The ERICA series:

8. Different alternatives that IFRS users can adopt: Analysis of the choices taken in Europe

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

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(Document prepared by Pilar Saura, Banco de España)

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

Saskia Vennix (chairwoman)
Saskia.Vennix@nbb.be
Banque Nationale de Belgique
Claire Mangin (vice-chairwoman)
Claire.MANGIN-SOUBRET@banque-france.fr
Banque de France
Riccardo Renzi
riccardo.renzi@bancaditalia.it
Banca d'Italia
Pilar Saura
Pilar.Saura@bde.es
Banco de España
Ana Bárbara Pinto
apinto@bportugal.pt
Banco de Portugal
Olga Lymperopoulou
olimperopoulou@bankofgreece.gr
Bank of Greece
Laurent Carlino
Laurent.CARLINO@banque-france.fr
Banque de France
Ilse Rubbrecht
Ilse.Rubbrecht@nbb.be
Banque Nationale de Belgique

Vincenzo Favale
vincenzo.favale@cervedgroup.com
Centrale dei Bilanci / Cerved Group
Frank Raulf
frank.raulf@bundesbank.de
Deutsche Bundesbank
Lena Leontyeva
olena.leontyeva@bundesbank.de
Deutsche Bundesbank
Sabine Wukovits
Sabine.Wukovits@oenb.at
Oesterreichische Nationalbank
Katarzyna Bankowska
katarzyna.bankowska@ecb.europe.eu
European Central Bank
Bartek Czajka (observer)
bczajka@ifrs.org
IASB
Onur Yilmaz (observer)
IsmailOnur.Yilmaz@tcmb.gov.tr
Central Bank of the Republic of Turkey

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.

DIFFERENT ALTERNATIVES THAT IFRS USERS CAN ADOPT: ANALYSIS OF THE CHOICES TAKEN IN EUROPE

INTRODUCTION

This document focuses on analysing the use of IFRS alternatives in ERICA+ groups (a sub-set from the ERICA database of around 250 groups with extra accounting details), showing general results by country, sector and size. The charts included in the document show the percentage of ERICA+ groups that use the different options available under IFRS standards for their consolidated accounts from 2012 to 2015 in order to establish comparisons in the application of the methods allowed.

The following table shows the number of groups that are available in ERICA + sample, broken down by country, sector and size.

TABLE 1 **BREAKDOWN OF ERICA+ SAMPLE BY YEAR: SIZES, SECTORS AND COUNTRIES COVERED**
Number of groups included from 2012 to 2015

	2015	2014	2013	2012
By country				
Austria	17	14		
Belgium	52	44	43	34
France	28	30	29	28
Germany	30	30	30	30
Greece	50	50	49	60
Italy	30	30	30	31
Portugal	39	39	39	39
Spain	30	30	30	30
By sector				
1. Industry	125	119	108	109
2. Energy	27	26	24	25
3. Construction	20	21	19	19
4. Services	104	101	99	99
By size (revenue)				
1. Small groups (<250mn)	65	60	57	55
2. Medium (250mn-1,5bn)	70	62	56	63
3. Large groups (>1,5 bn)	141	145	137	134
Total	276	267	250	252

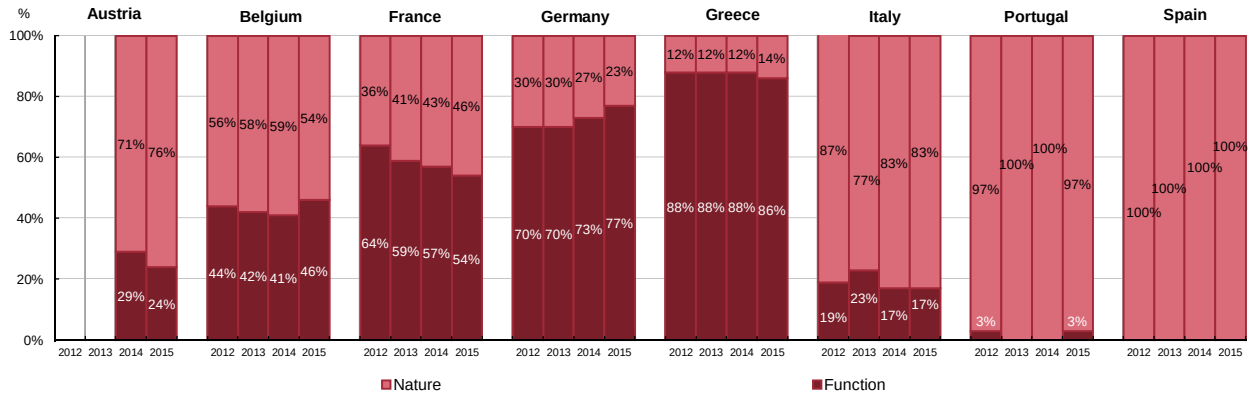
Source: ERICA+ Database

1. PRESENTATION OF THE INCOME STATEMENT

When applying IFRS, entities/groups can present their income statement using a classification based on either the nature or the function of their expenditure (IAS 1).

