



## **ASCG Implementation Guidance 3 (IFRS)\* (near final)**

ASCG IG 3 (IFRS)

### **Selected IFRS Accounting Issues with a Particular Relevance to Macroeconomic and Entity-specific Crisis Situations**

\*ASCG Implementation Guidance 3 (IFRS) was published on 16 December 2009 as AIC Application Advice (2009/02) and most recently updated on 17 August 2010.

**\*The Implementation Guidance was adopted by the IFRS Committee at its meeting on 12 July 2013 with a revised title and in addition to changing the order in which the guidance is presented, Issues 1 to 7 and 9 were amended.**



## Introduction

### *Accounting Standards Committee of Germany*

The Accounting Standards Committee of Germany (ASCG) has been mandated to develop principles for financial reporting in consolidated financial statements, to advise the legislature on the development of financial reporting, to represent the Federal Republic of Germany on international accountancy bodies and to develop interpretations of international financial reporting standards within the meaning of section 315a(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code).

### *Note on application*

‘ASCG Implementation Guidance (IFRS)’ or ‘Implementation Guidance’ differs from interpretations of the international financial reporting standards within the meaning of section 315a(1) of the HGB (ASCG Interpretations (IFRS)) in that it is not interpretative, but instead offers guidance on international accounting issues by providing descriptive guidance and clarifications on the appropriate application of IFRSs. Such pronouncements may address issues that extend beyond those of predominantly national relevance.

Implementation Guidance is adopted after careful consideration of all relevant circumstances, in particular taking account of all effective IFRSs, the IASB Framework, any Observer Notes and the deliberations of the IFRS Interpretations Committee, as well as the comments received, and after holding public hearings.

Implementation Guidance adopted by the ASCG applies unless and until other specific pronouncements to the contrary are issued by the IFRS Interpretations Committee or the IASB. It serves as guidance for the accounting treatment of the relevant issues in financial statements prepared in accordance with the applicable pronouncements of the IASB.

Entities in Germany which state that their financial statements have been prepared in accordance with IFRSs are recommended to consider the Implementation Guidance when assessing individual cases.

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## ASCG Implementation Guidance 3 (IFRS) (near final)

### Selected IFRS Accounting Issues with a Particular Relevance to Macroeconomic and Entity-specific Crisis Situations

#### Background

During the course of the global financial and economic crisis that started in the USA in 2007 as a crisis in the subprime real estate market, a number of accounting issues achieved prominence in connection with financial statements to be prepared in accordance with IFRSs.

As the ASCG takes the view that a number of clarifications would be helpful in this context, it has developed the present ASCG Implementation Guidance 3 (IFRS), which is designed to provide guidance to entities that prepare their financial statements in accordance with IFRSs.

In the course of updating the Implementation Guidance in 2013, the specific reference to the financial and economic crisis was abandoned in favour of a general reference to macroeconomic and entity-specific crisis situations.

#### Accounting Issues Addressed by this Implementation Guidance

At its 34th meeting on 26 May 2009, the AIC decided to issue a pronouncement on accounting issues in light of the effects of the financial and economic crisis on IFRS financial statements.

In this connection, preparers, auditors and other interested parties were invited to submit to the AIC by 14 August 2009 issues and problems of general interest or more specific information on the examples given with a particular focus on the accounting issues resulting from the financial and economic crisis.

After their discussion by the AIC, this Implementation Guidance (previously: Application Advice) was developed to address various suggestions received and additional issues identified by the AIC.

In a first update, this Implementation Guidance was expanded by Issues 5 and 6. A second update added Issues 1 and 4.

#### Overview

1. Postponement, suspension and cancellation of construction contracts within the meaning of IAS 11
2. Economic short-time allowance
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4. Accounting for signing bonuses
5. Accounting for retention bonuses
6. Discount rate in accordance with IAS 19.83 ff.
7. Interaction between accounting for restructurings in accordance with IAS 37 and for termination benefits (as a component of restructurings) in accordance with IAS 19
8. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost as objective evidence of impairment
9. Compliance with special reporting obligations in crisis situations



## Advice on Accounting Practice

### *1. Postponement, suspension and cancellation of construction contracts within the meaning of IAS 11*

#### Issue

Construction contracts are often postponed indefinitely in response to macroeconomic crisis situations and resulting economic downturns. In isolated cases, customers also exercise contractually agreed suspension<sup>1</sup> or cancellation options for ongoing projects.

