Viewpoint

By topic

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Disclosure of IFRS 9 ECL model adjustments by banks in the context of uncertain economic conditions

Key points

The use by banks of significant model adjustments when estimating IFRS 9 expected credit loss (ECL) has become widespread due to the occurrence of COVID-19, when it was necessary to take account of the risks and uncertainties that could not be adequately reflected in existing models. However, post the COVID-19 pandemic, the use of significant model adjustments is likely to continue where historical data used for modelling purposes does not fully capture future risks and uncertainties.

Clear disclosure of these model adjustments is key: not only to enable users' understanding of the nature of these adjustments and the key assumptions used in deriving them, but also to provide a foundation for explaining future changes to those adjustments that might be required by subsequent developments. Whilst 'model adjustments' are not explicitly referenced by IFRS disclosure requirements, they are not exempt – the disclosure requirements apply equally to model adjustments as to any other part of the ECL estimate.

This Spotlight sets out the key requirements – including the need to disclose key inputs, assumptions and estimation techniques relating to model adjustments – and other practical considerations.

Whilst this publication is focused on banks, the disclosure requirements discussed apply equally to other types of entities applying significant adjustments to their ECL models.

1. Why are model adjustments needed?

Banks estimating ECLs under IFRS 9 often use a three-step process: 1) develop judgements about the future; 2) apply those judgements to statistical models developed based on historical relationships; and 3) use relevant data to feed into the models. However significant changes in economic conditions often mean that comparable situations have not existed historically, and that the historical relationships between key variables on which these statistical models are based no longer hold. As a result, the use of model adjustments when estimating ECL has become widespread by banks, to take account of the risks and uncertainties that cannot be adequately reflected in the existing models.

2. What different types of model adjustment might be made?

Model adjustments might arise at various points in the ECL estimation process and be given various different labels, including:

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- *Pre-model adjustments*: for example, adjusting an unemployment input to a model, to take account of government reliefs and 'normalise' it in historical terms;
- *In-model adjustments*: for example, a cap or ceiling placed on a value calculated within a model, to reflect expert credit judgement on its maximum possible value; and
- *Post-model adjustments*: for example, an adjustment to reduce modelled ECL, to take account of government reliefs whose impacts are not fully reflected within the model.

These adjustments can also be referred to as 'post-model adjustments', 'PMAs', 'overlays' (when they add to the modelled output) or 'underlays' (when they reduce the modelled output). All of these types of adjustment are referred to collectively in this In depth as 'model adjustments'.

In some cases, a bank might be able to remove the need for a model adjustment by re-developing a model. But, in many cases, there may be insufficient time, or insufficient new data, for this to happen by a particular reporting date.

3. Why does clear disclosure of model adjustments matter?

Given their often judgemental nature – as well as users' perception that they involve significant judgement – clear disclosure of model adjustments is likely to be key if users are to understand the nature of the model adjustments and the key assumptions used in deriving them.

4. What does IFRS require?

For banks preparing their year-end IFRS financial reporting, the principal disclosure requirements related to ECL are set out in IFRS 7, 'Financial Instruments: Disclosures'. However, the requirements of other standards are also relevant.

None of these requirements explicitly reference 'model adjustments' or the other terms often used to describe them. However, this does not mean that model adjustments are somehow exempt from disclosure. The general disclosure requirements apply equally to model adjustments as they do to any other part of the ECL estimate.

Set out on the following pages are key requirements, with relevant IFRS extracts:

Summary	**Extracts from IFRS**
Where an entity has model adjustments, either newly created or amendments to existing ones, it needs to disclose the key inputs, assumptions and estimation techniques. The entity should also explain any changes made to the model adjustment during the reporting period and the reason(s) for them (for example, what is the model input or value that it compensates for or adjusts?).	"*An entity* ***shall explain the inputs, assumptions and estimation techniques*** *used to apply the requirements in Section 5.5 of IFRS 9. For this purpose an entity shall disclose:* *(a) the basis of inputs and assumptions and the estimation techniques used to:* *(i) measure the 12-month and lifetime expected credit losses;* *(ii) determine whether the credit risk of financial instruments have increased significantly since initial recognition; and* *(iii) determine whether a financial asset is a credit-impaired financial asset.* *(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and* *(c)* ***changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes***." [IFRS 7 para 35G].
Model adjustments, can be amongst management's most difficult, subjective judgements. Where individually, or taken together with other elements of the ECL estimate, there is a significant risk of a material change in the next financial year, the model adjustments will require disclosure under IAS 1 as critical estimates.	"*An entity shall disclose information about the assumptions it makes about the future, and other* ***major sources of estimation uncertainty*** *at the end of the reporting period,* ***that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year****. In respect of those assets and liabilities, the notes shall include details of:*