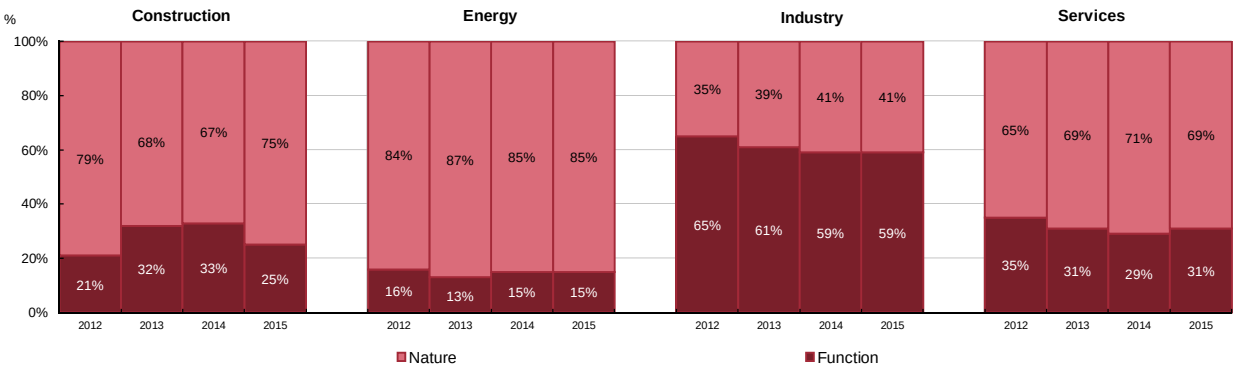
For ERICA+ groups, the income statement is **mostly presented by nature of expenditure in groups from Austria, Belgium, Italy, Portugal and Spain** for 2012 to 2015, ranging from 54-59% of the groups in Belgium up to 100% in Portugal and Spain. However, groups from **France, Germany and Greece mostly present their income statement by function of expenditure** in all the years from a decreasing 64-54% share of the groups in France to 88% in Greece. Regarding sectors, construction, energy and services mostly present the income statement by nature of expenditure in all four years, whereas **industry gives its expenditure by function** (in about 60% of the groups). Finally, regarding groups **by size, a slightly higher percentage of them present their income statement by nature** of spending in all the years surveyed, increasing from 54% in 2012 to 64% in 2015 for medium-sized groups. It was only for 2012 that small groups recorded almost the same percentage for both options.

