The ERICA series:

1. Recalculated data in European non-financial listed groups and the impact of revised IAS 19

ERICA (European Records of IFRS Consolidated Accounts) WG
European Committee of Central Balance Sheet Data Offices (ECCBSO)

February 2015

ERICA Working Group
eccbso
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(Document prepared by Ilse Rubbrecht, Banque Nationale de Belgique)

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Members of the ERICA (European Records of IFRS Consolidated Accounts) WG

Manuel Ortega (chairman)
manuel.ortega@bde.es
Banco de España
Pilar Saura
pilar.saura@bde.es
Banco de España
Riccardo Renzi
riccardo.renzi@bancaditalia.it
Banca d'Italia
Ana Bárbara Pinto
apinto@bportugal.pt
Banco de Portugal
Olga Lymperopoulou
olimperopoulou@bankofgreece.gr
Bank of Greece
Claire Mangin
Claire.MANGIN-SOUBRET@banque-france.fr
Banque de France
Lisa Schirmer
Lisa.SCHIRMER@acpr.banque-france.fr
Banque de France
Laurent Carlino
Laurent.CARLINO@banque-france.fr
Banque de France
Saskia Vennix
Saskia.vennix@nbb.be
Banque Nationale de Belgique
Ilse Rubbrecht
Ilse.Rubbrecht@nbb.be
Banque Nationale de Belgique
Vincenzo Favale
vincenzo.favale@cervedgroup.com
Centrale dei Bilanci / Cerved Group
Matthias Lörch
matthias.loerch@bundesbank.de
Deutsche Bundesbank
Martina Hemsath
martina.hemsath@bundesbank.de
Deutsche Bundesbank
Lena Leontyeva
olena.leontyeva@bundesbank.de
Deutsche Bundesbank
Sabine Wukovits
Sabine.Wukovits@oenb.at
Oesterreichische Nationalbank
Sébastien Pérez-Duarte
Sebastien.Perez_Duarte@ecb.int
European Central Bank
Bartek Czajka (observer)
bczajka@ifrs.org
IASB

IMPORTANT INFORMATION ABOUT THE SOURCE USED (ERICA[1] DATABASE)

The data used in this note are obtained from publicly available financial statements of European non-financial listed groups, having been treated manually, by CBSO statistics and accounting specialists, to be fitted on a standard European format (ERICA format); this manual treatment involves, in some cases, the interpretation of the original data, a constraint that readers of this document should bear in mind.

The database does not represent the total population of European non-financial groups; nevertheless, the coverage attained with ERICA (in the whole dataset of around 1.000 groups, as well as in ERICA+, a subset of around 200 groups with extra accounting details) on the listed European groups is well-attuned to the situation and national composition of the stock markets.

The opinions of the authors of this note do not necessarily reflect those of the national central banks to which they belong or those of the ECCBSO.

The "ERICA series", complement the annual report prepared on the ERICA database, with additional pieces of information and/or analysis on specific issues, using the full database ERICA, or its subset ERICA +. Due to its interest and/or the speciality of the themes treated, these short notes are diffused apart from the annual report, in the ECCBSO webpage (www.eccbso.org).

[1] ERICA (European Records of IFRS Consolidated Accounts) is a database of the European Committee of Central Balance Sheet Data Offices.