That disclosure needs to provide an understanding of the judgements made. Where numerical sensitivity disclosures do not incorporate the effect of model adjustments, because it is not feasible to include them, this should be clearly stated. To do otherwise could be misleading and understate the extent of the estimation uncertainty. Narrative disclosure should nonetheless be provided, so that users can understand the potential effect of such judgements. This will often be most insightful when 'through the eyes of management', based on the risks that they are seeing and how they have responded to them. Where numerical disclosures are provided that incorporate the effect of model adjustments, but there are material limitations to that disclosure (for example, it discloses the entity's best estimate of the range of reasonably possible outcomes but, due to the economic uncertainty, the actual range might be significantly greater), those limitations should be explained. However, the existence of inherent limitations alone is not a basis for omitting relevant disclosure.	*(a) their nature, and* *(b) their carrying amount as at the end of the reporting period.*" [IAS 1 para 125]. "*The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require **management's most difficult, subjective or complex judgements**.*" [IAS 1 para 127]. "*An entity presents the disclosures in paragraph 125 in a manner that **helps users of financial statements to understand the judgements that management makes** about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:* *(a) the nature of the assumption or other estimation uncertainty;* *(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;* *(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and* *(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.*" [IAS 1 para 129].
The effects of model adjustments should be appropriately incorporated into relevant ECL disclosures, such as ECL 'roll-forward' tables and any other related numerical disclosures such as 'coverage ratios' (ECL allowance as a percentage of the gross carrying amount). Where it has not been possible to allocate the model adjustment to individual loans and incorporate it within these numerical disclosures, this should be explained, along with the relevant amounts, so that, taken together with the ECL 'roll-forward' tables etc, the disclosure requirement of explaining *all* changes in the loss allowance is met. This might be necessary where a model adjustment has had to be calculated on a collective 'top-down' basis, rather than on a detailed instrument-by-instrument 'bottom-up' basis, and so it cannot be meaningfully incorporated into the ECL 'roll-forward' tables. Omitting such explanation might impair comparability of key metrics such as coverage ratios with peers, who might not use model adjustments to the same extent. It might also lead users to mistakenly believe that an entity's coverage ratio, or other key metric, is materially different from that of its peers, when actually it is not.	"***To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table**, showing separately the changes during the period for:* *(a) the loss allowance measured at an amount equal to 12-month expected credit losses;* *(b) the loss allowance measured at an amount equal to lifetime expected credit losses for:* *(i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;* *(ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and* *(iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.* *(c) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit*

	losses at initial recognition on financial assets initially recognised during the reporting period." [IFRS 7 para 35H].
Entities should apply a 'stand back' test to see whether further disclosure is required – IFRS disclosures are principles-based, not a prescriptive 'tick list'. In addition, whilst not a requirement, setting out disclosures so that they 'tell the story' of the issues faced, and how they have been taken account of within the ECL estimate, will help to maximise the value and insight provided by the disclosures.	"*To meet the objectives in paragraph 35B, an entity shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation,* ***and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed***." [IFRS 7 para 35D]. "*If the disclosures provided in accordance with paragraphs 35F–35N are insufficient to meet the objectives in paragraph 35B,* ***an entity shall disclose additional information that is necessary to meet those objectives***." [IFRS 7 para 35E].
There should be no material omissions from the disclosures presented. As a 'sense check', consider what a user's reaction would be if, in six months' time, there was a material change to a model adjustment. If that would come as a shock to them, does that indicate insufficient current period disclosure and that the disclosure should be enhanced?	*"Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.*" [IAS 1 para 7].

Accounting for the next pensions equalisation challenge

On Friday 20th November, the High Court handed down its judgment in the latest instalment of the Lloyds GMP equalisation case. It concluded that schemes will need to consider whether to review past transfer values - potentially going back 30 years - and determine whether these need to be topped up. This will present a significant challenge to companies with an imminent reporting date (as well as to those with a recent reporting date who have yet to file).

