



European Securities and
Markets Authority

Report

24th Extract from the EECS's Database of Enforcement



Table of Contents

I.	Decision ref EECS/0120-01 – Identification of performance obligation	5
II.	Decision ref EECS/0120-02 – Liquidity risk of notes with early redemption option	7
III.	Decision ref EECS/0120-03 – Deferred tax assets (DTAs) related to a change of accounting policy due to first application of IFRS 9	8
IV.	Decision ref EECS/0120-04 – Assessment of De-facto control	9
V.	Decision ref EECS/0120-05 – Disaggregation of revenue	12
VI.	Decision ref EECS/0120-06 – Presentation of condensed interim income statement	13
VII.	Decision ref EECS/0120-07 – Accounting for a framework agreement	15
VIII.	Decision ref EECS/0120-08 – Identifying components in lease contracts	17

The decisions included in this report were taken by national enforcers in the period from May 2018 to October 2019. ESMA will continue to publish further extracts from the database on a regular basis.

List of abbreviations and acronyms used in this report

BC	Basis for Conclusions
BoD	Board of Directors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DTA	Deferred Tax Asset
ECL	Expected Credit Losses
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
ESMA	European Securities and Markets Authority
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee Interpretation
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretations Committee
OEM	Original Equipment Manufacturer

The European Securities and Markets Authority (ESMA) publishes extracts from its confidential database of enforcement decisions on financial statements, with the aim of strengthening supervisory convergence and providing issuers and users of financial statements with relevant information on the appropriate application of the International Financial Reporting Standards (IFRS). According to its founding regulation, ESMA shall act in the field of financial reporting to ensure the effective and consistent application of European legislation.

In order to fulfil these responsibilities, ESMA organises the European Enforcers Coordination Sessions (EECS), a forum of 38 European enforcers from all European Economic Area (EEA) countries with responsibilities in the area of supervision and enforcement of financial information.¹

With responsibility for the coordination of supervision of almost 4,500 issuers listed on the regulated markets in the EEA preparing IFRS financial statements, EECS constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

Through EECS, European enforcers discuss and share their experience on the application and enforcement of IFRS. In particular, they discuss significant enforcement cases before and/or after decisions are taken in order to promote a consistent approach to the application of IFRS. In addition, EECS produces technical advice on ESMA Statements and Opinions on accounting matters and reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and practices.

In taking enforcement decisions, European enforcers apply their judgement, knowledge and experience to the facts and circumstances of the individual cases they consider. Relevant factors may also include other areas of national law beyond the accounting requirements. Interested parties should, therefore, carefully consider the circumstances when reading the cases. As IFRS are principles-based, there can be no one single way of dealing with numerous situations which may seem similar but in substance are different.

Decisions taken by enforcers do not provide generally applicable interpretations of IFRS; this remains the role of the IFRS Interpretations Committee (IFRS IC). The decisions published in each extract are based on the IFRS requirements valid at the time of the IFRS financial statements and may be superseded by subsequent developments in IFRS.

The publication of selected enforcement decisions informs market participants about which accounting treatments European enforcers may consider as complying with IFRS; i.e. whether the treatments considered are within the accepted range of those permitted by IFRS. Such publication, together with the rationale behind the decisions, contributes to a consistent application of IFRS in the EEA.

In accordance with the provisions of the ESMA Guidelines on Enforcement of Financial Information, cases submitted to the enforcement database are considered to be appropriate for publication if they fulfil one or more of the following criteria:

- The decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS;

¹ Following the exit of the United Kingdom from the European Union as of 31 January 2020, the number of enforcers does not include national authorities representing the United Kingdom and the number of issuers does not include the issuers listed on regulated markets in the United Kingdom

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- The decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties;
 - The decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences;
 - The decision has been taken on the basis of a provision not covered by an accounting standard.
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I. Decision ref EECS/0120-01 – Identification of performance obligation

Financial year end: 30 June 2018

Category of issue: Revenue, Performance obligation

Standards or requirements involved: IFRS 15 *Revenue from Contracts with Customers*