RECALCULATED DATA IN EUROPEAN LISTED NON-FINANCIAL GROUPS AND THE IMPACT OF THE REVISED IAS 19

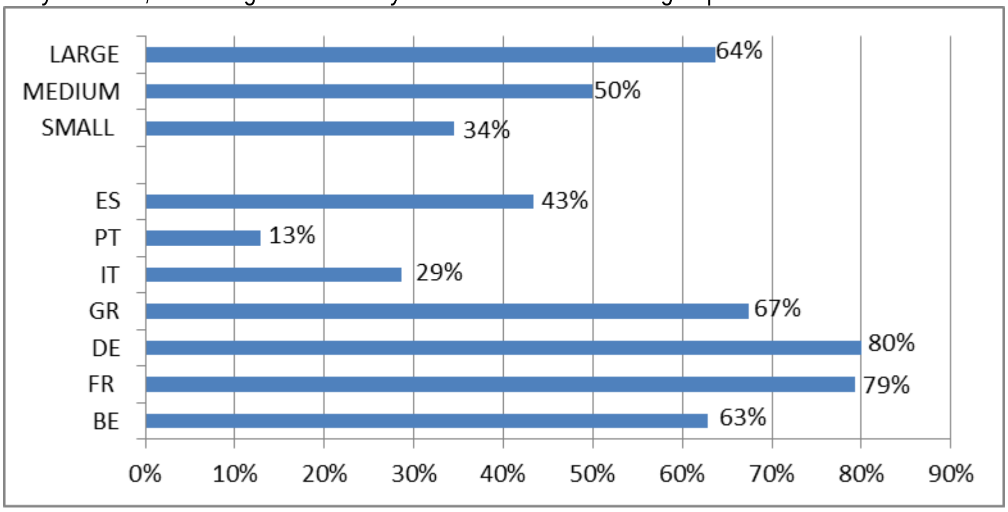
Recalculated data refer to the restated data in a financial statement for the year t-1. A recalculation can occur for different kind of reasons. Only the valuable reasons within the scope of this analysis are considered. *IAS 1* (distinction between items of Other Comprehensive Income that will or will not be reclassified to profit/loss), *IAS33.26* (presentation of earnings per share), *IFRS 7* (disclosure on the nature of financial instruments and their risk), *IFRS 8* (disclosure on the nature and financial effects of the business activities) and a *modification in the accounting policy* are not considered as valuable reasons for restated data, because they have no real impact on the main accounting statements of the considered year t-1. Furthermore it is important to mention that this analysis only considers the financial statements on the year 2013 of the listed non-financial groups that are gathered in the ERICA+ database and that restated their data for the year 2012.

In this note we will take a closer look at how often restated data are published, why recalculations occur, in which countries restatements are more common and what impact important reasons for restatement have on the statement of financial position and on the statement of profit and loss.

I.1 FREQUENCY

On average 53,6% of the financial statements on the year 2013 contain restated data for the year 2012, which implies 133 groups of the 248 considered listed groups of ERICA+.
This is much more frequent than what we saw in the past. In the financial statements on the year 2012 only 17% recalculated their data for the year 2011 and in the financial statements on the year 2011 16% restated their data for the year 2010.

Graph 1: Frequency of listed groups in ERICA + where data for the year 2012 is restated in the financial statements of the year 2013, according to the country and the size of the IFRS group