In October 2018, the original Lloyds judgment ruled that pension benefits must be equalised for the difference in treatment between men and women for a proportion of pension called 'GMP' (Guaranteed Minimum Pension). This judgment related only to members who were part of the scheme at the time and the vast majority of companies estimated the impact of GMP equalisation, recognising this impact in their income statement in the period covering the judgment date.

During 2020, there have been further hearings in relation to members who have transferred out of schemes and whether these cases need to be revisited and equalised too. The most recent hearing on this point was in late October and the judgment was published in November.

The judgment has put the onus on the trustees of pension schemes which have previously paid transfer values to other pension arrangements. The judge held that trustees of such schemes need to be proactive in considering the "rights and obligations" arising from his judgment, including taking into account the fact that the costs may (greatly) exceed the additional benefits paid out. As part of this, trustees may decide not to wait for individuals to bring claims for transfer value top-ups and instead proceed with addressing the equalisation issue directly in relation to past transfers.

Trustees may feel that the judgment has placed an obligation upon them to top up transfer values paid since 17 May 1990. It is also possible former members will make a claim, leading to trustees reviewing the approach they need to take on historical transfer values. Therefore, unless there are explicit and clear reasons why trustees would not need to top up all historical transfer values, auditors will generally expect companies to recognise a liability in respect of these top ups on the date of the judgment, even if no trustee decision, or no claim, has been made at their reporting date.

The consensus is that such a liability should generally be recognised in the income statement, as a past service cost, which was the treatment applied in respect of the 2018 judgment for almost all cases.

Subsequent legal advice and administrative investigations might clarify the extent of the additional obligations (if any) that a scheme has, leading to a refinement of the liability.

Similar to the original judgment, the impact will vary considerably from scheme to scheme, depending on the benefit structure, as well as the number and size of historical transfers.

In many cases, where the original equalisation impact was small and transfer volumes have been low, the impact is likely to be smaller than the 2018 impact and could well be immaterial. Robustly demonstrating this to auditors will be key.

However, a number of schemes have seen a significant number of transfers in recent years, particularly since the pensions freedoms were introduced in 2015. Such situations, in conjunction with a material impact from the original judgment, will need much greater thought and discussion on an appropriate method of estimating the impact.

Going back to 1990 is likely to prove a real headache for the majority of companies and schemes. It is highly likely that records before a certain date - for example, the point at which the scheme switched administrator - are difficult to obtain, extremely limited or simply do not exist. This comes on top of many trustees and administrators still struggling to cope with the original Lloyds judgment.

Companies may decide - and their auditors may agree - that their estimate of the impact on transfers before a certain date is so unreliable that it would be appropriate to recognise a liability only for transfers after that date. For the remainder, the company could disclose a contingent liability, revisiting it in a future reporting period once more information has been obtained. In any case, clear disclosure around the estimation uncertainty and potential range of outcomes is crucial.

As data quality will be a key issue in determining whether a reliable estimate can be made, it is important that companies - particularly those reporting at 31 December - have a clear understanding of the size of the potential impact, what information is readily available and their auditor’s views on an appropriate approach given materiality levels.

It is even more of a pressing issue for companies with reporting dates before 20th November 2020 that have yet to file their accounts. Whilst the judgment will be viewed as a non-adjusting post-balance sheet event, disclosure will be needed to the extent the impact is likely to be material, with pressure from auditors to quantify this impact.

Environmental, social and governance (ESG)

Task Force for Climate-related Financial Disclosures - Where do I start?

Task Force for Climate-related Financial Disclosures - Where do I start?

The TCFD Where do I start guide provides an introduction to TCFD reporting, and key aspects to keep in mind when reporting against the framework in practice.

For PwC use only

FAQs

FAQs CSRD: What you need to know about the Corporate Sustainability Reporting Directive

Key points

In April 2021, the European Commission published its proposal for a Corporate Sustainability Reporting Directive (CSRD) for a comprehensive revision of sustainability reporting in the EU. The proposal's aim is to make sustainability reporting in the EU more consistent, so that financial firms, investors and the broader public can use comparable and reliable sustainability information. After months of debate, the European Commission, the European Parliament and the Council reached a political agreement in June 2022. The final Directive (EU) 2022/2464 was published in the EU Official Journal on 16 December 2022.