Description of the issuer's accounting treatment

1. The issuer operates in the oil and gas industry. It provides geophysical services that enable its customers to receive surveys related to measurements together with subsurface geology images designed to evaluate potential oil reserves in a given area. These surveys are provided to customers through two different contracts: exclusive (proprietary) or non-proprietary multi-client licensing agreements.
2. A multi-client licensing agreement can be sold either as primary sale or as secondary sale arrangements. In the case of primary sale, customers generally enter into the contract before the survey commences. In the case of secondary sale, surveys are sold to customers after the survey has been completed. The final licence sold in both types of arrangements is identical (i.e. it contains the same processed data). The price paid for the license is the same for both types of agreements (i.e. independent of the timing of entrance in the contract, whether prior or after completion of the survey).
3. The different chronological steps identified during the primary sale arrangement are: collecting data (6 to 9 months), processing of data (12 to 18 months) and granting of a license. In a primary sale arrangement, the area of the survey is decided by the issuer. Customers can request the issuer to re-shoot a particular area in order to potentially improve the quality of an image. Nonetheless, the issuer is not obliged to take into account directions given by participants and the issuer remains the only decision-maker and the sole owner of the data. All the shootings performed are part of the data that will be processed and made available to all participants (for both arrangements) in the final survey report.
4. As data are being collected and processed, high level presentations are given to primary sale customers. In the contracts reviewed for the IFRS 15 analysis, the data cannot be of any significant use before the data are processed. Customers receive intermittent reports throughout the data processing phase. Those reports allow customers to have a general indication of the potential of an area. When the final report is available, different customers start analysing the data and decide whether to invest in the area.
5. Primary sale customers can in theory exit the contract. However, the total price of the contract including the final license must be paid and, as a result, in practice, no customer ever leaves a contract. For secondary sales, the issuer concluded that revenue recognition under IFRS 15 would be identical to IAS 18 *Revenue* (at a point in time, upon delivery of the licence to the customer).
6. For primary sales, prior to the application of IFRS 15, the issuer recognised revenue over time. Under IFRS 15, based on the analysis of the requirements in paragraphs 27-29 of IFRS 15, the issuer concluded that it has only one performance obligation, being the granting a licence at the end of a survey. This is because the service phase (i.e. ongoing access to the data during the collection and processing) is only a component of the license and cannot be distinguished

from the license. In addition, the service phase cannot be of any benefit on its own or with a readily available resource.

7. In accordance with paragraph 29(a) of IFRS 15, the issuer considered that it provides a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. The final license provided to the customer relies on the raw data collected and processed during the course of the study (service phase), and the raw data and the processing have no use and relevance without the licence. Moreover, in accordance with paragraph 29(c) of IFRS 15, the issuer considered that the goods or services are highly interdependent or highly interrelated. Furthermore, the added value for the client is nil before the survey is completed given that it cannot process the intermediate raw data by itself.
8. The issuer concluded that the final licence has a character of a right to use licence: the criterion for the right to access licence in paragraph B58(a) of IFRS 15 is not met as the license is not impacted by the issuer's future activities. Before the survey is complete, there is an access to preliminary data (with confidentiality clauses) but there is not yet the granting of a license contract. The license no longer evolves once it is sold to the customer. Consequently, the issuer concluded that revenue should be recognised at point in time. Therefore, the issuer concluded that under IFRS 15, revenue for both primary and secondary sale contracts is recognised at (the same) point in time.

The enforcement decision

9. The enforcer did not object to the issuer's analysis and the way to account for revenue in accordance with IFRS 15.

Rationale for the enforcement decision

10. The enforcer considered that the rationale of the issuer justifying the existence of one performance obligation is appropriate under IFRS 15. Based on the understanding of the activity of the issuer and the contracts, the enforcer considered that any service component would not have any significant value.
11. The enforcer also considered the accounting policies of the issuer's competitors. In cases when the substantial contractual conditions were identical, multi-client primary sale agreements were considered right to use licenses and revenue was recognised point in time at the time of the transfer of the licence to the customer. This point in time was typically upon completion of processing of the survey and granting of access to the finished data or delivery of the finished data to the customer. All amounts received during the service phase were accounted for as a contract liability.

