The ERICA series:

5. Recalculated data in European non-financial listed groups and the impact of the new IFRS 10-11-12 standards

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

December 2016
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5. RECALCULATED DATA IN EUROPEAN NON-FINANCIAL GROUPS AND THE IMPACT OF
THE NEW IFRS 10-11-12 STANDARDS

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IMPORTANT INFORMATION ABOUT THE SOURCE USED (ERICA\textsuperscript{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).

\textsuperscript{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 NON-FINANCIAL LISTED GROUPS AND THE IMPACT OF THE NEW IFRS 10-11-12 STANDARDS

Recalculated data are defined as the restated data in a financial statement for the year t-1. T-1 data in a financial statement can be recalculated for different kinds of reasons, such as changes in IFRS standards, corrections of errors made in the past, the occurrence of a business combination and so on. In the scope of this analysis, only the recalculations that have a real impact on the accounting figures\(^2\) are considered.

The analysis considers the 2014 financial statements of listed non-financial groups for which data is stored in the ERICA+ database and has been recalculated for the previous year, i.e. 2013. Remember that the ERICA+ database is a sub-set of 266 groups\(^3\) with extra accounting details, including information on the reason for any recalculation of the data. Although the ERICA+ database includes financial statements data on Italian groups, the analysis on restated data has been conducted without taking the Italian data into account. This is explained by the lack of restated data information in the Italian national database. As such, the total population considered in this analysis consists of 236 IFRS groups.

The note takes a closer look at how frequently groups restate their data, in which countries, branches of activity and size class the restatements are more common, what caused the recalculations, and finally what impact ‘important reasons for restatement’ have on the statement of financial position and on the profit and loss statement.

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\(^2\) This implies that the following reasons are not considered in this note: (a) a restatement because of a distinction made between the items of ‘other comprehensive income’ that will or will not be reclassified under profit/loss (according to IAS 1); (b) the disclosure of extra information on the nature of financial instruments and their risk (according to IFRS 7); (c) revelation of extra details on the nature and financial effects of the business activities (according to IFRS 8); (d) presentation of the earnings per share (according to IAS33.26); (e) a change in the date of fiscal year or (f) an adaptation on the presentation of revenue.

\(^3\) For the year 2014, the ERICA+ database contains data for 266 listed non-financial groups in Austria (14 groups), Belgium (44 groups), France (30 groups), Germany (30 groups), Greece (50 groups), Italy (30 groups), Portugal (38 groups) and Spain (30 groups).
I.1 FREQUENCY

For the accounting year 2014, the population for this analysis contains data on 236 listed non-financial groups. Ninety-two of these groups, or 39% of the population under consideration, restated their accounting data for the year 2013. This is lower than what we saw for the 2013 financial statement when 54% of the groups restated their data for the year 2012, mainly explained by the application of the amended version of IAS19. Looking further into the past, we notice that the 2012 financial statements recalculated the data for the year 2011 only in 17% of cases while in the 2011 financial statements 16% restated the data for the year 2010. In years when amended IFRS standards need to be applied, there will be more restatements of accounting data.

Table 1: Overview of the frequency of restated data

<table>
<thead>
<tr>
<th>DATABASE</th>
<th>Restated year</th>
<th>Frequency of restatements</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERICA+ 2011</td>
<td>Y2010</td>
<td>16%</td>
</tr>
<tr>
<td>ERICA+ 2012</td>
<td>Y2011</td>
<td>17%</td>
</tr>
<tr>
<td>ERICA+ 2013</td>
<td>Y2012</td>
<td>54% (IAS 19)</td>
</tr>
<tr>
<td>ERICA+ 2014</td>
<td>Y2013</td>
<td>39% (IFRS 10/11/12)</td>
</tr>
</tbody>
</table>


According to graph 1, the frequency of having restated data differs most notably across the size class and branch of activity of the group. Recalculating the accounts occurs more frequently in large groups because they are more closely affected when amended IFRS standards need to be applied. At the same time, we note that groups in the industry and services sector seem to restate their accounting data more often. Austrian groups seem to have a less strong restatement behaviour in their financial statements for 2014, partly due to the fact that not many Austrian groups were considered in ERICA+.