CHART 1.1 PRESENTATION OF INCOME STATEMENT BY COUNTRY



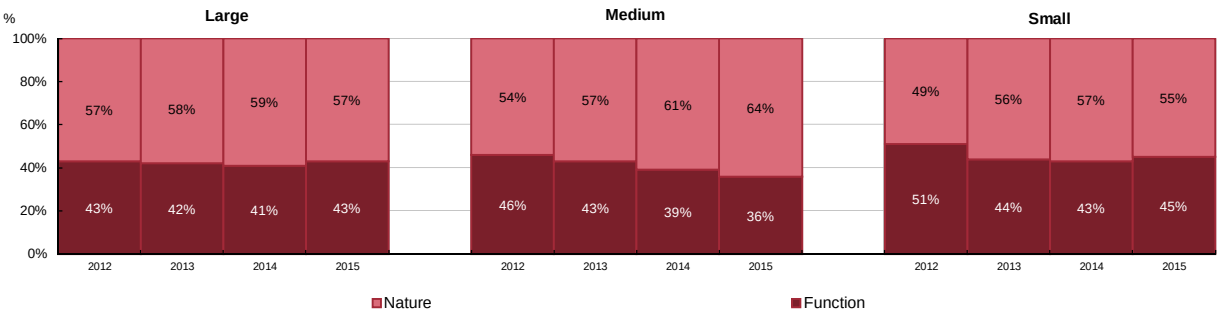
Source: ERICA+ Database

CHART 1.2 PRESENTATION OF INCOME STATEMENT BY SECTOR



Source: ERICA+ Database

CHART 1.3 PRESENTATION OF INCOME STATEMENT BY SIZE



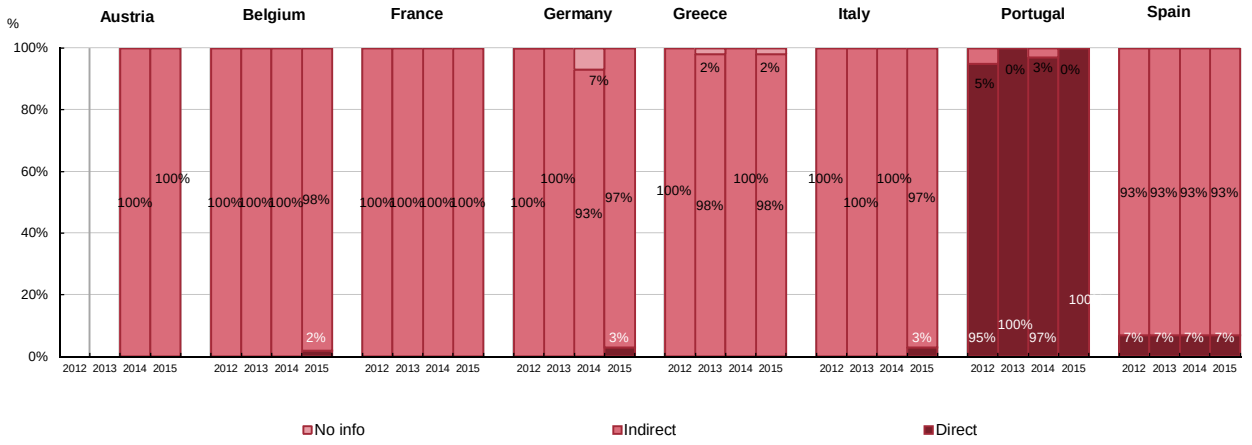
Source: ERICA+ Database

2. PRESENTATION OF THE CASH FLOW STATEMENT

In the cash flow statement, IFRSs allow the cash flows from operating activities to be presented using the direct or indirect method. The direct method discloses most classes of cash receipts and payments, whereas in the indirect method, in order to calculate the cash flow from operating activities, the profit or loss is adjusted for non-cash transactions, deferrals or accruals, cash receipts or payments and income or losses related to investing or financing activities (IAS 7).

It is the indirect method for cash flow statement that is mainly used in all years and all countries covered (ranging from 93% of the groups in Spain in all four years or in Germany for 2014 up to 100% in the rest of countries) **except in the case of Portuguese groups**, where the direct method is basically the only one used (100% in 2013 and 2015 and 95% and 97% respectively in 2012 and 2014), due to the influence of its local GAAP.

CHART 2 PRESENTATION OF CASH FLOW STATEMENT BY COUNTRY



Source: ERICA+ Database

3. PRESENTATION OF OTHER COMPREHENSIVE INCOME

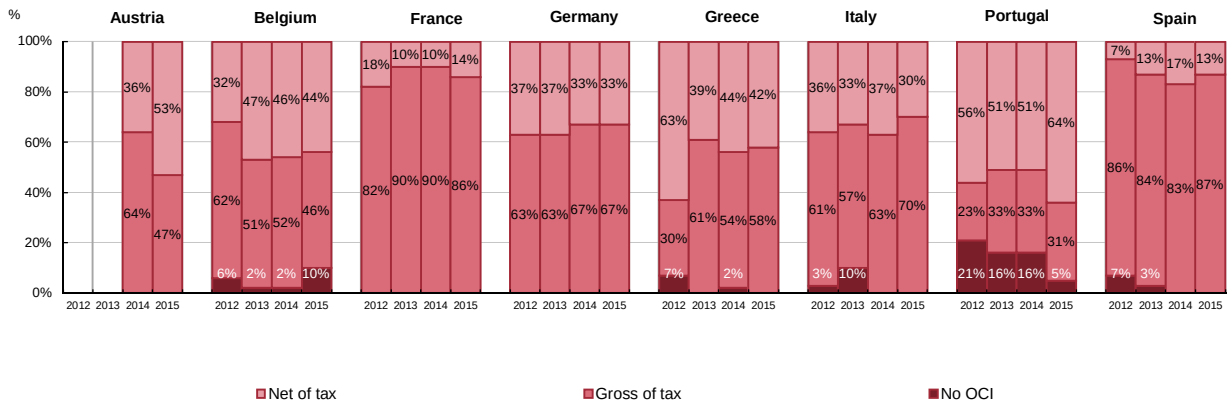
The items disclosed under other comprehensive income can be presented, under IFRS, gross or net of tax effects. However, **not all** the ERICA+ groups **report transactions with some impact on other comprehensive income:** less than (or) 10% of **Belgian, Greek, Italian and Spanish** groups and between 16-21% of **Portuguese** ones except in 2015, where the proportion was down to 5%. In terms of sector and size, **services and small groups represent a slightly higher, although still low**, percentage without transactions with impact on other comprehensive income (from 14% in 2012 to 4% in 2015 and from 22 to 9% respectively).

