards (see section 7), and any intangible asset in accordance with the intangible assets standard (see 3.3). There are no exemptions from these standards for operators.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no equivalent guidance.

## Maintenance obligations and upgrade services

The operator recognises and measures contractual obligations to maintain or restore infrastructure in accordance with the provisions standard (see 3.12), except for any upgrade element, which is recognised by applying the guidance in the revenue standard (see 4.2).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The operator may recognise a provision for assets renewal.  
*[PCG art. 621-9]*

## Borrowing costs

The operator generally capitalises attributable borrowing costs incurred during construction or upgrade periods to the extent that it has a right to receive an intangible asset. Otherwise, the operator expenses borrowing costs as they are incurred.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

As for other tangible assets, borrowing costs are either recognised as expenses as incurred or incorporated into the cost of the asset (see 4.6). *[Code de Commerce R123-178/2 and PCG art. 213-9/1]*

# 5.13 Common control transactions and Newco formations

Currently effective: not explicitly covered, but IFRS 3, IFRS 10 and IFRIC 17 are relevant

## Common control transactions

In our view, the acquirer in a common control transaction has a choice of applying either book value accounting or acquisition accounting in its consolidated financial statements.

In our view, the transferor in a common control transaction that is a demerger has a choice of applying either book value accounting or fair value accounting in its consolidated financial statements. In other disposals, judgement may be required in determining the appropriate consideration transferred in calculating the gain or loss on disposal.

In our view, an entity generally has a choice of accounting for a common control transaction using book value accounting, fair value accounting or exchange amount accounting in its separate financial statements when investments in subsidiaries are recognised at cost.

Common control transactions are recognised using the same accounting policy to the extent that the substance of the transactions is similar.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In consolidated financial statements, if there is common control between the consolidating entity and the target which is not temporary and if the acquisition is paid through share issue, the acquired assets and liabilities can be recognised at book value instead of fair value. *[CRC 99-02 §215]*
- There is no guidance about transactions under common control in separate financial statements, except for some



mergers and transfers of assets under common control which are recognised at book value.

- In other cases, general principles apply for common control transactions.

## Newco formations

Newco formations generally fall into one of two categories: to effect a business combination involving a third party; or to effect a restructuring among entities under common control.

In a Newco formation to effect a business combination involving a third party, acquisition accounting generally applies.

In a Newco formation to effect a restructuring among entities under common control, in our view it is first necessary to determine whether there has been a business combination. If there has been, then the same accounting choices are available as for common control transactions in consolidated financial statements.

If a Newco is used in a conditional initial public offering, then in our view the transaction can be analysed in the same way as either a Newco formation to effect a business combination involving a third party, or a Newco formation to effect a restructuring among entities under common control.

### MAIN DIFFERENCES

#### WITH FRENCH ACCOUNTING RULES

- There is no specific guidance relating to “Newco” formations, neither in separate nor in consolidated financial statements, with one exception (see below). General principles apply for such transactions.
- As an exception, in consolidated financial statements and under strict conditions, when a parent transfers its shares to a new entity that becomes the new parent of the same group, without any change to the shareholders group, the previous consolidated values must be maintained. *[CNCC Bulletin n°145, EC 2006-64]*



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# First-time adoption of IFRS

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# 6.1 First-time adoption of IFRS

**Currently effective: IFRS 1**

## General requirements

IFRS sets out specific transition requirements and exemptions available on the first-time adoption of IFRS.

An opening statement of financial position is prepared at the date of transition, which is the starting point for accounting in accordance with IFRS.

The date of transition is the beginning of the earliest comparative period presented on the basis of IFRS.

At least one year of comparatives is presented on the basis of IFRS, together with the opening statement of financial position.

The transition requirements and exemptions on the first-time adoption of IFRS apply to both annual and interim financial statements.

## Selection of accounting policies

Accounting policies are chosen from IFRS effective at the first annual IFRS reporting date.

Generally, those accounting policies are applied retrospectively in preparing the opening statement of financial position and in all periods presented in the first IFRS financial statements.