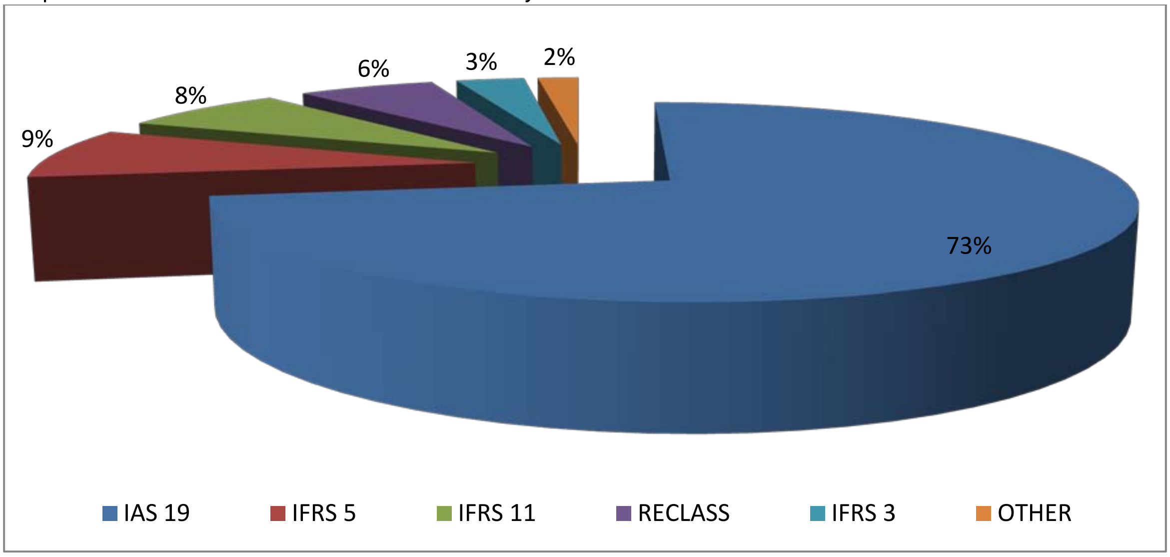


The frequency of having recalculated data differs along the country and the size of the group (graph 1). On the one hand we notice for France and Germany more groups that restated their data for the year 2012. This is no surprise knowing that the French and German groups that are in ERICA+ are mainly large groups and knowing that large groups present more often restated figures. On the other hand, in Portugal and Italy, fewer groups declared a restatement for the year 2012. For Portugal this can partially be explained by the fact that the Portuguese groups in ERICA+ are mostly small or medium-sized. Concerning the size of listed groups we notice that large groups restate more often their accounting data because those groups are more affected when amended IFRS standards need to be applied.

I.2 REASON FOR RESTATED DATA

In most cases the group notes one or two reasons for explaining why a restatement for the year 2012 took place. The most common reason is the application of the amended version of IAS19 (see graph 2).

Graph 2: Different reasons for restated data on the year 2012 in the financial statement for 2013



In June 2011, IASB published amendments to IAS19 Employee Benefits. The amendments to IAS19 must be applied retro-respectively in financial statements for annual periods beginning on or after January1, 2013. So many IFRS groups did not anticipate for the changes in IAS 19 and were obliged to adopt it in their financial statement since the modification needed to be implemented at last on the accounting figures of 2013. At the same time a recalculation for the year 2012 was needed to have a reference point.

Note that graph 2 counts all the reasons. So if a group mentions 2 different reasons that triggered a recalculation, those 2 reasons are counted for. Although only 133 groups restated their financial data for the year 2012, 160 valuable reasons are considered.

The reasons quoted for restatement, differ across countries (see graph 3). In all countries the most common motive is the *application of the amended version of IAS 19*, as we already noticed.

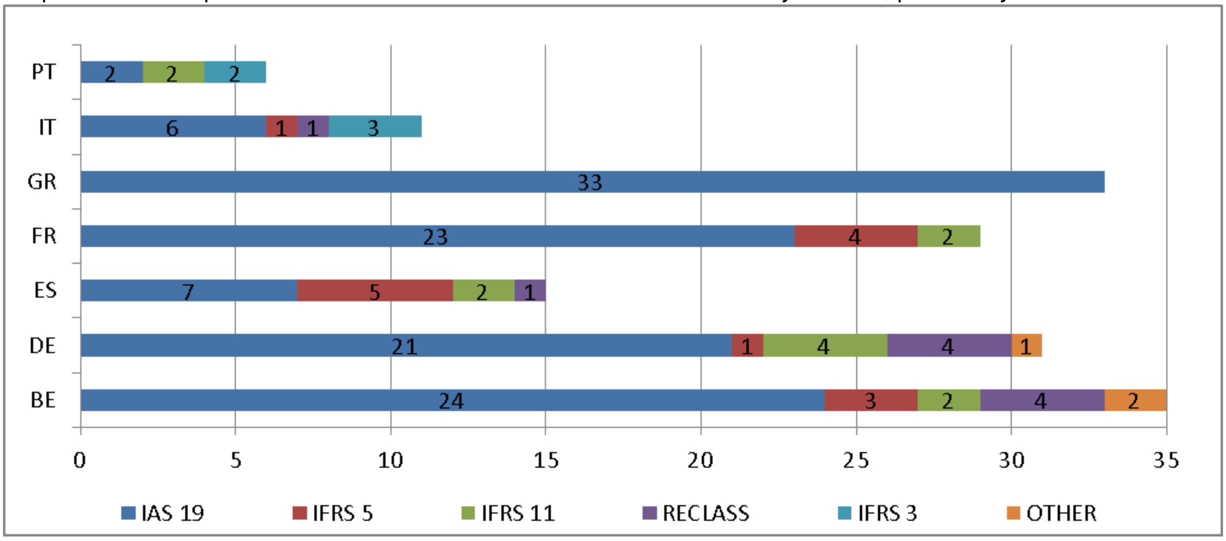
Also other causes are mentioned in most of the countries such as *IFRS 5* – where non-current assets held for sale and the results from discontinued operations need to be presented separately in the statement of financial position and in the statement of comprehensive income respectively - and *IFRS 11* – where the interests in a joint venture need to be accounted by using the equity method from now on.