Other comprehensive income is mostly presented **gross of tax in groups from France, Germany, Italy and Spain** for 2012 to 2015 (changing from 57-70% of the groups in Italy to 82-90% in France), whereas **Portuguese** groups present this statement **net of tax** in all the years surveyed (51-64%). Groups from **Belgium** present it mostly in **gross terms**, although the percentage drops considerably from 2013 and groups from **Greece change** their presentation from net to gross of tax effects (both countries affected by the increase in ERICA+ real cases). Finally, **Austrian groups change** from gross, in 2014, to net of tax effects in 2015.

Considering the information **by sector, all of them** mostly present their transactions in other comprehensive income **gross of tax effects** for all four years (except in 2012 for services) although the difference is smaller in the services sector (about 50% gross versus 45% net of tax).

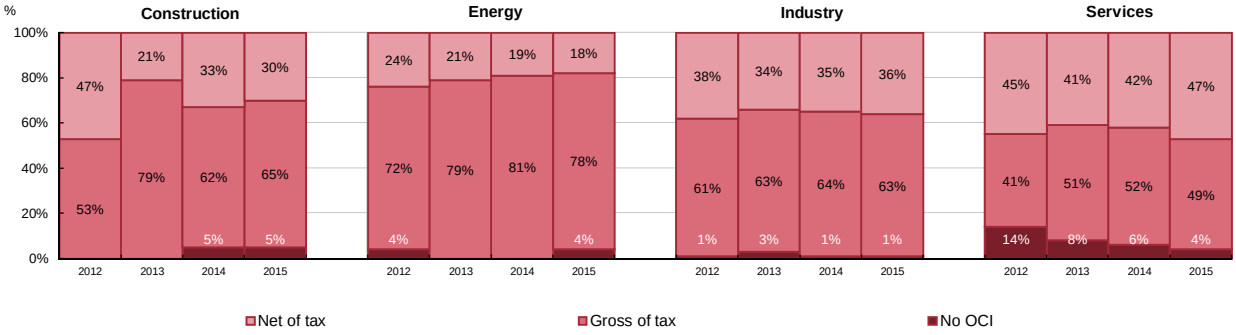
By size, it can be observed that **small groups** present other comprehensive income **mostly net of tax effects** (between 51 and 62%) whereas large and medium-sized ones mainly give gross figures (about 75% of large groups and 55% of medium-sized ones in all the years except 2012).