## Mandatory exceptions

Retrospective application of changes in accounting policy is prohibited in some cases - generally, when doing so would require hindsight.

## Optional exemptions

A number of exemptions are available from the general requirement for retrospective application of IFRS accounting policies.

## Disclosures

Detailed disclosures on the first-time adoption of IFRS include reconciliations of equity and profit or Loss from previous GAAP to IFRS.





# Financial instruments



# 7.1 Scope and definitions

Currently effective: IFRS 7, IFRS 9, IAS 32  
Related standards: IFRS 15, IFRS 16

## Scope

The standards on financial instruments generally apply to all financial instruments. They also apply to a contract to buy or sell a non-financial item if the contract can be settled net in cash – including if the non-financial item is readily convertible into cash – unless the contract is held for delivery of the item in accordance with the entity's expected purchase, sale or usage requirements ("own-use exemption").

However, an entity can, at inception, irrevocably designate a contract that meets the own-use exemption as measured at fair value through profit or loss (FVTPL) if certain criteria are met.

Financial instruments subject to scope exclusions include certain loan commitments and financial guarantee contracts, as well as financial instruments in the scope of other specific standards – e.g. investments in subsidiaries and associates, insurance contracts and employee benefits. However, certain investments in subsidiaries, associates and joint ventures are in the scope of the financial instruments standards.

## Definition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments include a broad range of financial assets and financial liabilities. They include both primary financial instruments (e.g. cash, receivables, debt, shares in another entity) and derivative financial instruments (e.g. options, forwards, futures, interest rate swaps, currency swaps).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The concept of "financial instruments" is different in French accounting rules: it only encompasses derivatives.

# 7.2 Derivatives and embedded derivatives

Currently effective: IFRS 9

## Derivatives

A derivative is a financial instrument or other contract in the scope of the financial instruments standard, the value of which changes in response to some underlying variable (other than a non-financial variable that is specific to a party to the contract), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable and that will be settled at a future date.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no conceptual definition of derivatives, but there is a legal definition in the form of a list. The general accounting principles applicable to derivatives are set out in the PCG and in the presentation note of ANC Regulation 2015-05. [Code Monétaire et Financier art. D211-1-III, PCG art. 628-1 to 628-10]

## Embedded derivatives

An embedded derivative is a component of a hybrid contract that affects the cash flows of the hybrid contract in a manner similar to a stand-alone derivative instrument.

A hybrid instrument also includes a non-derivative host contract that may be a financial or a non-financial contract.

An embedded derivative with a host contract that is a financial asset in the scope of IFRS 9 is not separated; instead, the hybrid financial instrument is assessed as a whole for classification under IFRS 9.

A hybrid instrument with host contract that is not a financial asset in the scope of IFRS 9 is assessed to determine whether the embedded derivative(s) is required to be separated from the host contract.



An embedded derivative is not recognised separately from the host contract if it is closely related to the host contract, if a separate instrument with the same terms as the embedded derivative would not meet the definition of a derivative or if the entire contract is measured at fair value through profit or loss. In other cases, an embedded derivative is recognised separately as a derivative.

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no specific guidance for embedded derivatives, which are not recognised separately from their host contract.

## 7.3 Shareholders' equity and financial liabilities

Currently effective: IFRS 9

Related standards: IAS 1, IAS 12, IAS 32, IFRIC 2, IFRIC 17, IFRIC 19

### Classification

An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

If a financial instrument has both equity and liability components, then they are classified separately.

Obligations to purchase own shares (including non-controlling interests) (put on minority interests) are financial liabilities (see also 2.5).

#### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, the notion of equity derives from legal requirements. [*Code de Commerce R123-190 and R123-191 and PCG art. 934-1*]
- There is a specific line item labelled "other equity" between liabilities and equity, under which certain financial instruments are classified (bonds redeemable in shares, participating loans, etc.). [*Code de Commerce R123-190/2 and PCG art. 934-1*]
- Compound financial instruments are recognised either as liabilities or as "other equity" and are not separated into two components. [*Avis OEC No. 28*]
- An obligation to purchase minority interests does not generally result in the recognition of a financial liability for the fair value of the exercise price. Depending on the circumstances and the entity's strategy, it may either be recognised as a derivative in isolated open position or be treated as a transaction with an optimisation component without risk.