The relevant financial reporting standard, IAS 11 Construction Contracts, does not offer any explicit accounting guidance on the potential accounting consequences of the postponement, suspension and cancellation of construction contracts.

**Question:** Can postponement of the award of a construction contract have any accounting consequences for the contractor?

**Answer:** In principle, yes. If certain conditions are met, the contract costs in accordance with IAS 11 also include costs incurred in securing a specific contract (IAS 11.21 – sentences 2 and 3). One of the conditions cited in the standard is that it must be probable ‘that the contract will be obtained’, in other words that the customer will award the contract to the contractor. One possible consequence of postponement when a construction contract is awarded is the assessment by the contractor that it is no longer probable that the contract will be awarded. If this is the case, costs incurred prior to the award of the contract and previously recognised as part of the contract costs must be recognised in profit or loss.

**Question:** In some cases, contractors acquire certain assets (eg inventories or machinery) to be used for subsequent construction contracts before a contract is obtained. Can postponement of the award of a construction contract also have accounting consequences for such assets?

**Answer:** Yes. However, it should be noted in the first instance that contract costs in accordance with sentence 1 of IAS 11.21 only include the costs attributable to a contract from the date of securing the contract. Because no construction contract has yet been obtained in the scenario outlined above, impairment losses or depreciation charges attributable to the assets described above are not contract costs within the meaning of IAS 11. If the award of a construction contract is postponed, any resulting impairment in the entity’s ability to use the assets until the contract is awarded must be reflected in their measurement in accordance with the general IFRS pronouncements governing inventories or property, plant and equipment. Alternative uses for such assets must be taken into consideration in the context of necessary adjustments to the depreciation plan and the recognition of any impairment losses.

**Question:** What significant effects can the suspension of a construction contract have on accounting for the contract in accordance with IAS 11 if it is assumed that the contract will be resumed?

**Answer:** As a rule, a contract that has been suspended must continue to be accounted for in accordance with IAS 11. Depending on the reliability of the estimate of the outcome of the construction contract, suspension may in particular have the effects described in the following. In all cases, however, any expected loss from the construction contract must be recognised immediately as an expense in accordance with IAS 11.36.

Contract revenue and contract costs may only be recognised using the percentage of completion method if it is still possible to estimate the outcome of the construction contract reliably on the basis of all the relevant parameters. In accordance with IAS 11.23 (b) (in the case of fixed price contracts) and

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<sup>1</sup> A contract is suspended when the customer formally calls a halt to work on a contract or project and there is no indication at first whether the contract or project will be continued.



IAS 11.24 (a) (in the case of cost plus contracts), this assessment must also examine whether it is (still) possible that ‘the economic benefits associated with the contract will flow to the entity’. One factor to be assessed in this context is the economic interests of the customer, ie the way in which the customer intends to resume the construction contract (customer’s capacity management).

If the outcome of a construction contract can no longer be estimated reliably because of its suspension or the resulting consequences, IAS 11.32 must be applied if it is ‘probable’ that the contract costs ‘will be recoverable’ and revenue may therefore be recognised in the income statement to the extent of the contract costs incurred in accordance with IAS 11.32 (a). This approach is also termed the ‘cost recovery’ or ‘zero profit margin’ method and corresponds to partial revenue recognition without affecting profit or loss.

The solvency of the customer must also be taken into consideration – suspension requires greater prominence to be given to the customer’s credit quality and to the examination of the recoverability and collectibility of the reporting entity’s own claims.

**Question:** If a formal suspension of the contract or project is agreed with the customer, contractual penalties agreed when the construction contract was entered into may be payable to the contractor in some cases. How should such contractual penalties be accounted for?

**Answer:** Income from contractual penalties agreed when the construction contract was entered into represents contract revenue. Depending on the specific agreements entered into and the overall conditions, it may be classified as either:

- variations (IAS 11.13)
- or claims (IAS 11.14),

which must be accounted for in accordance with the relevant guidance.

**Question:** Does a construction contract continue to be accounted for in accordance with IAS 11 if it is cancelled by the customer?

**Answer:** If the customer cancels a construction contract, the contract is wound up in accordance with the contractual arrangements that are generally agreed for such situations when the contract is entered into. IAS 11 continues to govern accounting for the contract, because winding up a contract following its cancellation generally involves curtailments compared with the contractually agreed contract volume, ie variations within the meaning of IAS 11.13, claims within the meaning of IAS 11.14, or contractual penalties classified as contract revenue.