In Belgium and Germany, the *reclassification* motive is also an important one. It concerns the adjustment of the presentation in the statement of profit and loss and in the statement of the financial position.

In Italy and Portugal *IFRS 3* (business combination) is often used as reason for restated data. It is surprising to note that this argument does not appear in the other countries, while this was still the case in the last analysis[2] on restated data. It seems that business combinations occurred less frequently in 2013 compared to 2011, possibly linked to the less favorable economic situation in 2013 compared to 2011.

OTHER motives incorporate IFRS 13 (fair value measurement) and IFRIC 20 (stripping costs in the production phase of a surface mine).

Graph 3: Reasons quoted for restated data in the financial statements of the year 2013, per country



I.3 IMPACT OF APPLYING THE AMENDMENTS OF IAS 19

Since the financial statements on the year 2013 have an atypical high percentage (53%) of restated figures for the year 2012 what can be explained by the application of the amended version of IAS19, we want to look at the impact of this modified IAS 19 standard on the accounting figures.

The objective of IAS 19 is that the group recognizes the liability when an employee has provided service in exchange for employee benefits to be paid in the future and that the group recognizes the expense when she consumes the economic benefit arising from the service provided by the employee in exchange for employee benefits.

The IAS 19 standard prescribes the accounting and disclosure that has to be done by employers concerning employee benefits. The standard identifies four categories of employee benefits: First there are the short-term employee benefits, such as wages, social security contributions, paid annual leave and paid sick leave, profit-sharing & bonuses and non-monetary benefits (such as medical care, housing, cars, ...). The second category includes the post-employment benefits such as retirement benefits, post-employment life insurance and post-employment medical care. Thirdly we have the other long-term employee benefits such as long-service leave or sabbatical leave and the long-term disability benefits. The fourth category is considered to be the termination benefits.

[2] ERICA Series: restated data of the financial statements on 2011

The financial reporting on employee benefits, more precisely on retirement benefits, was considered to be too complex. For that reason there was the initial idea to revise completely the way of reporting the retirement benefits. Because of different priorities at that time, the IASB limited its revision to some modifications of the IAS 19 standard.