In all cases, information is disclosed in the notes to financial statements. [PCG art. 628-16 and 18]

## Recognition and measurement

Gains or losses on transactions in the entity's own equity instruments are recognised directly in equity.

Incremental costs that are directly attributable to equity transactions such as issuing or buying back own equity instruments or distributing dividends are recognised directly in equity.

Dividends and other distributions to the holders of equity instruments are recognised directly in equity.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

In separate financial statements, the costs related to capital increase, merger, demerger or asset contribution may be:

- charged to issue and merger premiums, any excess being recognised as expenses;
- recognised as expenses for the period; or
- capitalised.

None of the three methods is a reference method. [ANC Regulation No. 2018-01 and PCG art. 212-9]

## Reclassification of instruments between liability and equity

The classification of an instrument is made on initial recognition and is generally not reviewed as a result of subsequent changes in circumstances. Nevertheless, a reclassification between equity and liabilities, or vice versa, may be necessary in some cases.

## Presentation

Treasury shares held are deducted from shareholders' equity.

Non-controlling interests are presented in consolidated statement of financial position within equity separately from the parent shareholders' equity (see also 2.5).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- In separate financial statements, treasury shares held are recorded either as non-current financial assets or as marketable securities (current assets) depending on their intended use. [Avis CU CNC 98-D]
- In consolidated financial statements, the treatment of treasury shares depends on their classification in separate financial statements. Treasury shares classified as non-current financial assets in separate financial statements are deducted from equity in consolidated financial statements and those classified as marketable securities in separate financial statements are maintained under this line item in consolidated financial statements. [CRC 99-02 §271]



# 7.4 Classification of financial assets

Currently effective: IFRS 9

## Classification

Financial liabilities are generally classified into three measurement categories:

- amortised cost; or
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

The classification determines whether and where any remeasurement to fair value is recognised.

Financial assets classified as at fair value through profit or loss (FVTPL) include two sub-categories:

- assets that are mandatorily measured at fair value through profit or loss FVTPL (which includes derivatives);
- assets designated as at fair value through profit or loss (FVTPL) on initial recognition.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no formal classification by category. In practice, a distinction is made between:

- receivables,
- loans,
- non-current financial assets,
- derivatives.

## Reclassification of financial assets

Reclassifications of financial assets are made only on a change in an entity's business model that is significant to its operations. These are expected to be very infrequent.

No other reclassifications are permitted.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no specific guidance for reclassification of financial assets.



# 7.5 Classification of financial liabilities

Currently effective: IFRS 9

## Classifications

Financial liabilities are generally classified into two measurement categories:

- amortised cost; or
- fair value through profit or loss (FVTPL).

The liabilities classification determines whether and where any remeasurement to fair value is recognised.

Financial liabilities classified as at fair value through profit or loss (FVTPL) include two sub-categories:

- liabilities held-for-trading (which includes derivatives);
- liabilities designated as at fair value through profit or loss (FVTPL) on initial recognition.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no formal classification by category. In practice, a distinction is made between:

- operating liabilities,
- borrowings,
- derivatives.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no specific guidance for reclassification of financial liabilities.

## Reclassification of financial liabilities

Reclassification of financial liabilities is not permitted.



# 7.6 Recognition and derecognition

**Currently effective: IFRS9**  
**Related standards: IFRIC19**

## Initial recognition

Financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position when the entity becomes a party to the contract. However, the purchase and sale of standardised financial assets are recognised either on the transaction date or on the settlement date.

## Derecognition of financial assets

A financial asset is derecognised only when the contractual rights to receive cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions.

An entity derecognises a transferred financial asset when it transfers substantially all of the risks and rewards of ownership.

An entity does not derecognise a transferred financial asset if it retains substantially all the risks and rewards of ownership.