The CSRD provides more detailed and more standardised reporting requirements and will significantly expand the scope of sustainability reporting. Nearly 50,000 companies in the EU and also companies outside the EU are expected to be affected by the CSRD.

These FAQs are intended to provide an overview of the CSRD's key provisions, in particular the scope (including the scope for the Taxonomy reporting requirements), the first-time application and the reporting standards companies should use. For example:

- Which companies are within the scope of the CSRD reporting requirements?
- When is the first-time application for companies in scope?
- Which type of standard is to be used for sustainability reporting?
- Are companies within the scope of the CSRD reporting requirements also within the scope of Article 8 of the Taxonomy Regulation (Regulation (EU) 2020/852)?
- Are there any specificities, such as exemption possibilities, that should be considered?

Disclaimer

These FAQs are based on Directive (EU) 2022/2464 as published on 16 December 2022 in the EU Official Journal in the English language, available at:

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464&qid=1671182094889

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Section A - Background and guidance on these FAQs

IND FAQ 1.1 - What is CSRD?

The Corporate Sustainability Reporting Directive (CSRD) is an ‘amending EU Directive’, since it revises the existing regulations on non-financial reporting in the EU, with the aim of establishing a comprehensive regime of sustainability reporting in the EU and bringing sustainability reporting gradually on par with financial reporting. Hence, the following FAQs do not refer to articles of the CSRD, but to the articles of the EU Directives or EU Regulations as amended accordingly by the CSRD.

What is the CSRD’s goal as it guides EU Member States in transposing the Directive into national laws?

The CSRD’s aim is to comprehensively revise the currently valid regulations on non-financial reporting in the EU, and to bring the non-financial reporting regime gradually on par with the financial reporting regime. This concerns the following areas in particular:

- Scope of application (which will be considerably extended, and will be the main focus of these FAQs).
- Content of reporting (which will no longer be called ‘non-financial reporting’ under the CSRD, but ‘sustainability reporting’).
- Responsibility for sustainability reporting in the reporting company.
- External assurance of reporting, including requirements for the external auditor (such as qualifications).
- External supervision – that is, enforcement of corporate reporting rules by the European Securities and Markets Authority (ESMA) and national European enforcers.

How will the CSRD change relevant existing EU Directives on corporate reporting?

The existing non-financial reporting obligation for companies in the EU is – similar to the new extended obligations – embedded in the regime of corporate reporting according to the Accounting Directive[1] . The Accounting Directive contains provisions on annual financial statements, consolidated financial statements, the (consolidated) management report and other related reports, such as the corporate governance report.

Example:

- Article 19 of the Accounting Directive regulates the management report’s content, and Article 29 regulates the consolidated management report’s content. The management report is a mandatory part of external corporate reporting, and it complements the financial statements. In general, all companies within the scope of the Accounting Directive that exceed certain size criteria are required to prepare a management report.
- In 2014, the Non-Financial Reporting Directive[2] (NFRD) was adopted, which introduced the regulations on non-financial reporting into the Accounting Directive via the new Articles 19a and 29a.
- The CSRD comprehensively amends Articles 19a and 29a of the Accounting Directive (among others), in order to take into account the CSRD’s objective – including a considerable expansion of sustainability reporting’s scope and content.

Independently of the provisions on corporate reporting in the Accounting Directive, the Transparency Directive[3] also contains provisions for periodic reporting by issuers – that is, companies whose securities are admitted to trading on a regulated market in the EU. In order to ensure that issuers are subject to the same sustainability reporting requirements as companies within the scope of the Accounting Directive, the CSRD amends the Transparency Directive accordingly. It is worth noting that companies situated outside the EU whose securities are admitted to trading on a regulated market in the EU should also disclose information on sustainability matters.

The final CSRD text was published in the Official Journal of the European Union (OJEU) on 16 December 2022. EU Member States must bring into force the laws, regulations and administrative provisions to meet the requirements of the CSRD by 6 July 2024.

What is the difference between EU Directives and EU Regulations, and how does that apply to CSRD?

A ‘Regulation’ is a binding legislative act that must be applied in its entirety across the EU without changes by EU Member States. A ‘Directive’ is a legislative act setting objectives that all EU Member States must reach by transposing the Directive into their national law within a defined time frame. However, it is up to the EU Member States to define how to achieve these goals by implementing them into their national laws. Therefore, Directives normally leave EU Member States with a certain amount of leeway as to the exact rules to be adopted. The Member States are free to add stricter requirements.