II. Decision ref EECS/0120-02 – Liquidity risk of notes with early redemption option

Financial year end: 30 April 2018

Category of issue: Liquidity risk

Standards or requirements involved: IFRS 7 *Financial Instruments: Disclosure*

Description of the issuer's accounting treatment

12. The issuer issued loan notes (i.e. financial liabilities) that all have a contractual maturity date of 2040. Both the issuer and the noteholders have an option to early redeem the notes before the maturity date. The issuer has the option to call the loan notes by giving an irrevocable notice to the noteholders, subject to a 5-day notice period. The noteholders have a put option to early redeem the loan notes before the maturity date, subject to a 10-day notice period. However, all noteholders have signed a waiver that waives their right to exercise the option to early redeem for at least 12 months from the year-end date.
13. Furthermore, every two weeks the noteholders can subscribe for or request the redemption of loan notes (in addition to the abovementioned put option) through a “bi-weekly liquidity process”. The issuer makes the final decision on whether or not to execute these redemption requests. The issuer confirmed that it has not denied any redemptions requests during the year.
14. In the liquidity maturity analysis table prepared in accordance with paragraph 39(a) of IFRS 7, the issuer classified these loan notes as having a maturity ‘greater than five years’. However, in recent years, material redemptions and repurchases of notes have occurred. The issuer noted that all of these redemptions are part of the normal course of business for the issuer and are driven by the liquidity needs of the noteholders and were not due to exercising the ‘put option’ by any of the noteholders.
15. The issuer argued that, as the redeemed loan notes can be re-purchased by another party with the same contractual maturity date (i.e. the issuer can re-issue the loan notes), there is no direct link between the contractual maturity date of the loan notes and the noteholder. With regards to the redemptions and repurchases that occurred, the issuer also argued that, as there is no party who can contractually require the issuer to redeem the loan notes since the redemptions can only occur by mutual consent, the liability is thus required to be classified in the time range when the entity can be required to pay. Accordingly, the issuer argued that the ‘greater than five years’ liquidity table time range correctly reflects the earliest contractual maturity date.

The enforcement decision

16. The enforcer did not agree with the classification of these loan notes in the liquidity maturity analysis and required that the issuer present the loan notes as maturing in the ‘greater than one-year’ time range. The enforcer also required that the issuer enhance disclosures relating to liquidity risk in terms of how it is managed and of the assumptions used in the liquidity analysis.

Rationale for the enforcement decision

17. The enforcer notes that when a counterparty has a choice of when an amount is paid, paragraph B11C(a) of IFRS 7 requires the liability to be allocated to the earliest period in which the entity can be required to pay. This is because liquidity risk (i.e. the risk that the entity will encounter difficulty in meeting commitments associated with financial liabilities) arises because of the possibility (which may often be remote) that the entity could be required to pay its liabilities earlier than expected. Paragraph BC57 of IFRS 7 clarifies that the Board decided to require such disclosure based on the earliest contractual maturity date because this disclosure shows a worst-case scenario. The enforcer believed that the issuer was presenting the maturity analysis as a best-case scenario and that this does not reflect the contractual position of the issuer.
18. The enforcer noted that material redemptions are occurring each year through the bi-weekly liquidity process of the noteholders. The enforcer also noted that, through this process, the noteholder could request to redeem the notes, but that such request was not binding for the issuer. Therefore, the enforcer considered that such request did not represent a contractual obligation for the issuer and as such should not be reflected in the assessment of the earliest contractual maturity date for the purposes of preparation of the liquidity maturity analysis table.
19. Consequently, the enforcer considered that the put option, which give noteholders the right to redeem before the maturity date, had the most important impact on the analysis. The enforcer acknowledged that a written agreement, signed by each noteholder, is in place that waives the noteholders' right to exercise this option for a period of at least 12 months after the year-end date. However, while this waiver on the put option enables to defer the payment for 12 months after the year-end, it does not waive this right for a period of 5 years.
20. The enforcer concluded that all notes should be classified in the liquidity maturity analysis table as maturing in the 'greater than one year' time range. This is because the waiver in relation to the noteholder's right to exercise the option to early redeem for 12 months from the year end date provides liquidity security for a 12-month period. Based on the contract, there is a possibility that after this 12-month period the noteholders could seek full redemption and the issuer would be required to repay the notes early.

III. Decision ref EECS/0120-03 – Deferred tax assets (DTAs) related to a change of accounting policy due to first application of IFRS 9

Financial year end: 31 December 2018

Category of issue: Deferred taxes, Impact of changes in tax legislation

Standards or requirements involved: IFRS 9 *Financial Instruments*; IAS 12 *Income Taxes*

Description of the issuer's accounting treatment

21. In 2018, the issuer, a bank, applied IFRS 9 for the first time. The specific transition requirements of the new standard and in particular the expected credit loss (ECL) impairment model had a negative impact on the opening balance of retained earnings as of 1 January 2018.
22. According to the tax rules applicable as of 1 January 2018, the negative equity impact due to the adoption of the IFRS 9 impairment model was deducted from the 2018 taxable profit. Consequently, DTAs arising from the carry forward of tax losses deriving from the above

negative impact on retained earnings were recognised to the extent that they were assessed to be recoverable. The recoverability test performed took the 2018 budgets into account. Such DTAs were recognised with a corresponding effect on retained earnings.