An entity continues to recognise a transferred financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all of the risks and rewards of ownership, and it has retained control of the financial asset.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Receivables are derecognised when there is a legal transfer of ownership. In this case, there is no analysis of the transfer of risks and rewards. *[Code Monétaire et Financier art. L313-23 to L313-29, CNCC Bulletin No. 175 dated September 2014]*

## Derecognition of financial liabilities

A financial liability is derecognised when it is extinguished - i.e. it is discharged or cancelled or expires – or when its terms are substantially modified.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no specific guidance for the accounting treatment of a material change in the terms of a financial liability. However, the CNCC has accepted to retain an analysis similar to IFRSs. *[Bull CNCC n°134 dated 2004]*



# 7.7 Measurement

**Currently effective: IFRS 9**  
**Related standards: IFRS 13, IFRS 15, IAS 21**

## Measurement on initial recognition

On initial recognition, financial assets and liabilities are generally measured at fair value adjusted for directly attributable transaction costs if the instruments are not classified at fair value through profit or loss (FVTPL).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Financial assets are generally recognised at their acquisition cost (redemption value or repurchase price for receivables), and liabilities at amortised cost, based on the contractual repayment schedule. *[Code de Commerce L 123-18, PCG art. 213-1 and Code Civil art. 1895]*
- Debt issuance costs are either capitalised and depreciated over the term of the debt, or fully expensed when incurred. In consolidated financial statements, capitalisation and depreciation is the preferential method. *[PCG art. 212-11, CRC 99-02 §300]*
- In separate financial statements, the costs of acquiring shares are either included in the acquisition cost, which is the reference method, or recognised as an expense. In consolidated financial statements, they are mandatorily included in the acquisition cost. *[PCG art. 221-1, CRC 99-02 § 300]*
- Face amounts of derivatives are not recognised in the balance sheet. However, option premiums, balancing payments, margin calls and security deposits are recorded in the balance sheet. *[PCG art. 628-1 to art. 628.3]*

## Subsequent measurement

Financial assets are subsequently measured at fair value or amortised cost.

If a financial asset is measured at fair value, then changes in fair value are recognised as follows:

- Debt financial assets measured at fair value through other comprehensive income (FVOCI): changes in fair value are recognised in other comprehensive income (OCI), except for foreign exchange gains and losses and expected credit losses, which are recognised in profit or loss. On derecognition, any gains or losses accumulated in OCI are reclassified to profit or loss.
- Equity financial assets measured at FVOCI: all changes in fair value are recognised in OCI. The amounts in OCI are not reclassified to profit or loss. Only dividends are recognised in profit or loss (unless they correspond to a recovery of the cost of shares).
- Financial assets at fair value through profit or loss (FVTPL): all changes in fair value are recognised in profit or loss.

Financial liabilities, other than those classified as at fair value through profit or loss (FVTPL), are generally measured at amortised cost.

If a financial liability is mandatorily to be measured at fair value through profit or loss (FVTPL), then all changes in fair value are recognised in profit or loss.

If a financial liability is designated as at FVTPL, then a split presentation of changes in fair value is generally required. The portion of the fair value changes that is attributable to changes in the financial liability's credit risk is recognised directly in OCI. The remainder is recognised in profit or loss. The amount presented in OCI is never reclassified to profit or loss.

Following initial recognition, all derivatives (including separated embedded derivatives) are subsequently measured at fair value with changes in fair value recognised in profit or loss (except in the case of cash flow hedge accounting).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Financial assets other than derivatives are not subsequently measured at fair value. They may only be impaired (see 7.8). *[PCG art. 221-3, 221-5 and 221-6]*
- Financial liabilities other than derivatives are subsequently measured at amortised cost based on the contractual repayment schedule (see above regarding debt issuance costs). *[Avis OEC No. 24]*





- For derivatives that are not subject to hedge accounting (i.e. in an isolated open position), changes in fair value are recognised in the balance sheet until settlement and only unrealised losses are recognised in the profit or loss statement through a provision. [PCG art. 628-3 to 628-5 and 628-18]

## Recognition of interest and dividend income

Interest income and interest expense are calculated using the effective interest method. The effective interest rate is calculated on initial recognition based on estimated cash flows considering all of the contractual terms of the financial instrument but excluding expected credit losses. For floating rate instruments, the effective interest rate is updated to reflect movements in market rates of interest.