As a consequence, since the CSRD is an EU Directive, it might be transposed into national law differently, which is then binding for the respective company and thus takes precedence. Against this background, EU Directives are not always clearly interpretable, because the interpretation depends on the national implementation.

In this context, these FAQs are based on Directive (EU) 2022/2464 as published on 16 December 2022 in the EU Official Journal in the English language to provide an overview of the key provisions of the CSRD, in particular the scope. The CSRD does not apply directly to any company, but the national legislation of individual Member States would apply directly, and so these FAQs should be considered as a guide and cannot be applied to specific cases.

[1] *Directive 2013/34/EU, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013L0034.*

[2] *Directive 2014/95/EU amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Non-Financial Reporting Directive), available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095.*

[3] *Directive 2004/109/EC, available at: .*

IND FAQ 1.2 - How are these FAQs structured?

The FAQs are structured in the following way:

Companies concerned	Topics covered	FAQ section
EU companies *Note:* *EU companies are to be understood as companies situated in the EU regardless of whether they have a parent company headquartered inside or outside the EU. Hence, this section relates to companies headquartered in the EU, and companies headquartered outside the EU with subsidiaries situated in the EU.*	• When would a company be within the scope of the CSRD? • When is the first-time application of the CSRD reporting requirements? • Which type of reporting standard must a company use? • Are there situations where an in-scope company might be exempt from CSRD reporting requirements? • Does the in-scope company also have to report in accordance with Article 8 of the Taxonomy Regulation?	Section B - EU undertaking
EU companies with non-EU parent companies *Note:* *The CSRD contains special provisions for EU companies that have a parent entity headquartered outside the EU. Hence, section C, in addition to section B, is relevant to international groups with subsidiaries or branches situated in the EU.*	• What are the consequences for international groups with a presence in the EU? Are there exemption possibilities for the EU subsidiaries? •	Section C - Special provisions for an EU undertaking with a non-EU parent undertaking

Companies concerned	Topics covered	FAQ section
	Is reporting at EU subgroup level required and what are the consequences where there is no EU subholding? • Are there situations where worldwide group reporting would be required?	
Companies that are issuers *Note:* *Issuer is defined as a natural or legal person whose securities (equity or debt) are admitted to trading on a regulated market in the EU. This includes all companies listed on an EU-regulated market, regardless of whether it is situated in the EU or not.*	• When would a company, that is an issuer, be within the scope of the CSRD? • When is the first-time application of the CSRD reporting requirements?	Section D - Issuer of securities on an EU-regulated market

All provisions relating to credit institutions and insurance undertakings will be addressed in a separate FAQ document at a later stage.

Section B - EU undertaking

IND FAQ 2 - How could an EU undertaking be covered by the CSRD reporting requirements?

In general, an EU undertaking can be covered by one or two of the following scenarios (see table below). The term 'EU undertaking' is used in this FAQ document for companies of a certain legal form which are situated in the EU and governed by the laws and regulations on corporate reporting of an EU Member State.

Scenario#	Responsible for Reporting	Legal Mandate	Scope of CSRD Reporting
1	Large undertaking	Art. 19a (1) Accounting Directive: "*Large undertakings*"	Entity-level reporting
2	Small and medium-sized undertaking (if listed)	Art. 19a (1) Accounting Directive: "*small and medium-sized undertakings, except micro undertakings, which are public-interest entities*	

Scenario#	Responsible for Reporting	Legal Mandate	Scope of CSRD Reporting
		as defined in point (a) of point (1) of Article 2"	
3	Parent undertaking	Art. 29a (1) Accounting Directive: "*Parent undertakings of a large group as referred to in Article 3 (7)*"	Group-wide reporting

Scenario 3 precedes scenarios 1 and 2. This means that, for example, a large undertaking (scenario 1) that is also the parent undertaking of a large group (scenario 3) only has to report under scenario 3.

Does it make a difference whether the EU undertaking has a parent company situated in- or outside the EU?

No, not at this point of the scope analysis.

However, there are important provisions that apply to EU undertakings with a non-EU parent company (that is, a parent company situated outside the EU). These special provisions are explained in Section C.