## 2. *Economic short-time allowance*<sup>2</sup>

### Issue

In many cases, companies use short-time working or the economic short-time allowance as a short-term response to reduced employment opportunities and to avoid compulsory redundancies. Under this form of short-time working, the standard working hours at the entity are reduced for a temporary period, and the employees or parts of the workforce receive correspondingly lower wages from the employer. Provided that the relevant conditions set out in the *Sozialgesetzbuch 3* (SGB III – German Social Security Code, Book 3) are met, the employees affected by short-time working are entitled to claim the economic short-time allowance. The Bundesagentur für Arbeit (German Federal Employment Agency) grants this state benefit for the hours lost to employees subject to mandatory social security contributions. The employer or the employee representative body must notify the

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<sup>2</sup> The term ‘economic short-time allowance’ (or ‘short-time allowance’) is used in this Implementation Guidance in accordance with the following definition used by the Bundesagentur für Arbeit (German Federal Employment Agency): ‘The economic short-time allowance is granted if the standard weekly working hours of businesses or parts of businesses are temporarily reduced for economic reasons or as a result of an unavoidable event. The conditions set out in sections 95 to 109 of the *Sozialgesetzbuch 3* (SGB III – German Social Security Code, Book 3) must be met.’



reduced working hours to the local employment agency responsible for the business. The employer pays the allowance to the employees.

For employees who would meet the conditions for the higher rate of unemployment benefit, the economic short-time allowance amounts to 67 per cent, and for other employees, 60 per cent, of the 'net wage difference' in accordance with section 105 of the SGB III during the entitlement period.

In addition, the employer is reimbursed on application<sup>3</sup> the social security expenses to be borne by the employer alone for the hours lost at a flat rate of 50 per cent or, if certain conditions are met, at the rate of 100 per cent<sup>4</sup>.

**Question:** In the event of short-time working, is the reporting entity required to recognise a provision for future short-time allowances payable to the employees or for the social security expenses to be borne by the entity?

**Answer:** No. Neither IAS 19 Employee Benefits nor IAS 37 Provisions, Contingent Liabilities and Contingent Assets establishes an obligation for the employer to recognise a provision for future short-time allowances or social security contributions payable in the event of short-time working. This is because the employer has no obligation to the employees in this respect, or the entitlements under the continuous obligation applying to both employees and employer (which has not yet been settled by either party) continue to be matched by the related obligations. This also applies if the employer has undertaken to top up the economic short-time allowance.

**Question:** Is the economic short-time allowance a transitory item from the perspective of the reporting entity, with the result that neither a corresponding expense item nor an income item must be recognised and presented in the statement of comprehensive income or a separate income statement?

**Answer:** Yes. From the perspective of the reporting entity, the economic short-time allowance represents a transitory item because, in accordance with section 95 of the SGB III, the entitlement to receive the economic short-time allowance accrues to the employee and Bundesagentur für Arbeit is subject to the payment obligation. For this reason, economic short-time allowances may not be recognised and presented as either income or expenses in the statement of comprehensive income or in a separate income statement. For reasons of practicality, however, no objections will normally be raised if the economic short-time allowance paid to the employees is recognised as an employee benefit in the accounting system and the economic short-time allowance reimbursed by the Bundesagentur für Arbeit is offset against this expense. By contrast, recognising the amounts reimbursed by the Bundesagentur für Arbeit as other operating income or similar items is inappropriate.

**Question:** Does this statement also apply to the social security expenses to be borne by the employer that will be reimbursed on a flat-rate basis by the Bundesagentur für Arbeit on application?

**Answer:** No. The flat-rate reimbursements of the social security expenses to be borne by the employer do not represent transitory items because the reporting entity remains subject to a primary obligation in respect of the social security contributions, and must therefore recognise these expenses as employee benefits. In this light, the flat-rate reimbursements must be interpreted as grants related to income in accordance with IAS 20. Therefore, in accordance with IAS 1.32 in conjunction with IAS 20.31, separate presentation as income and deduction from employee benefits is permitted for these reimbursements. IAS 20.31 also states that disclosure of the grant may be necessary for a proper understanding of the financial statements. Additionally, the effect of grants on any item of income or expense that is required to be presented separately must be disclosed (ie the relevant amount contained

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<sup>3</sup> The application for the economic short-time allowance includes the application for reimbursement of the social security contributions.