23. Before the 2018 year-end, a change in the tax law was enacted according to which the effect of provisions deriving from the first-time application of the IFRS 9 ECL model recognised as of 1 January 2018 is deductible for tax purposes progressively over 10 years. On this basis, the issuer changed the amount of DTAs assessed as recoverable from the initial assessment.
24. Given the change of the tax law, the issuer recognised the impact of the additional DTAs in profit or loss. In the view of the issuer, this reflected the impact of the change in the tax law and where the original transaction would have been recognised (i.e. recognition of impairment losses as if IFRS 9 were always applied).

The enforcement decision

25. The enforcer did not object to the issuer's accounting treatment that recognised the impact of the change of the tax law in profit or loss.

Rationale for the enforcement decision

26. The enforcer noted that paragraph 57 of IAS 12 sets the general principle that accounting for the current and deferred tax effects of a transaction or other event shall be consistent with the accounting for the transaction or event itself.
27. Paragraph 61A of IAS 12 requires deferred tax relating to items which are recognised directly in equity to be recognised directly in equity. Paragraph 62A of IAS 12 indicates that IFRSs require or permit particular items to be credited or charged directly to equity such as, for example, an adjustment to the opening balance of retained earnings resulting from a change in accounting policy that is applied retrospectively. However, in the view of the enforcer, such accounting treatment does not necessarily extend to subsequent adjustments to the deferred taxes originally recognised in relation to the retrospective change in an accounting policy.
28. When taking the principle included in paragraph 57 of IAS 12 into account, the enforcer concluded that where the items on which the deferred tax arose would have been recognised if the new accounting policy had been applied in the earlier periods needs to be considered. In this case, the enforcer considered that, if the IFRS 9 ECL model had always been applied, all additional impairment charges would have been recognised in profit and loss.

IV. Decision ref EECS/0120-04 – Assessment of De-facto control

Financial year end: 31 December 2018

Category of issue: Control, De-facto agent

Standards or requirements involved: IFRS 10 *Consolidated Financial Statements*

Description of the issuer's accounting treatment

29. The issuer is an industrial company that holds 39% of the capital of Company X. The issuer is controlled by Company Y, which is controlled by the controlling shareholder A. Person A also

holds 4% of Company X through Company Z. Together with Z, the issuer holds 43% (40% as of 1 January 2017) of the capital in Company X.

30. Apart from the issuer and Company Z, 21 institutional shareholders together hold 37% of the shares of Company X, each of them holding voting rights up to a maximum of 3% (the 10 most important holding together 22%), while the remaining 20% of the shares of Company X are spread among the public. There are no arrangements between either the institutional shareholders or the public to consult with any of the others or to make collective decisions, and the issuer owns no call or put options.
31. The strategic decisions about the relevant activities of Company X are taken by the Board of Directors (BoD). The BoD is composed of 6 members: two representing the issuer, a non-executive member and three non-executive independent members. The two members who represent the issuer are also the CEO and CFO of company X (the former being the controlling shareholder A and the latter being the chairman of the BoD of the issuer). The BoD's decisions are taken by simple majority of votes and the Chairman holds the deciding vote in case of a tie.
32. The BoD has entrusted its day-to-day management and any additional responsibilities to the Executive Committee. The Executive Committee has no members other than the two representatives of the issuer. However, the issuer believed that the BoD is the most important management body of Company X. As only two out of six members represent the issuer, the issuer believed that it had no practical ability to direct the relevant activities of Company X.
33. Since the shareholders appoint and remove the BoD members, the issuer also considered the voting rights held by the shareholders. The issuer argued that in case of opposing views, it would be possible for other shareholders to arrange the presence of an additional number of voting rights (e.g. under a proxy voting mechanism) to prevent the issuer from having the majority of the voting rights at the shareholders' meeting.
34. Since, according to the issuer, the absolute and the relative size of the issuers' interest in Company X is inconclusive in determining whether the issuer has rights sufficient to give it power over Company X, the issuer considered additional facts and circumstances. When considering the voting patterns at the shareholders' meetings over the last 5 years, the issuer argued that even though the issuer acquired more shares, its relative size in the voting rights present at the shareholders meeting remained stable. According to the issuer, this shows a relative increased active participation of other shareholders.
35. The issuer concluded that since it does not have a majority in the BoD, it cannot appoint (approve) the key management personnel who have the ability to direct the relevant activities of the issuer. Furthermore, for the same reasons, the issuer concluded that it can neither direct the investee to enter into, nor veto any changes to, significant transactions for its benefit. Although the key management personnel of Company X are both related parties and current employees of the investor, this key management needs to operate within the limits of the decisions taken by the BoD.
36. The issuer concluded that there are insufficient elements to demonstrate power of the issuer over Company X. Accordingly, the issuer concluded that it has a significant influence over Company X under the requirements of IAS 28 *Investments in Associates and Joint Ventures*.