IND FAQ 2.1 - Scenario 1: What are the provisions for 'large undertakings'?

According to Article 19a(1) of the Accounting Directive[4] , 'large undertakings' should include, in the management report, information necessary to understand the undertaking's impacts on sustainability matters, as well as information necessary to understand how sustainability matters affect the undertaking's development, performance and position. This information should contain sustainability-related information on the business model and strategy, the policies and targets, incentive schemes, due diligence processes and impacts, risks and other aspects.

To ensure that the disclosed information is comparable and that all relevant information is disclosed, the CSRD provides that undertakings within the scope of Article 19a(1) of the Accounting Directive report in accordance with common reporting standards (European Sustainability Reporting Standards (ESRS)). The development of the ESRS is based on the European Financial Reporting Advisory Group's (EFRAG) technical advice.

[4] *Directive 2013/34/EU as amended by the CSRD (if not stated otherwise).*

IND FAQ 2.1.1 - What is a large undertaking?

According to Article 1 of the Accounting Directive, an 'undertaking' is a company of a certain legal form which is established in the EU and governed by the laws and regulations on corporate reporting of an EU Member State. The term 'undertaking' mainly refers to companies with limited liability. For a detailed list, see Annex I and Annex II to the Accounting Directive. Annex I lists out each legal form per EU Member State, while Annex II lists out the types of undertakings that are in scope where "*all of the direct or indirect members of the undertaking having otherwise unlimited liability in fact have limited liability*".

Example:

For Ireland, Annex I lists the following legal forms: "*public companies limited by shares or by guarantee, private companies limited by shares or by guarantee*"; and Annex II lists "*partnerships, limited partnerships, unlimited companies*".

A 'large undertaking' is defined in Article 3(4) of the Accounting Directive. It must exceed at least two of the three following size criteria on the balance sheet date of two consecutive financial years (where exceptions exist):

A. balance sheet total: €20,000,000;
B. net turnover: €40,000,000;
C. average number of employees during the financial year: 250

The definition of these terms (for example, the term ‘employee’ and rules on how to calculate the average) might differ between EU Member States. Therefore, national provisions must be respected.

Is it possible that this definition of a large undertaking (including legal form and size criteria) could change?

It is possible that an EU Member State could decide to enlarge the scope by including other legal entities than those referred to in Article 1 of the Accounting Directive or by lowering the thresholds for the size criteria. In any case, national law prevails.

IND FAQ 2.1.2 - When is first-time application for large undertakings with a calendar year-end?

Large undertaking as of	Undertaking itself is a PIE	Number of employees (entity)	First-time application
31.12.2024	Yes	More than 500	Calendar year 2024
31.12.2024	Yes	Less than 500	Calendar year 2025 (if the undertaking is still large as of 31.12.2025)
31.12.2024	No	More than 500	Calendar year 2025 (if the undertaking is still large as of 31.12.2025)
31.12.2025	No	-	Calendar year 2025

What is the definition of a PIE?

A public interest entity (PIE) refers to three types of undertakings.

According to Article 2(1)(a) of the Accounting Directive, a PIE is an undertaking governed by the law of an EU Member State whose transferable securities (equity or debt) are admitted to trading (that is, ‘listed’) on an EU-regulated market. It should be noted that there are unregulated exchanges in the EU (so-called ‘free market’) and regulated ones. The PIE definition refers to the EU-regulated markets.

A PIE also includes credit institutions without listed securities on a regulated market. According to Article 4 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006, ‘credit institution’ refers to an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Finally, a PIE includes insurance undertakings and reinsurance undertakings under the definition in Article 2(1) of Council Directive 91/674/EEC of 19 December 1991. Insurance companies are also PIEs without securities listed on a regulated market.

The definition of PIE might differ between EU Member States. In this case, national law prevails. In Germany, for example, the PIE definition includes undertakings that have applied for the admission of securities to trading on a regulated market.

It should be noted that, for the purposes of financial reporting, PIEs are automatically treated as large undertakings, thereby generally having the same reporting obligations regardless of size, according to Article 40 of the Accounting Directive. However, for the purposes of the CSRD reporting obligations of Article 19a of the Accounting Directive, which refers to the requirements to prepare sustainability reporting, the size criteria must also be fulfilled, in order to determine the scope and the correct calendar year for first-time application. Recital 17 of the CSRD states the following in this regard: “*In particular, public-interest entities should not be treated as large undertakings for the purposes of the application of the sustainability reporting requirements*”.