<sup>4</sup> See section 421t of the SGB III. Note that this measure expired on 31 December 2011.





in the item or the proportion of the expenses must be disclosed), provided that the effect is material. The matters specified in IAS 20.39 must also be disclosed in the notes.

**Question:** What accounting policy must be applied if the reimbursement of the economic short-time allowance by the Bundesagentur für Arbeit is received by the reporting entity before the corresponding payment to the employees is made?

**Answer:** The reimbursement must be recognised as a liability in the balance sheet outside profit or loss, until the wages or salaries are paid to the employees.

**Question:** Are there any particular reporting obligations in the (group) management report or in the notes in connection with short-time working or the grant of economic short-time allowances?

**Answer:** The need to disclose short-time working or the grant of short-time allowances in the (group) management report must be decided on an entity-specific basis by reference to the relevant overall conditions. Attention is drawn to GAS 20 Group Management Report, which explains the statutory provisions.

In addition to the disclosure requirements in the notes addressed above, it may be necessary to disclose accounting policies in accordance with IAS 1.117 – 124 on a case-by-case basis.

### *3. Negative working time accounts (short-term)*

#### Issue

As a short-term response to reduced employment opportunities and to avoid compulsory redundancies, employers also use working time models to replace the rigid system of contractual working hours spread evenly over a particular unit of time. Daily variances between the hours actually worked and the contractual working hours are credited or debited to the employee's personal working time account – in many cases, a ceiling applies to the credit or debit hours that can be carried forward. If these working time models use a reference or equalisation period of up to one year, they are frequently classified as short-term, especially in light of the accounting rules, and designated as short-term working time accounts. Short-term working time accounts are often used in practice in the form of eg flexitime arrangements, annual working time accounts, 'traffic light accounts', or 'working time corridors'.

**Question:** Is the employer required to recognise an asset for an entitlement if an employee works fewer hours than those contractually owed under the terms of a short-time working time account model?

**Answer:** In accordance with IAS 19.8, agreements concerning short-term working time accounts are 'short-term employee benefits' whose recognition and measurement are governed by IAS 19.11.

If the employee has worked fewer hours than are owed under contractual arrangements, that employee's working time account will have a deficit, ie the account will have a negative balance. From the employer's perspective, the wages or salaries paid mean that it has paid for a service that the employee has not yet rendered. If the employee is obliged to work off outstanding hours owed, this essentially involves an asset in the form of a prepaid expense within the meaning of IAS 19.11 (a) (sentence 2). The outcome is the same if the employer is entitled to financial compensation if the employee leaves the employment before the outstanding hours are worked.

However, as a necessary condition for the recognition of a corresponding entitlement as an asset, it must be ensured on a case-by-case basis that this repayment entitlement or the reduction in future payments is sufficiently certain. In particular, it must be possible under employment law for the employer to require the employee to work off the outstanding hours (or to repay wages or salaries already paid). In accordance with the established case law of the Bundesarbeitsgericht (BAG – Federal



Labour Court), this condition will, as a matter of principle, only be met if only the employee is able to decide whether and to what extent a working time account credit balance in the employer's favour may arise (see eg BAG ruling of 13 December 2000; 5 AZR 334/99). If the provision contained in section 615 sentence 1 of the *Bürgerliches Gesetzbuch* (BGB – German Civil Code) concerning the assumption of economic risk by the employer has been expressly and effectively waived under employment law, negative working time account balances that have arisen at the direction of the employer establish an entitlement of the employer that is to be recognised as an asset.

**Question:** Can prepaid expenses for working time account balances in favour of the employer be offset against corresponding deferred income as part of short-term working time account models?

**Answer:** No. In accordance with IAS 1.32, assets and liabilities resulting from short-term working time account models cannot be offset because IAS 19.11 ff. prohibits such offsetting.

#### 4. Accounting for signing bonuses

##### Issue

In some cases, an entity pays signing bonuses to new employees before they start work subject to the condition that they remain at the entity for a minimum period. The beneficiaries have to repay the bonus to the employer in full or in part if or to the extent that they leave the entity before the end of the minimum employment period.