Graph 1: Frequency of restated data in financial statements on 2014, for the year 2013 along country, size class and branch of activity

Source: Based on ERICA+ Database (2014).
I.2 REASON FOR RESTATED DATA

In most cases, the IFRS groups note one or two reasons for explaining why a restatement for the year 2013 took place. The most common reason is the application of IFRS 10-11-12 (see graph 2). In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interest in Other Entities. Those new standards were used by most IFRS groups for the 2014 accounting figures. Simultaneously, a recalculation for the year 2013 was necessary to have an adequate reference point.

Note that graph 2 lists all the reasons cited. So if a group mentions two different reasons that triggered a recalculation, both those reasons are counted. Although only 92 companies restated their financial data for the year 2013, 114 valuable reasons are considered.

Graph 2: Different reasons for restated data on the year 2013 in the financial statement for 2014

The reasons cited, differ across countries (see graph 3). In all countries, the most common motive is the application of the new IFRS 10-11-12 standards, as already noted.

Another frequently used explanation for restated data is 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.

In Greece, Belgium and Portugal, the reclassification motive is also an important one. It concerns adjustments of the presentation in the profit and loss statement and in the statement of financial position.

IFRS 3 (business combination) is mentioned as well as reason for restated data. It is interesting to note that business combinations did not appear any more often in 2014, just as in 2013 (ERICA Series 2013_1. Restated data), probably related to the cautious recovery of the economy in 2014. Other reasons for restatements are CHANGE – i.e. voluntary change in accounting policy, CORR – i.e. corrections made for prior period errors and OTHER – referring to IFRS 9 (financial instruments), IFRS 15 (revenue from contracts with customers) and IFRIC 21 (levies on production assets).
I.3 IMPACT OF APPLYING THE NEW IFRS 10-11-12 STANDARDS

Since more than one-third of the 2014 financial statements restated their data for 2013, with ‘the application of the new IFRS 10-11-12 standards’ given as main reason, it is interesting to study the impact of those standards on the accounting figures.

I.3.1 DEFINITION OF THE NEW STANDARDS

IFRS 10 Consolidated Financial Statements includes a new definition of control that determines which entities are consolidated; IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation – Special Purpose Entities. IFRS 10 defines control as consisting of 3 elements: power, exposure to variable returns and investors' ability to use power to influence their variable returns. The aim is more appropriate consolidation, meaning entities will consolidate investees only when they control them.

IFRS 11 Joint Arrangements describes the accounting for arrangements in which there is joint control. IFRS 11 replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities. IFRS 11 describes the accounting for ‘joint arrangements’ over which two or more parties have control. A joint arrangement can be either a joint venture or a joint operation. In the latter case, the joint operator will recognise its share in the assets, liabilities, revenues and expenses of the joint operation. In the case of a joint venture, the joint arrangement can no longer be accounted for using proportionate consolidation but has to be disclosed using the equity method under IFRS 11. This will result in recognition of one single-line item for the investment and the reporting entity’s share of the joint arrangement’s profit or loss.

IFRS 12 sets out the disclosure requirements for subsidiaries, joint ventures, associates and ‘structured entities’. IFRS 12 replaces the requirements previously included in IAS 27, IAS 31 and IAS 28 Investments in Associates.
I.3.2 INTERACTION BETWEEN THE NEW IFRS STANDARDS

First there is the question whether the investor has ‘control alone’. If that is the case, this leads to consolidation of entities according to IFRS 10 and the application of the disclosure requirements under IFRS 12. If the investor has no ‘control alone’, this raises the question whether it is a matter of ‘joint control’? If so, the type of joint arrangement has to be defined according to IFRS 11. A joint operation will be accounted for by its share in the assets, liabilities, revenues and expenses and disclosure requirements will be met through IFRS 12. The share of a joint venture will be recognised by the equity method (IAS 28) and disclosure requirements (IFRS 12) will be applied. If there is no question of ‘joint control’, it is necessary to establish whether there is significant influence. If there is, it is considered as associate (IAS 28). If there is no significant influence, the interest will be treated as a financial instrument (IFRS 9).