CHART 3.1 PRESENTATION OF OTHER COMPREHENSIVE INCOME BY COUNTRY



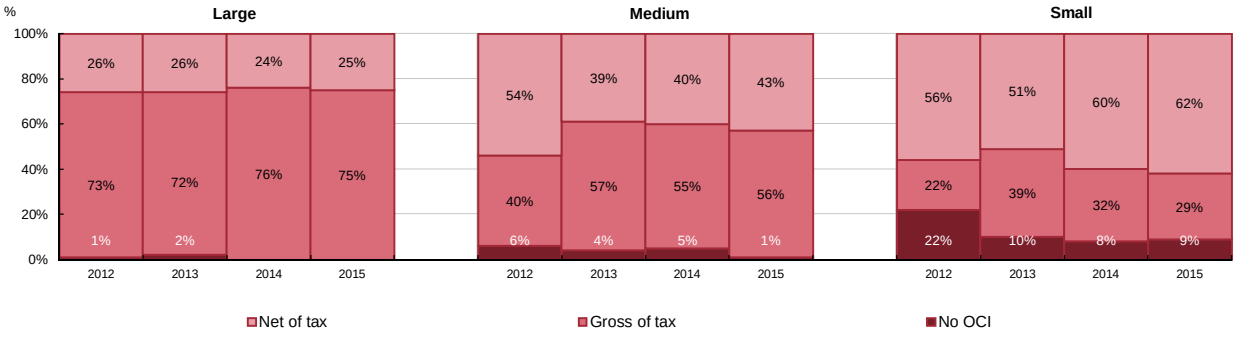
Source: ERICA+ Database

CHART 3.2 PRESENTATION OF OTHER COMPREHENSIVE INCOME BY SECTOR



Source: ERICA+ Database

CHART 3.3 PRESENTATION OF OTHER COMPREHENSIVE INCOME BY SIZE



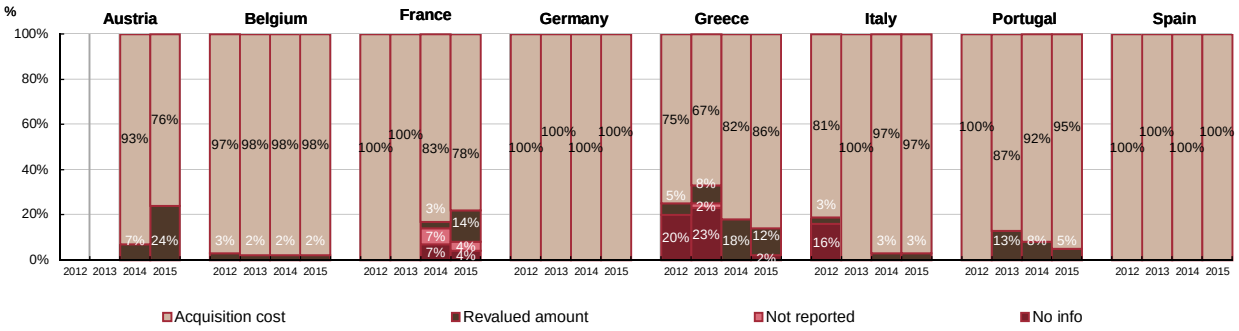
Source: ERICA+ Database

4. SUBSEQUENT MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT

When applying IFRS, property, plant and equipment can be measured at acquisition cost (cost less any accumulated depreciation and impairment losses) or at the revalued amount (IAS 16 model) (fair value at the date of revaluation less any accumulated depreciation and impairment losses). As the charts below show, some ERICA+ groups do not give any information on the accounting policy followed for property, plant and equipment. In some cases, this is because the data is not included in their financial statements (classified as **"not reported"** in the charts below) and in others because full information has not been fed into the database, i.e. when the information is not clear in the financial statements reported (classified in this case as **"no info"** in the charts below). There are **not many groups** in these two cases: just a small percentage in France for 2014 and 2015 (4-7%) and in Greece for 2015 (2%) are classified under "no info" whereas the proportions rose to around 20% in Greece in 2012 and 2013 and 16% in Italy in 2012. Nevertheless, roughly 5% of French cases in 2014 and 2015 and 2% of the Greek cases in 2013 are classified as "not reported".

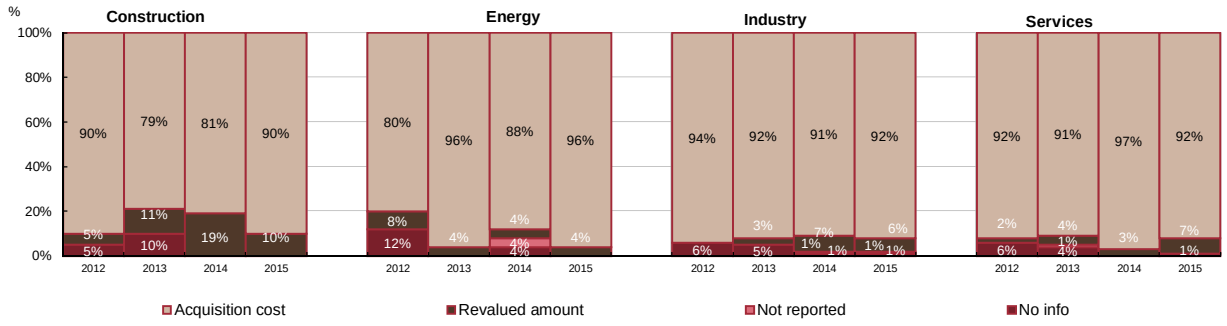
Despite this lack of information, which does not affect the most of ERICA+ groups, the following conclusions can be reached: **all** ERICA+ groups in **Germany and Spain** apply the **acquisition cost model** to measure property, plant and equipment for 2012 to 2015 and only a **few cases use the revalued amount in Belgium** (2-3%) and in **Italy** (3%). The use of **this method widens** from 2014 to 2015 from 7 to 24% in the case of **Austria** or from 3 to 14% in **France,** while in **Greece** it increases from 5-8% in 2012 and 2013 to 18-12% in 2014 and 2015 respectively. In the analysis by sector and by size, it can be observed that all sectors and sizes mainly use the acquisition cost model and there is a **small percentage** of groups using the **revalued amount model (more relevant in the construction sector and in small size categories**, where also there is the bigger percentage of groups with no info in 2012 and 2013, specially from Greece).