**Question:** Which of the four categories listed in IAS 19.5 applies to the signing bonuses described above?

**Answer:** Because they are paid in advance, signing bonuses are classified as short-term employee benefits.

**Question:** Which specific accounting pronouncements apply to the signing bonuses described above?

**Answer:** IAS 19.11 (a) requires the bonus to be recognised as an asset (prepaid expense) when it is paid because the advance payment will result in a refund if the employee breaches the minimum employment period condition. However, it should be noted that an asset can only be recognised if the entity expects the future economic benefits associated with the item to flow to the entity. This will only be the case if the reporting entity can assert any claim for a refund of the signing bonus under employment law if the employee leaves the entity before the end of the minimum employment period.

The ASCG takes the view that an expense must be recognised in accordance with IAS 19.11 (b) on a straight-line basis over the employee's agreed minimum employment period. This accounting treatment reflects the reporting entity's expectations in respect of the service to be rendered by the employee in exchange for the advance bonus payment.

This accounting treatment applies irrespective of whether the employee is required to refund the signing bonus in full or ratably if the agreed conditions are breached to the extent that the employee has not complied with the agreed minimum employment period.

**Question:** What are the accounting consequences if the employee leaves the entity before the end of the agreed minimum employment period?

**Answer:** If the employee is contractually required to refund the signing bonus in full:

- the amount recognised as an expense in previous reporting periods and in the current reporting period is recognised as a receivable from the employee in profit or loss; and
- the remaining amount previously presented as a prepaid expense is reclassified and also presented as a receivable from the employee;





such that the receivable from the employee now matches the amount of the signing bonus originally paid.

On the other hand, if the employee is only contractually required to refund the signing bonus in an amount corresponding to the remaining agreed minimum employment period, the remaining amount previously presented as a prepaid expense is reclassified as a receivable from the employee.

### 5. Accounting for retention bonuses

#### Issue

Employees are often granted termination benefits that are associated with the involuntary termination of the employment relationship, but that constructively represent ‘retention bonuses’ for remaining in the entity for a limited period. For example, in order to ensure the controlled winding-up of a production location whose closure has been resolved, the entity may believe it necessary to employ staff for a limited period above and beyond the normal notice period, and to offer a retention bonus as a corresponding incentive to this end. In such cases – frequently in connection with restructurings – ‘termination benefits’ are agreed, together with additional incentives for the employees to render future services in the form of retention bonuses (also referred to as ‘stay bonuses’).

Retention bonuses that fall within the scope of IFRS 2 *Share-based Payment* are not addressed by this Implementation Guidance.

**Question:** Must retention bonuses that are granted to employees together with termination benefits be accounted for separately from the termination benefits?

**Answer:** Yes. Because the payments are granted to the employees for different forms of consideration, the principle of substance over form to be applied in the course of financial reporting under IFRSs means that the two payments must be accounted for separately, even if they have been agreed in a single contract under private law (see IAS 19.159).

The retention bonus is granted for a future service that still has to be performed (the employee’s continued work in the entity), whereas the other payment is granted because of the termination of the employment relationship.

**Question:** How should termination bonuses be accounted for?

**Answer:** Retention bonuses are short-term employee benefits if they are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service (IAS 19.8).

By contrast, if the payment associated with a retention bonus is not expected to be settled wholly before twelve months after the end of the period in which the employees render the service related to the retention bonus, the requirements of IAS 19.153 – 158 governing other long-term employee benefits apply.

The expense is recognised when the service is rendered (for details, see IAS 19.11 or IAS 19.153 ff. in conjunction with IAS 19.56 ff.).

### 6. Discount rate in accordance with IAS 19.83 ff.

#### Issue

IAS 19.83 (sentence 1) stipulates the rate to be used to discount post-employment benefit obligations, which ‘shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds’. The discount rates used in practice are often based on the current yield of high-quality corporate bonds with an AA rating (Standard & Poor’s) or Aa rating (Moody’s). For



example, information on corresponding iBoxx indices (AA corporate bonds) that is regularly published by a market data provider can be used to determine the discount rate.

However, for short periods these indices may also contain bonds that have been downgraded from an AA or Aa rating and do not meet the required high quality criterion. For the iBoxx AA Corporate Bond Index, the market data provider makes available information about bonds that are rated below AA shortly before or at the reference date, for example, although (for technical reasons) these bonds are only removed from the index shortly after the reference date. Because the automatic, unadjusted use of such indices may result in the reference basis for the reporting date in question no longer meeting the requirements set out in IAS 19.83 (sentence 1), it is necessary to adjust the index on the basis of the information available at the reporting date by removing those bonds that are rated below AA or Aa, unless it is evident that the effects of such an adjustment are immaterial.