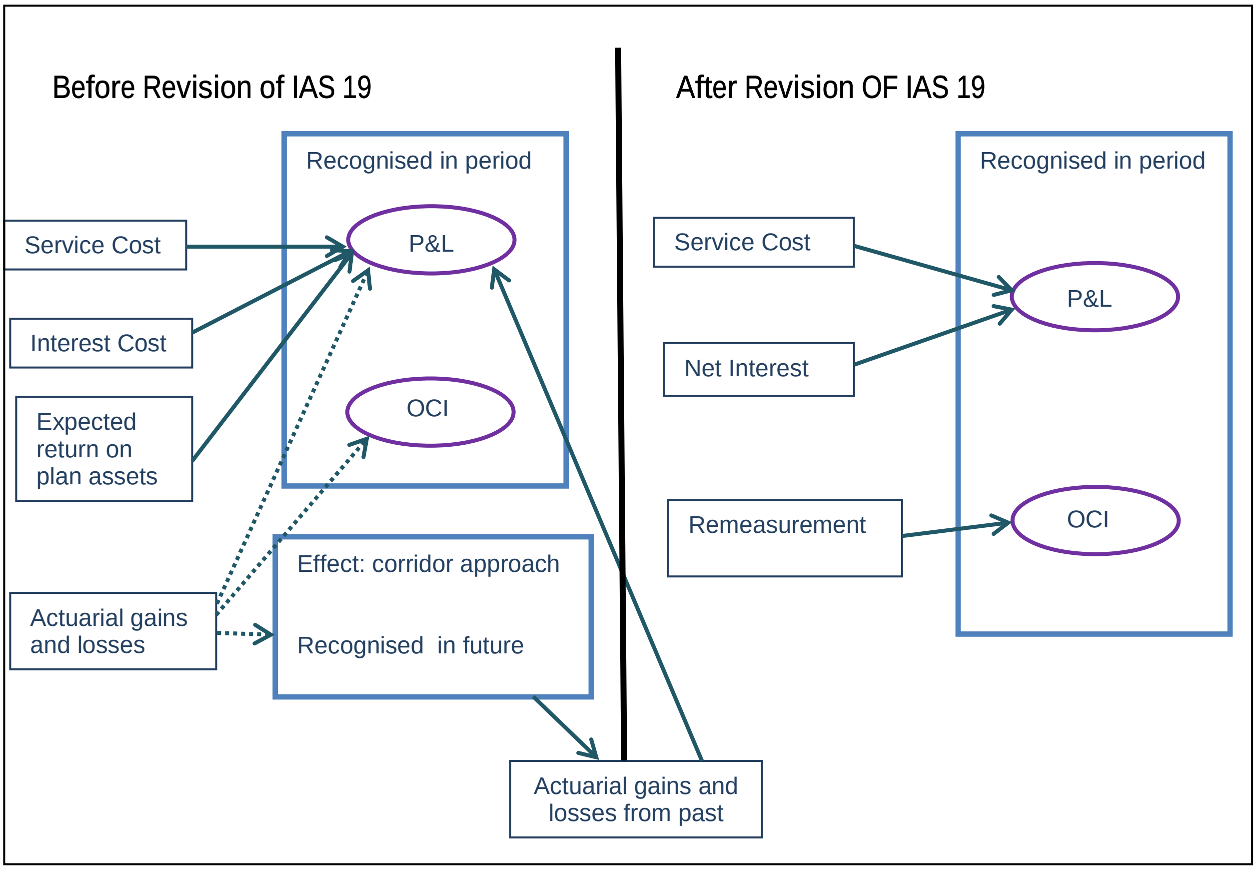
What are the most important changes (see figure 1) in the amended version of IAS 19?

Most importantly, the corridor approach is no longer allowed. Instead there is the demand for a complete and instant absorption of all appearing modifications to the defined benefit obligation into the accounts. This means that all components of the defined benefit obligations are recognized instantly and booked in that same period.

Secondly, a modification of the defined benefit obligation can be divided into 3 explicit components with clear rules where each of these components need to be booked: (1) the service costs have to be registered in the employee expenses of the statement of profit and loss; (2) the net interest costs need to be booked in the financial result of the statement of profit and loss and (3) the re-valuations and re-measurements may no longer be partially considered in the statement of profit and loss, which was the case in the past, but need to be booked for the complete value and for the year in which the re-measurement took place in the statement of other comprehensive income.

Thirdly, instead of calculating in the past the expected return on plan assets separately from the interest cost on the defined benefit obligation – each based on a different interest rate (the expected rate of return and the discount rate respectively) - one net interest cost will be calculated on the net defined benefit liability. The net interest cost will be based on just one interest rate, namely the discount rate.