CHART 4.1 SUBSEQUENT MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT BY COUNTRY



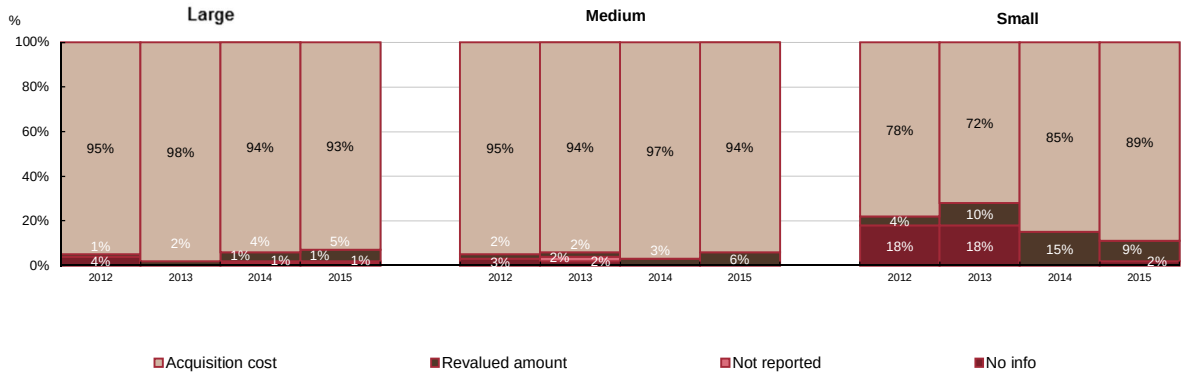
Source: ERICA+ Database

CHART 4.2 SUBSEQUENT MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT BY SECTOR



Source: ERICA+ Database

CHART 4.3 SUBSEQUENT MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT BY SIZE



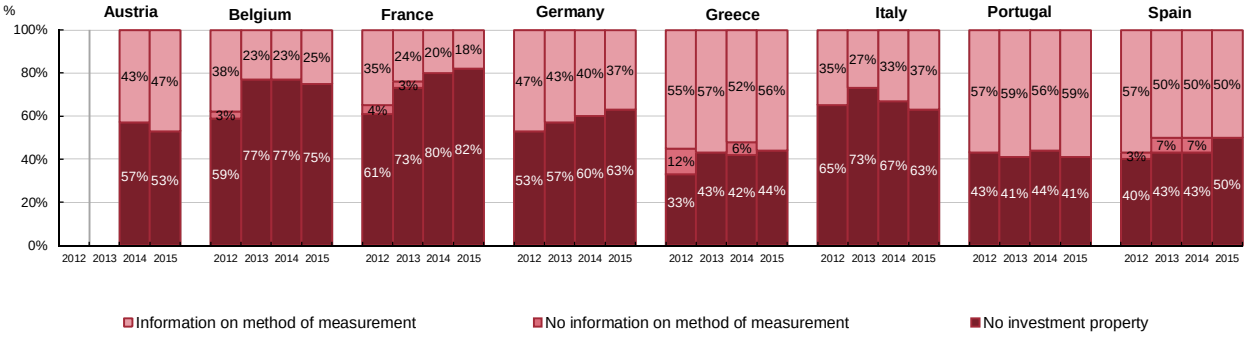
Source: ERICA+ Database

5. SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY

When applying IFRS, after initial recognition, the investment property can be measured at historical cost (cost less any accumulated depreciation and impairment losses) or at fair value (IAS 40).