Depending on the individual circumstances, deriving the discount rate may also require adjustments to the underlying index to reflect other aspects. If extraordinary circumstances prevail at a specific time, for example as may happen from time to time during a crisis situation and the resulting uncertainties, it may be appropriate and justified to remove bonds with a particularly high bid/ask spread.

**Question:** Is an adjustment to the index or to the basket previously used to determine the discount rate by removing bonds rated below AA or Aa a change in accounting policy in accordance with IAS 8.14?

**Answer:** No. Such adjustments do not represent a change in accounting policy, so there is no need for a retrospective restatement under IAS 8.

Rather, the adjustments described above are similar to changes in accounting estimates in accordance with IAS 8 or represent changes in actuarial assumptions in accordance with IAS 19. Consequently, the resulting changes must be applied prospectively.

**Question:** Can the removal of bonds that are rated lower than AA or Aa, as described above, trigger additional disclosures in the notes?

**Answer:** IAS 19 does not require additional disclosures in the notes as a result of such adjustments.

However, additional disclosures may be required with regard to other aspects in connection with an adjustment to the underlying index used to derive the discount rate, eg the removal of bonds with a particularly high bid/ask spread as mentioned above. In this context, material effects of a crisis situation on the measurement parameters in accordance with IAS 19 must be explained for users of the financial statements. Such explanations should focus in particular on the relevant notes disclosures in accordance with IAS 1.125 ff. (major sources of estimation uncertainty) and IAS 8.39 f. (disclosures in conjunction with changes in accounting estimates).

#### *7. Interaction between accounting for restructurings in accordance with IAS 37 and for termination benefits (as a component of restructurings) in accordance with IAS 19*

##### Issue

In a crisis situation, many companies feel they have no alternative to making employees redundant in the course of restructurings. However, in accordance with IAS 37.72, a constructive obligation to restructure arises only – provided further conditions are met – when an entity ‘has a detailed formal plan for the restructuring identifying at least: ... the location, function and approximate number of employees who will be compensated for terminating their services.’ In addition, IAS 19.159 – 171 governs accounting for termination benefits.

The number of cases of termination benefits to be recognised in accordance with IAS 19 (IAS 19.159 – 171) has dropped significantly because of the revision of IAS 19 relating to this category of employee benefits issued by the IASB in June 2011 and effective for annual periods beginning on or



after 1 January 2013. This is attributable in particular to the fact that, because of the June 2011 revision, accounting in accordance with IAS 19.159 – 171 no longer applies if termination benefits are granted in exchange for future service (IAS 19.159 – 162).

**Question:** Are termination benefits to which an entity is committed as part of a restructuring governed by IAS 37.70 ff. or IAS 19.159 ff.?

**Answer:** IAS 19.159 ff. applies. IAS 37.5 sets out that other IFRSs dealing with specific types of provision take precedence over IAS 37. In accordance with IAS 37.5 (d), this also applies to employee benefits, which are governed by IAS 19. Termination benefits to which the entity is committed as part of a restructuring must therefore be accounted for in accordance with IAS 19.159 ff. Measures related to redundancies must therefore be isolated from other restructuring measures and accounted for separately under the specific relevant provisions of IAS 19.

This accounting treatment also results from the requirements of IAS 8.7, under which a Standard that ‘specifically applies to a transaction, other event, or condition’ must be applied.

**Question:** Are there any differences between the recognition of termination benefits in accordance with IAS 19.165 ff. and the recognition requirements under IAS 37.71 ff.?

**Answer:** Basically none. There are differences in the timing of recognition only in cases where the date when the entity can no longer withdraw the offer of the termination benefits (IAS 19.165 (a)) is before the date when the entity is required to recognise costs for a restructuring under IAS 37.71 ff. and the restructuring involves the payment of termination benefits (IAS 19.165 (b)).

**Question:** Are there differences between the measurement of termination benefits in accordance with IAS 19.169 f. and the measurement requirements under IAS 37.80?

**Answer:** Yes, differences may arise. The IAS 19 measurement requirements take priority, so the references in IAS 19.169 to other specific requirements of IAS 19 may lead to differences compared with measurement under IAS 37.