Figure 1: Presentation of the modifications in the amended version of IAS 19

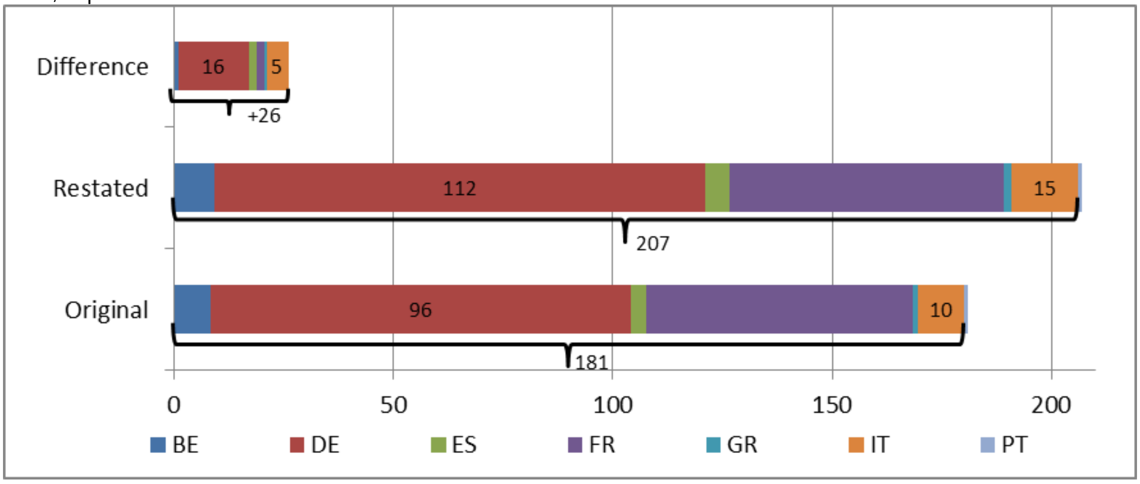


Source: Based on a IFRS Technical update by Cethys (experts in IFRS Training&Services)

What is the impact of the revised IAS 19 standard on the accounting figures of ERICA+?

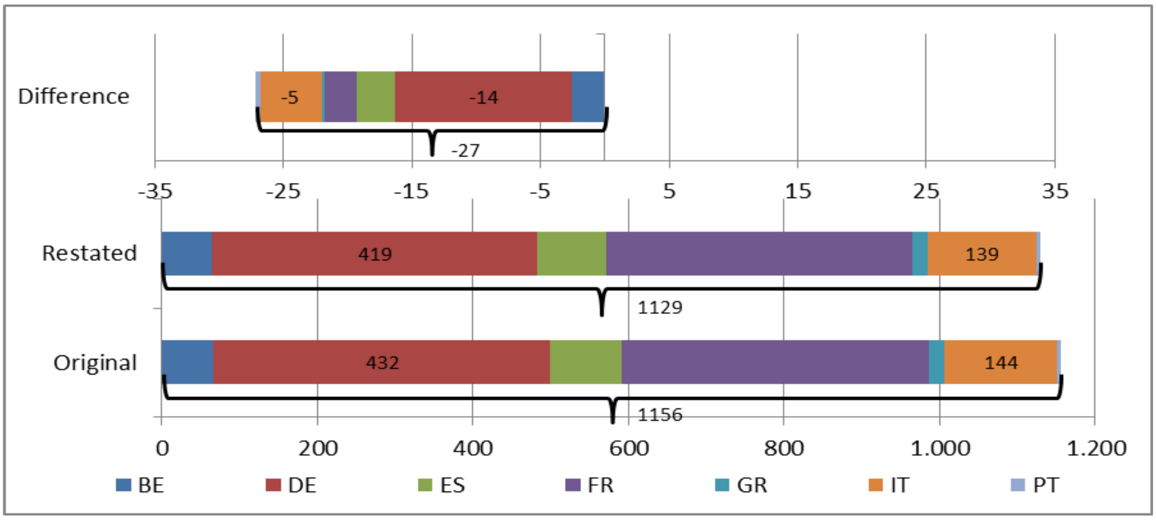
The most significant effect we can see is the important increase in the "*provisions for employee benefits*" in the statement of financial position, because of the requirement that IFRS groups from now on have to absorb immediately and completely all appearing modifications to their defined benefit obligation into the accounts. For all groups in the ERICA+ database the provisions grew with +14% or with +26 mio €. Graph 4 shows that the biggest change in restated figures occured in Germany (+ 16 mio) and Italy (+4,9 mio). Just one large group can explain what happened in Italy, while in Germany the growth is clarified by 3 large groups. As a consequence the weight of the provisions for employee benefits in the total amount of assets increased especially in those countries.