The enforcement decision

37. In the view of the enforcer, the issuer has de facto power over Company X since it has the practical ability to direct the relevant activities unilaterally. Consequently, the issuer should consolidate Company X in accordance with IFRS 10.

Rationale for the enforcement decision

38. Firstly, the enforcer considered whether the holding of Company Z should be considered together with the holding of the issuer. Paragraph B73 of IFRS 10 states that when assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf ('de facto agents'). Paragraph B74 of IFRS 10 clarifies that a party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf.

39. In this case, the issuer and Company Z have the same controlling shareholder (person A), so the party that directs the activities of the issuer has also the ability to direct Company Z to act on the issuer's behalf. Therefore, in assessing control in these circumstances, the voting rights of the issuer and the voting rights of its related party should be considered together when comparing them with the voting rights held by other parties.

40. Secondly, the enforcer considered the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders. The issuer holds significantly more voting rights than any other vote holder, and the other shareholdings are widely dispersed. As for additional facts and circumstances, the enforcer considered voting patterns at previous shareholders' meetings in accordance with paragraph B42(d) of IFRS 10.

41. During the last two shareholders' meetings (held in 2017 and 2018), 60% and 62% of the total shares were present at the shareholders' meetings. The issuer, together with Company Z, represented 65-68% of the voting rights of the shareholders represented at the shareholders' meetings of Company X. The percentage of the other shareholders represented would have to more than double for the issuer and Company Z to be outvoted. The enforcer noted that even without considering the voting rights held by Company Z the voting rights held by the issuer represented a majority of the voting rights of the shareholders represented at the shareholders' meetings of Company X at least for the last two years. This confirmed the enforcer's analysis that the issuer had power over Company X and the practical ability to direct the relevant activities of this company.

42. Thirdly, as to the issuer's argument that it has not the practical ability to direct the relevant activities of the issuer because it has no majority at the BoD, the enforcer concluded that who appoints the members of the BoD should be considered. Although the BoD takes decisions about the relevant activities of Company X (i.e. the activities that significantly affect the investee's returns), its members are appointed by the shareholders by simple majority. The enforcer noted that paragraph 12 of IFRS 10 states that an investor with the current ability to direct the relevant activities has power even if its rights have yet to be exercised. Consequently, the current composition of the BoD is of no relevance in assessing whether the issuer has control over Company X. According to the enforcer, as the issuer had the practical ability to appoint the members of the BoD, it had the practical ability to direct the relevant activities.

43. Finally, the enforcer considered the factors set out in paragraph B18 of IFRS 10 and the indicators set out in paragraphs B19 and B20 of IFRS 10 (amongst which the fact that the issuer

and Company X have the same CEO (who is also the controlling shareholder person A) and the same CFO (who is also the chairman of the BoD of the issuer and of Company X).

44. Considering (i) that the issuer holds significantly more voting rights than any other vote holder and the other shareholdings are widely dispersed; (ii) the voting patterns at previous shareholders' meetings; and (iii) the fact that the issuer and Company X have the same CEO and the same CFO, the enforcer considered that the issuer had since 2017 the practical ability to direct the relevant activities of Company X, and thus de facto power over Company X.

V. Decision ref EECS/0120-05 – Disaggregation of revenue

Financial year end: 31 December 2018

Category of issue: Revenue, Disaggregation of revenue

Standards or requirements involved: IFRS 15

Description of the issuer's accounting treatment

45. The issuer is a producer of primary minerals and secondary mineral sand products ('secondary mineral products'). The issuer completed two major projects over the last few years in an effort to enhance its revenue. These projects led to recovery of secondary mineral products from waste streams and from mineral sands concentrate products. The issuer disclosed in the segment reporting note in its financial statements that it disaggregated revenue by its three major product lines (Product line A, Product line B and Product line C). Product lines A and C relate to primary mineral products.
46. In a presentation on its website coinciding with the publication of its 2018 earnings announcement, the revenue of one of its three product lines (Product line B) was disaggregated into a primary mineral line (product line B1) and a secondary mineral products line (product line B2), resulting in the presentation of four product lines.
47. In determining the disaggregation of revenue, the issuer determined that the split into the three major product categories was appropriate, despite differences in the underlying economic characteristics. Consequently, the revenue for both the primary and secondary products of one major product line was aggregated for disclosure purposes in the segment reporting note.