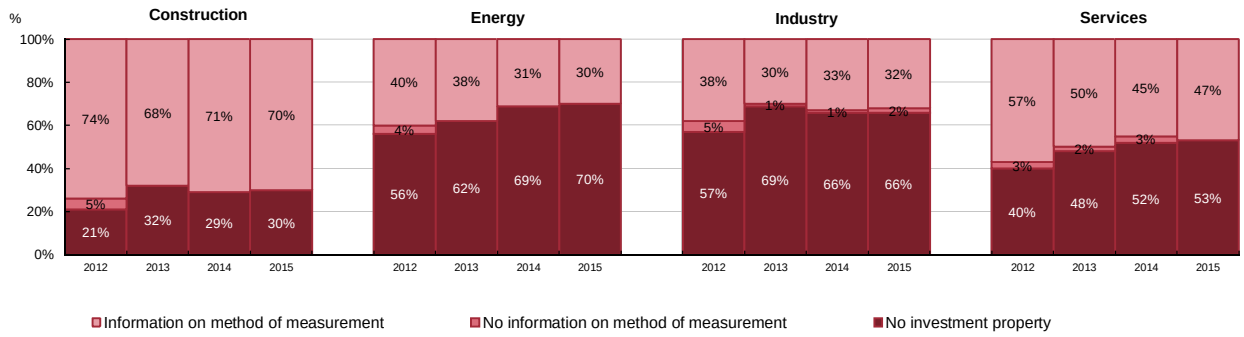
A **high percentage** of the groups in all countries **do not have any investment property**, with proportions ranging from about 40% in Greece, Portugal and Spain from 2012 to 2015 to about 75-80% in Belgium and France from 2013 to 2015. The measurement option for investment property is **not reported or completed in a few cases** in Belgium, France, Greece and Spain for the years 2012 to 2014 (ranging from 3% in Belgium or Spain to 12% in Greece), and this option was dropped for the year 2015. Regarding individual sectors, **construction** has the **highest percentage of investment property** (around 70% of groups during 2012 to 2015). However, all sizes have a similar pattern.

CHART 5.1 INFORMATION ON METHOD OF SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY BY COUNTRY



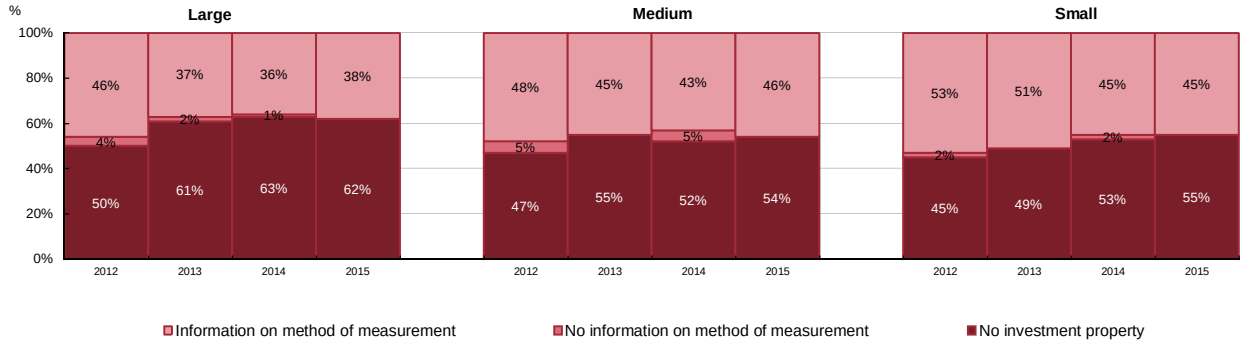
Source: ERICA+ Database

CHART 5.2 INFORMATION ON METHOD OF SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY BY SECTOR



Source: ERICA+ Database

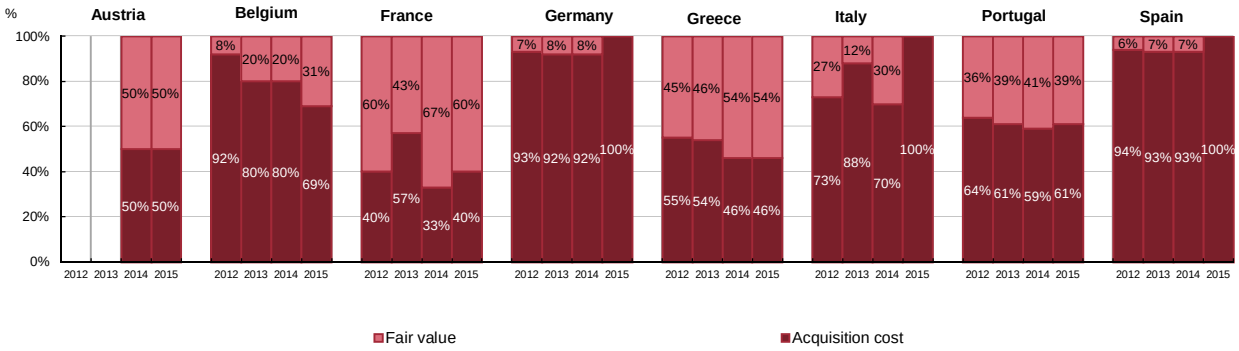
CHART 5.3 INFORMATION ON METHOD OF SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY BY SIZE