Graph 4: Impact of the application of the amended version of IAS 19 on the "provisions for employee benefits" for the year 2012, expressed in million €



The increase in the "*provisions for employee benefits*" is extensive for some groups. This means that those entities used frequently the corridor approach in the past in order to soften the impact of the actuarial losses on their accounting figures.

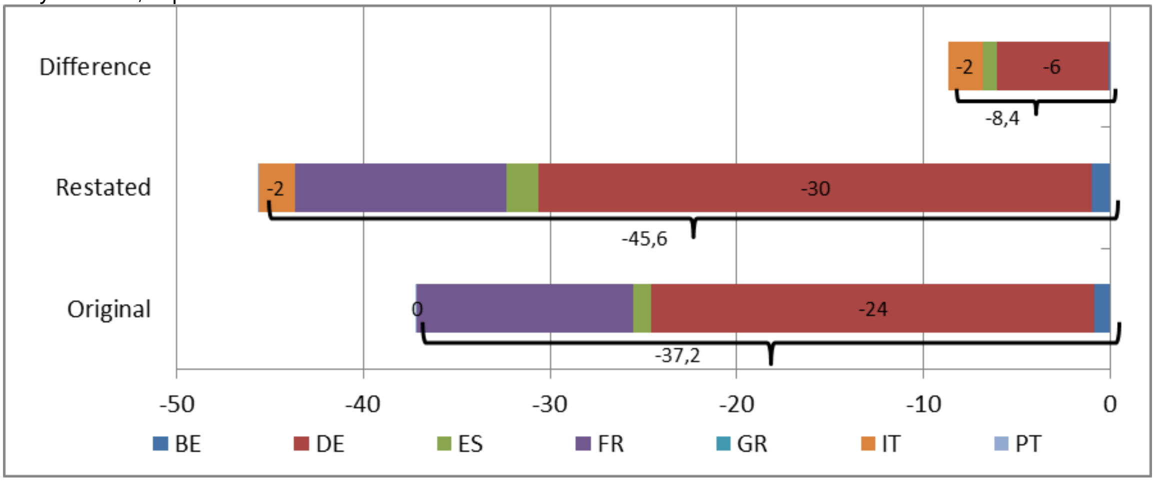
Graph 5: Impact of the application of the amended version of IAS 19 on the "total equity" for the year 2012, expressed in million €



At the same time we would expect a decrease of the "*reserves of remeasurement of defined benefit plans*," as part of the equity. The figures in the ERICA+ database however, do not reveal such decline in that accounting field of the statement of financial position. Probably this can be explained by the fact that IFRS groups are not obliged to counter the accounting in the provisions in their reserves. But we do notice (see graph 5) a decrease in the total equity (-2,3%). The magnitude of the decline in 'total equity' – this is € -27 million - is similar to the increase of the 'provisions for employee benefits'. Once more we observe that the most important changes happened in Germany and Italy, again explained by the behavior of the same large groups.

Since re-measurements of the defined benefit obligations are now completely and instantly booked in "other comprehensive income" we notice an important increase (+22%) to an amount of -45,6 mio € of the "*remeasurements of defined benefit plans*" as a heading in the statement of other comprehensive income. As you can see in graph 6, the biggest restatement occurred again in Germany and Italy, because of the same IFRS groups.

Graph 6: Impact of the application of the amended version of IAS 19 on the "remeasurements of defined benefit plans" for the year 2012, expressed in million €



On the *total assets* amount, we see a small decrease (-0,5%) partly because of IAS 19 due to the modification to use just one interest rate to calculate the net interest cost on the net defined benefit liability instead of applying two different rates, one to estimate the expected return on plan assets and one to measure the interest cost on the defined benefit obligation, as was done in the past.