The enforcement decision

48. In the view of the enforcer, the issuer should provide further disaggregation of revenue in accordance with paragraphs 114 of IFRS 15 in its IFRS financial statements.

Rationale for the enforcement decision

49. The enforcer noted that although revenue information for one product line (Product line B) disclosed in the notes to the financial statements was aggregated for primary and secondary minerals, disaggregated information was provided in the issuer's earnings presentation and in narrative disclosures within the other sections of the annual report. Furthermore, the issuer had disclosed that it had a defined strategy to increase recoveries of minerals with the aim to increase the ratio of the higher-grade primary minerals to the lower grade secondary mineral

products. The enforcer noted that primary and secondary mineral products are subject to different price volatility.

50. The enforcer recalled that paragraph 114 of IFRS 15 requires issuers to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.
51. The enforcer considered that external economic factors have a different impact on the price per tonne for both primary and secondary mineral products, as primary minerals are of a higher quality grade compared to the secondary mineral products. Moreover, the enforcer established that the issuer used other information (beyond the segment disclosures in the financial statements) to evaluate its financial performance. Given that the secondary mineral products have a different customer base and that their price is more volatile compared to that of primary minerals, further disaggregation of revenue for Product line B should have been provided in accordance with IFRS 15.

VI. Decision ref EECS/0120-06 – Presentation of condensed interim income statement

Financial year end: 30 June 2017

Category of issue: Income statement, Interim financial statements

Standards or requirements involved: IAS 34 *Interim Financial Reporting*

Description of the issuer's accounting treatment

52. The issuer is a biotech company. The issuer's half-yearly condensed income statement only consisted of the following lines and subtotals:
- revenue;
 - gross profit/loss;
 - profit/loss before financial items;
 - profit/loss before tax; and
 - profit/loss for the period.
53. The amount of revenue of the issuer for the period was limited as many of the expected products were not being sold or distributed yet.
54. Furthermore, in addition to limited information in the interim income statement, there were no additional notes to the lines or sub-totals, providing disclosures about the line items that were included. This meant that no lines of costs were presented, nor information specified in the notes.
55. In the annual financial statements, the following costs were presented in the statement of profit or loss:
- production costs;
 - sales and marketing costs;
 - research and development costs;
 - administrative expenses;
 - financial expenses; and

- total income taxes.

56. While production costs and total income taxes could be calculated by users of the interim financial statements, for sales and marketing, research and development and administrative costs, only the aggregate amount for these three types of costs can be calculated. The interim financial report included disclosures regarding the increase in total overheads due to clinical studies in one jurisdiction giving some information on the costs in the period.

The enforcement decision

57. The enforcer required the issuer to provide additional lines in the interim condensed income statement, in particular research and development costs.

Rationale for the enforcement decision

58. The enforcer found that the information presented in the income statement by the issuer was too condensed and therefore not prepared in accordance with paragraphs 10, 15 and 25 of IAS 34. To meet these requirements a condensed income statement should include all information that is relevant in understanding the developments in the period's profit and loss account.

59. The enforcer considered that the IFRS IC's Agenda Decision on condensed statement of cash flows from July 2014 was relevant in this case. A condensed income statement is one of the primary statements that is included as part of an interim financial report as required by paragraph 8 of IAS 34. Paragraph 10 of IAS 34 specifies that each of the condensed statements shall include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements. Paragraph 10 of IAS 34 also requires additional line items to be included if their omission would make the interim financial statements misleading.

60. The enforcer noted that paragraph 15 of IAS 34 requires an issuer to include in an interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report. Furthermore, in accordance with paragraph 25 of IAS 34, the overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding of an entity's financial position and performance during the interim period.

61. The future prospects of the issuer largely depend on the research and development activity. However, as the condensed income statement did not include the line item regarding research and development costs, the enforcer considered that the interim income statement was too condensed. Furthermore, during 2017 research and development costs increased by almost 120% compared to the year before, while other costs and revenue showed a significantly lower growth. While this increase in research and development costs amounted to almost the total difference in the result for the year compared to the previous year (the loss did increase by almost 50%), it was not disclosed in the notes to the interim financial statements.