Figure 1: Presentation of the interaction between the new IFRS standards

I.3.3 PRINCIPAL IMPACT OF THE NEW STANDARDS

The new definition of control (IFRS 10) can lead to consolidation of entities that were not previously included in the groups surveyed, which will result in more assets and liabilities on the accounting books. There may be instances for which the opposite can happen, i.e. for which groups have to de-consolidate entities that were previously consolidated, taking them off the balance sheet. The “effect analysis” (Sept 2011) conducted by the IASB does not conclude clearly whether the new definition of control (IFRS 10) implies that a reporting entity will have to consolidate more or fewer investees. It seems to depend on the nature of the investor’s interest in its investees.

Under IFRS 11, joint ventures that were accounted for using proportionate consolidation (under IAS 31) will from now on be accounted for using the equity method under IFRS 11. This will result in recognising just one single-line item for ‘investment in related parties’ on the statement of financial position and one single line item for the ‘share of profit/loss of the joint venture accounted for using the equity method’ on the profit & loss account, while the share in the assets, liabilities, revenues and expenses of the joint venture will be no longer reported separately.

The removal of the possibility of applying the proportionate consolidation method will have an influence on accounting fields such as ‘revenue’ and ‘total amount of assets’. The figures in those fields will decrease, while the fields ‘investment in related parties’ and ‘profit from investment in related parties’ will obtain a higher figure.

In order to measure the impact of the new IFRS 10-11 standards on the accounting figures, we isolate all surveyed groups that state “IFRS 10-11-12” as the only reason for submitting recalculated data. This concerns 41 of the 55 groups that did report IFRS 10-11-12 as reason for making a restatement. The 14 others specified other reasons as well to explain their restatement of the accounting figures.

### Table 2: The difference between the restated and original data of some accounting fields, aggregated per country, in € million

<table>
<thead>
<tr>
<th>Country</th>
<th>Nr of groups</th>
<th>Financial Statement</th>
<th>Profit &amp; Loss Account</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total financial statement</td>
<td>Investment in related parties</td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>3</td>
<td>240.7</td>
<td>-81.5</td>
</tr>
<tr>
<td>BELGIUM</td>
<td>5</td>
<td>-1 236.5</td>
<td>1 016.7</td>
</tr>
<tr>
<td>FRANCE</td>
<td>7</td>
<td>-14 698.2</td>
<td>9 830.5</td>
</tr>
<tr>
<td>GERMANY</td>
<td>3</td>
<td>16.0</td>
<td>-11.0</td>
</tr>
<tr>
<td>GREECE</td>
<td>11</td>
<td>-667.2</td>
<td>271.2</td>
</tr>
<tr>
<td>PORTUGAL</td>
<td>5</td>
<td>-548.3</td>
<td>471.9</td>
</tr>
<tr>
<td>SPAIN</td>
<td>7</td>
<td>-15 543.2</td>
<td>14 436.0</td>
</tr>
<tr>
<td>TOTAL DIFF</td>
<td>41</td>
<td>-32 436.7</td>
<td>25 933.8</td>
</tr>
</tbody>
</table>

Source: Based on ERICA+ Database (2014).

The variable ‘total financial statement’ is defined by cc_34, ‘investment in related parties’ by cc_34, ‘revenue’ by cc_10 and ‘profit from investment in related parties’ by cc_143 in the ERICA+ database.

Comparing the original with the restated data for some accounting fields in the statement of financial position and the statement of profit and loss, the following changes (see table 2) were noted. In Belgian, Spanish, French, Greek and Portuguese non-financial IFRS groups where a restatement took place because of the application of the new IFRS 10-11-12, a decline in the amount of ‘total assets’ and ‘revenue’ is visible, while an increase in the accounting fields...
'investment in related parties' and 'profit from investment in related parties' was observed, except for Greece and Portugal where an accumulated loss was added to 'profit from investment in related parties'. This can be partly explained by the fact that proportionate consolidation was a commonly used method in the Belgian, Spanish, French, Greek and Portuguese groups. This method is no longer allowed and has been replaced by the equity method.