The basic principle under IAS 19.169 is that an entity is required to measure termination benefits

- on initial recognition and
- in the case of subsequent changes

in accordance with the nature of the employee benefit. Following on from this principle, the following distinction must be made as regards the measurement of termination benefits:

- if the benefits are an enhancement to post-employment benefits, the entity must apply the requirements for post-employment benefits (IAS 19.169 sentence 1);
- if the termination benefits are expected to be settled wholly before twelve months after the end of the period in which they were recognised, the entity must apply the requirements for short-term employee benefits (IAS 19.169 sentence 2 (a));
- if, by contrast, the termination benefits are not expected to be settled wholly before twelve months after the end of the period in which they were recognised, the entity must apply the requirements for other long-term employee benefits (IAS 19.169 sentence 2 (b)). In such cases, the obligation would have to be discounted using a discount rate in accordance with IAS 19.83 ff. On the other hand, if expenses that do not fall within the scope of IAS 19 are incurred in the course of the restructuring in relation to redundancies and must be discounted, IAS 37.47 requires a discount rate to be used that normally differs from the discount rate prescribed by IAS 19.83 ff. Additionally, obligations must always be discounted in accordance with IAS 19 if the termination benefits are not expected to be settled wholly before twelve months after the end of the period in which the corresponding service was rendered. By contrast, IAS 37.45 requires the obligation to be measured at the present value of the expenditures expected to be required to settle it only if the effect of the time value of money is material.



**Question:** What interactions are there between the disclosure requirements of IAS 37 for restructurings and of IAS 19.171 for termination benefits (as a component of restructurings)?

**Answer:** IAS 19.171 states that no specific disclosures are required for termination benefits, but that other IFRSs may require such disclosures (IAS 19.171 sentences 2 and 3 refer to IAS 24 Related Party Disclosures and IAS 1 Presentation of Financial Statements as examples). If the termination benefits are a component of a restructuring, the disclosures under IAS 37.84 ff. must be made where these are required for restructurings.

*8. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost as objective evidence of impairment*

Issue

In accordance with IAS 39.61 (sentence 2), a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is one of the factors representing objective evidence of impairment. In the context of this requirement, the IFRS Interpretations Committee was asked to provide guidance on the meaning of ‘significant or prolonged’ in a potential agenda item request, because this concept is interpreted and applied differently in practice.

**Question:** How should the concept of a ‘significant or prolonged’ decline in fair value in accordance with IAS 39.61 (sentence 2) be interpreted?

**Answer:** The IFRS Interpretations Committee addressed this issue in detail in the July 2009 IFRIC UPDATE, to which reference is made (see: [www.ifrs.org](http://www.ifrs.org)).

The explanations provided by the IFRS Interpretations Committee as examples can be summarised as follows:

- these two criteria that are evidence of impairment are independent of each other. An impairment loss must be recognised if the decline is either ‘significant’ or ‘prolonged’,
- the fact that the decline in the fair value of an investment in an equity instrument is in line with the overall level of decline in the relevant market does not mean that no impairment loss need be recognised,
- any expected recovery in market values is not relevant to the assessment of a significant or prolonged decline in fair value, and
- the assessment of a significant or prolonged decline in fair value must be made in accordance with the general impairment rules on the basis of the functional currency of the entity that holds the equity instrument.

The IFRS Interpretations Committee also notes that a ‘significant or prolonged decline’ in fair value is a matter of fact that requires the application of judgement to determine the extent or duration of the decline. This is true even if an entity develops internal guidance to assist it in applying that judgement consistently. The IFRS Interpretations Committee also notes that entities must provide disclosures about the judgements it made in determining the existence of objective evidence and the amounts of impairment in accordance with IAS 1.122 f. and IFRS 7.20.

In accordance with IAS 39.69, impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale may not be reversed through profit or loss.

*9. Compliance with special reporting obligations in crisis situations*

Issue

Especially during economic downturns and times of economic instability, as well as in entity-specific crisis situations, reporting by the entity in the (group) management report takes on a particular significance. The course of business, including the financial results, and the position of the entity or the group must be described in order to present a true and fair view (section 289(1) sentence 1 of the



*Handelsgesetzbuch* (HGB – German Commercial Code) and section 315(1) of the HGB; see also the corresponding German Accounting Standard GAS 20 Group Management Report). The entity or group must therefore address both negative business developments (eg sharp drops in unit sales or revenue, the disappearance of certain markets, the reduction of credit facilities made available by banks, a significant deterioration in financing terms) and positive trends. Attention is drawn in this context to the requirements of GAS 20 Group Management Report governing the reporting on expected developments, and specifically to GAS 20.133 (unusually high level of uncertainty affecting the entity's ability to make forecasts).