62. The enforcer did not consider the information disclosed in the interim financial report to be sufficient according to IAS 34, since neither the interim income statement nor the notes

contained information regarding the size of the research and development costs for the period or the development in these costs from the previous period. In this case, the development in the research and development activities and costs made it especially important to present a separate line item in the interim income statement. This is because the research and development costs are probably the most important line item for the investors, as it best reflects the current activity of the issuer.

63. The enforcer noted that the above-mentioned IFRS IC Agenda Decision concluded that a three-line presentation alone is unlikely to meet the requirements in IAS 34. Consequently, the enforcer considered that the very condensed income statement alone failed to meet the requirements of IAS 34 with regards to the presentation of the income statement.

VII. Decision ref EECS/0120-07 – Accounting for a framework agreement

Financial year end: 31 December 2018

Category of issue: Performance obligation

Standards or requirements involved: IFRS 15

Description of the issuer's accounting treatment

64. The issuer is an industrial company active in the automotive sector. The issuer produces and sells automotive parts to original equipment manufacturers (OEMs). In the production process of those parts, the issuer uses moulds that are designed by the issuer and constructed by a third-party supplier.
65. Once the OEM selects the issuer as supplier for the parts, both parties sign a nomination letter. This document contains information such as the estimated program life, the estimated annual volume of parts, start of production date, the specification of the moulds to be used, the number of moulds to be used, the price of the moulds and the price for the parts, etc. The nomination letter stipulates that the moulds become the property of the OEM but includes no commitment for the customer (the OEM) for the quantity of parts. Commitments on quantities of parts are only established when the OEM issues purchase orders.
66. Within a short period after signing the nomination letter the issuer initiates the design and production of the moulds. On average after 2 years, the moulds are finished and accepted, prototype parts are approved and the first purchase orders for parts are initiated by the OEM.
67. In Step 1 of IFRS 15 regarding the revenue recognition process (identification of the contract with a customer) the issuer considered that the nomination letter qualified as a sales contract for both the moulds and the parts. When identifying each party's rights regarding the goods or services to be transferred in accordance with paragraphs 9(b) and 10 of IFRS 15, the issuer acknowledged that the quantity of parts that will be purchased under the contract was not determined. The contract only indicated an estimated minimum quantity of parts that the issuer must be able to deliver but did not include a volume commitment by the OEM.
68. According to the issuer, history has proven that in all cases parts will be delivered. The issuer argues that they can make a reliable estimate of a minimum number of parts (a floor) and that there is a high probability (based on historical experience) that the actual number of

parts will not be lower than this amount. Consequently, the issuer determined that enforceable rights and obligations are created for both parties, for the moulds as well as for the parts, and thus there is a contract for both sets of items.

69. The consequence of the issuer's view is that there is a single contract for the sale of both moulds and parts. When analysing identification of the performance obligations in the contract, the moulds are considered by the issuer to be not distinct and, together with the parts, to form one performance obligation. The revenue related to the moulds is thus recognised over time along with the revenue related to the parts.

The enforcement decision

70. The enforcer disagreed with the analysis and considered that the two performance obligations should not be combined but accounted for separately.

Rationale for the enforcement decision

71. For the sale of moulds, the signed nomination letter qualifies as a contract as the rights and obligations for both parties can be identified in accordance with paragraph 9(b) of IFRS 15.
72. For the sale of parts, the nomination letter includes an estimation of volume but no committed volume for the OEM. As IFRS 15 does not permit a minimum expected quantity to qualify as a commitment for the customer, the enforcer believed that there are no rights for the issuer to produce a certain amount of parts. Only in combination with the purchase orders (which are started to be issued on average two years after signing the nomination letter) there would be committed rights and obligations for both parties. Consequently, for the parts, the nomination letter qualifies purely as a framework agreement and not as a contract. Therefore, there are separate contracts for the sale of moulds and the sale of parts.
73. The enforcer further analysed whether both contracts should be combined in accordance with paragraph 17 of IFRS 15. However, as this requires the contracts to be entered into 'at or near the same time', and as there are on average two years between the signing of the nomination letter and the issuance of the first purchase orders (with purchase orders continuing to be issued over a period of seven years on average), the enforcer deemed paragraph 17 of IFRS 15 not to be applicable.
74. The enforcer also considered whether the obligation to produce the moulds could be considered as activities that the issuer must undertake to fulfil a contract (the production of the parts), that do not transfer a good or service to customer in accordance with paragraph 25 of IFRS 15 and thus do not generate revenue on their own. The enforcer however determined that this was not the case in this fact pattern as the OEM obtains control of the moulds as it can prevent other entities from directing the use and obtaining the benefits from them as described in paragraphs 31 and 33 of IFRS 15.
75. Consequently, the enforcer concluded that both contracts should be analysed separately in IFRS 15, and revenue for one contract should be recognised independently from that for the other contract. This led the enforcer to conclude that revenue related to the moulds should be recognised before the commencement of the recognition of revenue related to the parts.