If a large undertaking is partly defined by an average number of employees exceeding 250, what does this 500-employee threshold mean?

Currently, undertakings that are obliged to report according to the NFRD are large undertakings that are PIEs and exceed the average number of 500 employees.

The provisions set out above for the start of the new reporting obligations lead to the fact that first-time reporting for companies that already report non-financial information under the NFRD[5] is one year earlier than first-time reporting for ‘new reporters’ (that is, those that are not already required to report under the NFRD).

In addition to those specified under the threshold, there are companies that already report non-financial information due to national provisions. For example, in some cases, some EU Member States have enlarged the NFRD's scope. For these companies, it remains open when their first-time application will be.

[5] *Articles 19a and 29a of the Accounting Directive, as amended by the NFRD (Directive 2014/95/EU).*

IND FAQ 2.1.3 - Which type of standard is to be used for sustainability reporting of a large undertaking?

Pursuant to Article 19a(4) of the Accounting Directive, large undertakings should report in accordance with the sustainability reporting standards adopted pursuant to Article 29b of the Accounting Directive, which implies that the 'full' ESRS are applicable.

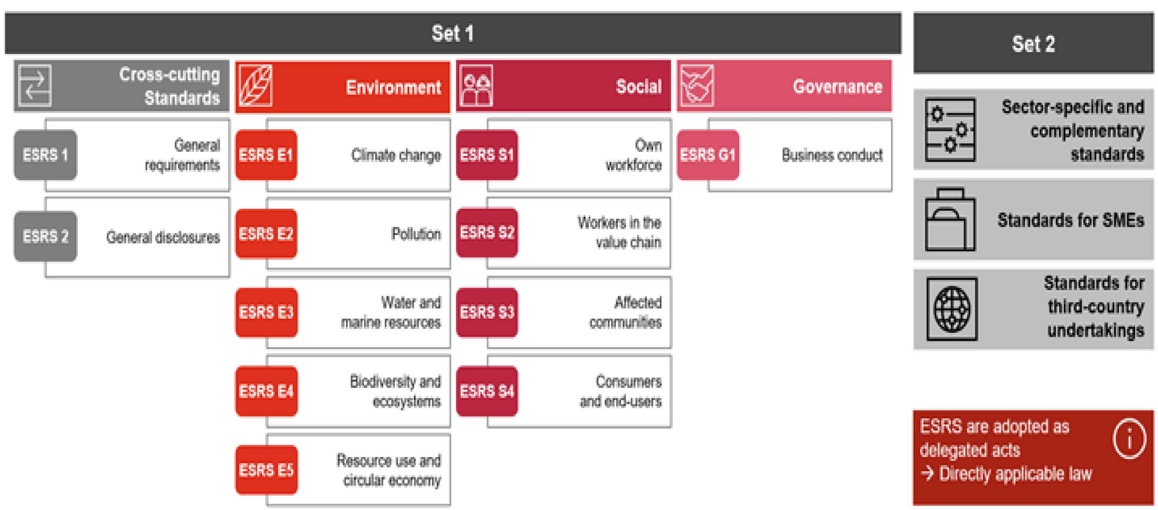
What is meant by 'full' ESRS, and what types of ESRS will be in place?

'Full' ESRS are those standards that are specified by Article 29b of the Accounting Directive. They consist of a set of sector-agnostic standards and a set of sector-specific standards. In November 2022, EFRAG handed 12 drafts for sector-agnostic standards over as technical advice to the European Commission. In addition, EFRAG is working on sector-specific standards that will complement the reporting requirements of the sector-agnostic standards.

In addition to the 'full' ESRS, the CSRD envisages the development of two further sets of standards:

- Sustainability Reporting Standards for SMEs (see below); and.
- Sustainability Reporting Standards for third country undertakings (see Section C).

Overview of the current set of standards (as of November 2022):



View image

IND FAQ 2.1.4 - Are these undertakings also within the scope of Article 8 of the Taxonomy Regulation?

Yes, all undertakings that are subject to Article 19a of the Accounting Directive must also include Article 8 Taxonomy Regulation disclosures covering the same scope.