Dividend income on equity instruments measured at fair value through other comprehensive income (FVOCI) is recognised in profit or loss, unless it clearly represents a repayment of part of the cost of the investment.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Interest on financial liabilities is recognised over the term of the instrument, generally in accordance with the contractual repayment schedule. [Avis OEC No. 24]
- Dividend income from non-consolidated investees is recognised in profit or loss. [PCG art. 947- 76]

# 7.8 Impairment

Currently effective: IFRS 9  
Related standards: IFRS 3, IFRS 15

## Scope

The impairment model covers debt instruments measured at amortised cost and fair value through other comprehensive income (FVOCI), certain loan commitments and financial guarantee contracts, lease receivables and contract assets.

Investments in equity instruments are outside the scope of IFRS 9's impairment requirements if they are measured at fair value through profit or loss or other comprehensive income (FVOCI), without any reclassification to profit or loss.

## Expected credit loss model

Impairment is recognised using an expected loss model, which means that it is not necessary for a loss event to occur before an impairment loss is recognised.

The general approach use two measurement bases:

- 12-month expected credit losses, or
- lifetime expected credit losses of the financial asset,

depending on whether the credit risk of the financial asset has increased significantly or not since its initial recognition.

The model includes specific requirements for certain types of financial assets and also certain practical expediciencies. In particular, trade receivables without significant financing components are impaired for the amount of expected losses over their entire lifetime, and this approach is optional in case of a significant financing component as well as rental receivables.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- For loans and receivables, an impairment loss is recognised only in case there is a probability of a loss (i.e. this is an "incurred loss" model), even if there are no formally defined impairment indicators. [PCG art. 214-25]



- Investments in equity instruments are impaired if their carrying amount is lower than their value in use, which is defined differently depending on the nature of the investment. [PCG art. 221-3, 221-5 and 221-6]

## Measurement

Expected credit losses of a financial instrument are measured in a way that reflects:

- a probability-weighted amount determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

The use of discounted future cash flows is not mandatory when assessing impairment of receivables. [PCG art. 214-5]

# 7.9 Hedge accounting

**Currently effective: IFRS 9**  
**Related standards: IFRIC 16**

## Introduction

Hedge accounting allows an entity to measure assets, liabilities and firm commitments selectively on a basis different from that otherwise stipulated in IFRS or to defer the recognition in profit or loss of gains or losses on derivatives.

Hedge accounting is voluntary. However, it is only permitted only when strict requirements related to documentation and effectiveness are met.

Hedge accounting is required to be closely aligned with an entity's actual risk management objectives. As an alternative to hedge accounting, an entity may elect a fair value option for certain credit exposures.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Hedge accounting is mandatory whenever a hedging relationship is managed from an operational perspective. [PCG art. 628-11]

## Hedge accounting models

There are three models of hedge accounting:

- fair value hedging of fair value exposures,
- cash flow hedging of cash flow exposures; and
- net investment hedges of currency exposures on net investments in foreign operations.



### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- There is a single hedging model.
- In the hedge accounting model, the accounting method for the hedged item takes precedence over the accounting method for the hedging instrument. In effect, the hedge accounting model implies symmetric recognition in the profit or loss statement of the effect of the hedging instrument simultaneously with (and limited to) the effect of settlement of the hedged instrument. *[Presentation note of ANC Regulation 2015-05]*

### Qualifying hedged items

Qualifying hedged items can be:

- recognised assets or liabilities;
- unrecorded firm commitments;
- highly probable forecasted transactions;
- net investments in foreign operations; or
- aggregate exposures (combination of non-derived and derived exposures).

Derivative instruments can not be hedged items except when they are combined with a non-derivative item (aggregate exposures).