VIII. Decision ref EECS/0120-08 – Identifying components in lease contracts

Financial year or period end: 30 June 2018

Category of issue: Real estate leases, Separating non-lease components in a lease contract, Agent and principal assessment

Standard or requirements involved: IFRS 15, IFRS 16 *Leases*

Description of the issuer's accounting treatment

76. The issuer is a commercial real estate company whose core business covers the management and development of properties. Most of its income is generated by its lessor and asset manager activities. Gross revenue comprises rental income and operating costs charged to tenants. Examples of operating costs are waste disposal, property management, costs for communal facilities, gas, electricity and warm water.
77. According to local laws and regulations, the lessor bears all costs that occur when using and operating the property. The lessor and the tenant can specify the operating costs of the building as a whole (e.g. chimney sweeper, elevator service) and of the specific rental unit (e.g. warm water supply, gas and electricity for the specific unit) that will be charged to the tenant.
78. For some utilities (gas and electricity) the tenant can enter into direct purchase agreements for operating services for the rental unit with third parties. In the specific case at hand, if the lessor enters into an agreement with a provider, it charges the costs to the tenants based on the tenant's consumption. These costs are operating costs of the rental unit and not of the building. In most cases, the issuer itself enters into purchase agreements after concluding the rental agreement, without bearing any consumption risk.
79. Rental income arising from the lease component falls within the scope of IFRS 16. However, the issuer identified the non-lease components stipulated in the lease contracts and assessed whether they should be split out and accounted for separately in accordance with IFRS 15.
80. For the operating costs of the building (e.g. chimney sweeper, elevator service) the issuer concluded that it acts as a principal. Therefore, the issuer applied IFRS 15 to operating costs of the building charged to its tenants.
81. For operating costs of the rental unit (warm water supply, gas and electricity), the issuer determined that it acts as an agent. The issuer assessed that the considerations for warm water, gas and electricity did not constitute a separate non-lease component and thus allocated the consideration to the components identified under paragraph B33 of IFRS 16.

The enforcement decision

82. The enforcer did not object to the issuer's accounting treatment for the operating costs of the building. However, the enforcer disagreed with the accounting treatment of the issuer's service to arrange for the operating services of the rental unit. Contrary to the issuer, the enforcer concluded that these services are separate non-lease components, and as such that they shall be accounted for under IFRS 15. In addition, the enforcer concluded that the issuer was acting as the principal for supplying warm-water and as an agent for arranging the supply of gas and electricity.

Rationale for the enforcement decision

83. According to paragraph 12 of IFRS 16, non-lease components that are stipulated in a lease contract shall be separated from the lease components. IFRS 16 should apply only to the lease components of any contract.
84. In this case, IFRS 16 is applicable because the tenant has the right to use the rental unit for a specified period in exchange for a rental fee. The issuer shall assess whether the operating services for the building and the rental unit are non-lease components (and therefore IFRS 15 is applicable) or whether amounts payable do not give rise to a separate component but are part of the consideration that is allocated to the separately identified components of the contract (both IFRS 15 and 16 can be applicable, depending on the identified components).
85. According to the enforcer, the fact that the issuer acts as an agent is only relevant for the presentation of the consideration and not for identification of separate components in a lease contract. When the issuer acts as an agent for services that are non-lease components, the issuer shall recognise revenue only in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the third party in accordance with IFRS 15.
86. The enforcer concluded that in the fact pattern the issuer acted as principal when supplying warm water from the central heating plant in the house. The issuer purchases the necessary utilities (e.g. oil and gas) for this service, and produces warm water on demand, thus controlling the warm water before it is transferred to the tenant. According to IFRS 15, the relevant criterion is whether the issuer obtains control of the services before they get passed to an individual tenant.
87. The enforcer concluded that in the fact pattern the issuer acts as an agent regarding its service to arrange for gas and electricity, as the issuer cannot control gas and electricity before they are transferred to the tenant. Indicators for the assessment of control are the ultimate responsibility for gas and electricity supply of the third-party provider as the issuer (i) bears no consumption or inventory risk, (ii) is not able to set its own prices and (iii) does not earn any margin on the service. The fact that the issuer chose the provider in the first place does not give the issuer control over the delivered gas or electricity.