Source: ERICA+ Database

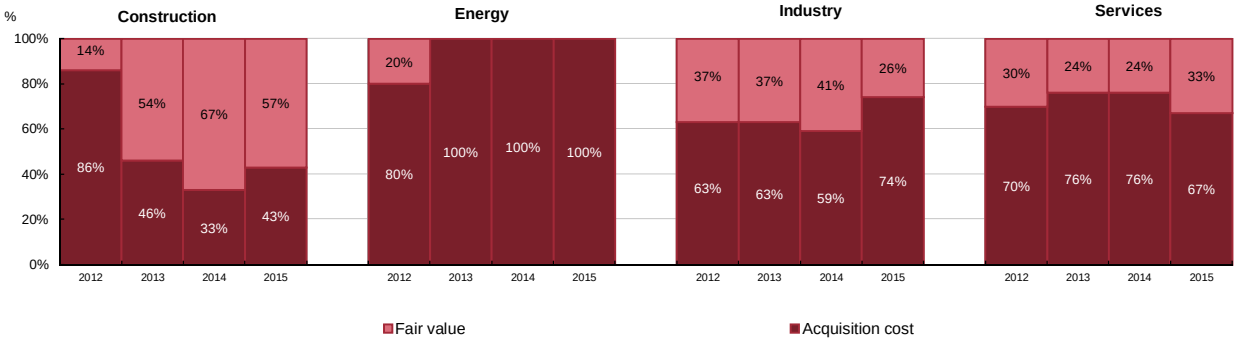
When there is investment property to value, the method **mostly applied is the acquisition cost**. In **Germany and Spain, less than (or) 8%** of the groups for 2012 to 2014 **use the fair value method**, dropping this option in 2015. Nevertheless, this method is chosen in **around 40% of groups from Portugal** for the years 2012 to 2015 **and in 60-67% of cases from France** (except in 2013). In **Belgium,** the percentage **increases** from 8% in 2012 to 31% in 2015, while **in Italy** the share of groups choosing this option **shrinks** from 27% to 0% from 2012 to 2015 (having a big impact on the change in the number of groups without investment property in these countries). In **Austria and Greece,** both methods are almost (or) **equally applied**. Per sector, and regarding the available information, the acquisition cost model is mostly used for the years 2012 to 2015 (although the percentage varies considerably across all sectors) except in **construction** for the years 2013 to 2015 where the **fair value is mostly used** (54-67%). Finally, in terms of size, the fair value measurement in investment property is used in particular **by small groups** in about 50% of all cases.

CHART 5.4 SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY BY COUNTRY



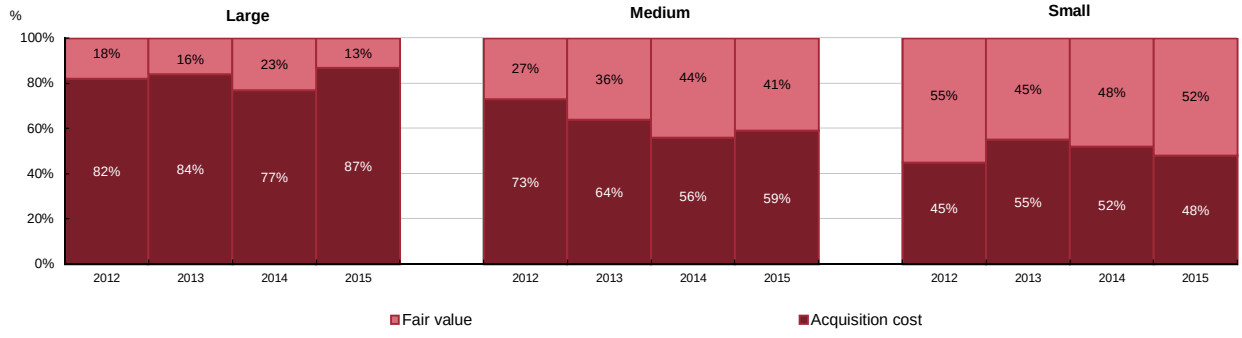
Source: ERICA+ Database

CHART 5.5 SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY BY SECTOR



Source: ERICA+ Database

CHART 5.6 SUBSEQUENT MEASUREMENT OF INVESTMENT PROPERTY BY SIZE



Source: ERICA+ Database