In macroeconomic crisis situations, as well as when an entity experiences an entity-specific crisis in such an economic environment (or for other reasons), the importance of the notes disclosures required by IFRSs also grows significantly. This is achieved by expanding the disclosures that are relevant to a crisis and reporting on them in greater detail so that they appropriately contribute to ensuring that the financial statements present a true and fair view. As an integral part of IFRS financial statements, especially the notes disclosures should provide the users of financial statements with relevant information in such times of crisis to allow them to make economic decisions on the basis of this information.

**Question:** Do the disclosures required by IFRSs encompass reporting obligations that are directly triggered by a crisis (specific to the entity)?

**Answer:** Yes. Reporting obligations may be directly triggered by a crisis in particular when management has significant doubts as part of its assessment of the entity's ability to continue as a going concern (IAS 1.25). Uncertainties in this respect must be disclosed.

IAS 1.15 (sentence 3) and IAS 1.17 (c) require an entity to provide additional disclosures in their IFRS financial statements when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular events and conditions on the entity's net assets, financial position, results of operations and cash flows. Consideration of the circumstances specific to the entity may give rise to such additional disclosure requirements in times of crisis in order to present fairly the position of the entity. For example, such disclosures should be provided in relation to any risk to the entity's ability to continue as a going concern.

**Question:** Which disclosures required by IFRSs may have to be presented or implemented in greater detail in specific cases in a crisis?

**Answer:** The following requirements in particular are given as examples of such disclosures:

- IAS 1.122 on judgements by management that have a significant effect on the amounts recognised in the financial statements,
- IAS 1.125 on major sources of estimation uncertainty. However, this paragraph only requires disclosures to be made if they are not otherwise required by specific IFRSs. IAS 1.125 is therefore a catch-all requirement in this respect,
- IAS 10.21 on 'non-adjusting events' after the reporting period; attention is drawn in this context in particular to the example of abnormally large changes in asset prices or foreign exchange rates given in IAS 10.22 (g),
- IAS 19.144 on discount rates,
- IAS 36.134 – 135 on estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives,
- IFRS 7.10 on changes in the fair value of a financial liability that are attributable to changes in the credit risk of that liability,
- IFRS 7.24 on the ineffectiveness of cash flow hedges and hedges of net investments in foreign operations,
- IFRS 7.33 on qualitative disclosures on the risks to which the entity is exposed (including credit, liquidity and market risk) and on risk measurement and risk management,





- IFRS 7.34 on quantitative disclosures in respect of these risks, including disclosures on concentrations of risk,
- IFRS 7.36 – 38 in respect of quantitative disclosures on credit risk,
- IFRS 7.39 in respect of quantitative disclosures on liquidity risk,
- IFRS 7.40 – 42 in respect of disclosures on market risk,
- IFRS 7.42A – 42H in respect of disclosures on transfers of financial assets, and
- IFRS 13.91 – 99 on methods and assumptions applied to fair value measurement.

**Question:** Do special disclosure requirements apply to delayed or defaulted payments and breaches of contract in connection with financial covenants?

**Answer:** Yes. A breach of financial covenants normally triggers a disclosure requirement in accordance with IFRS 7.18 f. While IFRS 7.18 refers to loans payable at the end of the reporting period (delays in payment or defaults, carrying amount at the end of the reporting period and the state of negotiations), IFRS 7.19 requires disclosures on breaches over and above the scope of IFRS 7.18.

This means that IFRS 7.19 is applicable in particular to agreements in which additional terms have been agreed (including financial covenants) that have been or will be breached, and in which the lender may call the liability because of this breach. The application criteria of IFRS 7.19 are not met if a breach of such agreements merely provides for the terms to be adjusted (including an increase in the originally agreed interest rate), but the lender cannot call the loan.

**Question:** Which disclosures required by IAS 34 Interim Financial Reporting may have to be presented or implemented in greater detail in specific cases in a crisis?

**Answer:** IAS 34.16A requires certain information to be included in the notes to interim financial statements. A more detailed disclosure obligation may arise due to a crisis situation with regard to the following disclosure requirements:

- IAS 34.16A (b) on seasonal or cyclical factors affecting business activities during the interim reporting period,
- IAS 34.16A (c) on the items materially affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;
- IAS 34.16A (d) on material changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years, and
- IAS 34.16A (h) on material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.