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

A derivative may be a qualifying hedged item. *[PCG 628-8]*

### Qualifying hedging instruments

The following contracts with a third party may be qualified as hedging instruments:

- derivatives instruments, with the exception of written options (unless they come as compensation for a purchased option including that embedded in another financial instrument); and
- certain non-derivative financial instruments measured at fair value through profit or loss or in the context of exchange rate hedging only for those not measured at fair value through profit or loss

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Written options may be qualified as hedging instruments if they do not imply additional risk. *[PCG art. 628-7]*

### Qualifying hedged risks

The hedged risk should be one that could affect profit or loss or other comprehensive income (OCI) if the hedged item is an equity investment for which changes in fair value are presented in OCI.

### Effectiveness testing

Effectiveness testing is conducted on a prospective basis only.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

There is no guidance requiring the systematic implementation of effectiveness tests. However, the hedge relationship must be formally justified at each reporting date. *[Presentation note of ANC Regulation 2015-05]*

### Discontinuing hedge accounting

Hedge accounting is discontinued prospectively if it ceases to meet the qualifying criteria after considering the rebalancing – for example:

- the risk management objective for the hedging relationship has changed,
- the hedging instrument expires, or is sold, terminated or exercised,
- there is no longer an economic relationship between the hedged item and the hedging instrument; or
- the effect of credit risk starts dominating the value changes that result from the economic relationship.



# 7.10 Presentation and disclosures

**Currently effective: IFRS 7**  
**Related standards: IFRS 9, IFRS 13, IAS 1, IAS 32**

## Offsetting

A financial asset and a financial liability shall be offset if and only if an entity:

- currently has a legally enforceable right to offset; and
- has an intention to settle net or to settle both amount simultaneously.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

- Offsetting is prohibited except where it is provided for by the applicable guidance. [PCG art. 911-5]
- Offsetting is mandatory for payables and receivables that are reciprocal, fungible, certain, of fixed amount and due. [Code Civil art. 1289 to 1299]

## Disclosure objectives

An entity is required to provide information in such a way as to enable users to assess both:

- the significance of financial instruments for the entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments, and how the entity manages those risks.

## Significance of financial instruments for financial position and performance

Specific disclosure requirements include information on:

- carrying amounts;
- fair values;
- items designated as at fair value through profit or loss;
- investments in equity instruments designated as at fair value through other;
- comprehensive income;
- reclassification of financial assets between categories;
- offsetting of financial assets and financial liabilities and the effect of potential netting arrangements;
- collateral; and
- hedge accounting.

## Nature and extent of risks arising from financial instruments

Disclosure of both qualitative and quantitative information is required.

Qualitative disclosures describe management's objectives, policies and processes for managing risks arising from financial instruments.

Quantitative data about the exposure to risks arising from financial instruments is based on information provided internally to key management.

Additionally, certain disclosures about the entity's exposures to credit risk, liquidity risk and market risk arising from financial instruments are required, irrespective of whether this information is provided to management.

## Transfer of financial assets

Information is provided on financial assets that are not derecognised in their entirety.

Information is provided about financial assets that are derecognised in their entirety but in which the entity has a continuing involvement.

### MAIN DIFFERENCES WITH FRENCH ACCOUNTING RULES

Disclosures relating to financial instruments are less detailed. The PCG provides a list of disclosures, some of which relate to financial instruments (unrecognised financial commitments given and received, maturities of receivables and payables, information on all transactions performed in derivatives markets, etc.). [PCG art. 628-1 to 628-18]



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## Helping you prepare your IFRS financial statements



### Illustrative financial statements

Illustrative guidance to prepare annual and interim financial statements, for entities in the industrial and commercial sectors, for banks, insurance companies, and investment funds. These publications include supplements for the application of new standards.



### Disclosure checklist IFRS

List of information to be provided in your financial statements.



### Combined and/or carve-out financial statements

Helping you prepare your financial statements following such a transaction. Real life illustrations of such transactions are provided.

## Helping you understand the GAAP differences



### IFRS compared to USGAAP

Presentation of main differences between IFRS and USGAAP. Also available in "overview" format.



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