Specifically, Article 8(1) of the Taxonomy Regulation provides that "*any undertaking which is subject to an obligation to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU shall include in its non-financial statement or consolidated non-financial statement information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of this Regulation*".

Consequently, a large undertaking that is within the scope of Article 19a of the Accounting Directive is also within the scope of Article 8 of the Taxonomy Regulation. 'New reporters' (that is, those that are not already required to report under NFRD) must include in their sustainability report the information required by Article 8 of the Taxonomy Regulation, starting from FY 2025 (see 'First-time application' above).

For more information on the EU Taxonomy, please review PwC's ESG Viewpoint site.

IND FAQ 2.1.5 - What if a large undertaking is also a subsidiary undertaking? Is exemption possible?

If an undertaking is another legal entity's subsidiary, thereby being a subsidiary undertaking of a parent undertaking, it may be exempted from its own sustainability reporting requirements by inclusion in the parent entity's consolidated sustainability reporting. This means that it is not the individual large undertaking that reports separately, but a superordinate parent undertaking that reports on a consolidated basis.

Specifically, the large undertaking may be exempted from its own sustainability reporting requirements if all of the provisions of Article 19a(9) and (10) of the Accounting Directive are fulfilled. These provisions encompass:

1. The large undertaking (the exempted subsidiary undertaking) and its subsidiary undertakings, if any, are included in a parent undertaking's consolidated management report, drawn up in accordance with Articles 29 and 29a of the Accounting Directive. That means that the parent undertaking needs to prepare a consolidated management report, including a sustainability report, in accordance with 'full' ESRS. See 'IND FAQ 2.3 - Scenario 3: What are the provisions for parent undertakings?' for more information.
2. The exempted subsidiary undertaking's management report must contain the following information:
    a. The exempting parent undertaking's name and registered office.
    b. Web links to the exempting consolidated management report and to the assurance opinion thereon. In terms of timing, this could mean that the exempting consolidated management report must be prepared, assured and published before the exempted subsidiary prepares its management report. Transposition of the CSRD into national law needs to be monitored carefully to reach clarity on this aspect.
    c. The information that the large undertaking is exempted from the sustainability reporting obligations.
3. The EU Member State of the exempted subsidiary undertaking might require the exempting consolidated management report of the parent undertaking to be published in a specific language. A certified translation is not required but, if the translation is not certified, this fact should be stated.

In the case of a non-EU parent undertaking preparing the exempting sustainability reporting, see Section C.

Is exemption interpreted as an option or an obligation?

The wording of Article 19a(9) of the Accounting Directive ("*shall be exempted*") implies that the subsidiary is obliged to be exempted from its own sustainability reporting requirements if the provisions of Article 19a(9) and (10) of the Accounting Directive are fulfilled. However, it should be noted that the wording of the exemption rule under the current NFRD, in Article 19a(3) of the Accounting Directive, is the same ("*shall be exempted*"), and it has been transposed into national law as an option by some EU Member States (for example, in Germany a subsidiary subject to Article 19a of the Accounting Directive can choose whether to be exempted or not).

Thus, it would be possible for the subsidiary to be included in the parent undertaking's consolidated sustainability report drawn up in accordance with Article 29a of the Accounting Directive, and also to prepare its own sustainability report in accordance with Article 19a of the Accounting Directive. Transposition of the CSRD into national law needs to be monitored carefully to reach clarity on this aspect.

What if the large undertaking seeking exemption is a subsidiary and a PIE?

The exemption as stated above also applies to a PIE by its broader definition under Article 2(1) of the Accounting Directive.

However, according to Article 19a(10) of the Accounting Directive, the exemption does not apply to a PIE that is specifically defined under Article 2(1)(a) of the Accounting Directive (undertaking governed by the law of an EU Member State whose transferable securities (equity or debt) are admitted to trading ('listed') on an EU-regulated market) and that is large.

This implies that a PIE that is listed on an EU-regulated market and large cannot be exempted from Article 19a of the Accounting Directive, and must report on its own, regardless of whether it is included in its parent undertaking's consolidated sustainability report.

What if the large undertaking seeking exemption is not a subsidiary but an associate accounted for under the equity method?

The exemption as stated above applies to large undertakings that are subsidiary undertakings. Exemption is not possible if this requirement is not fulfilled.

IND FAQ 2.1.6 - What if a large undertaking is exempted from preparing/publishing a management report and/or publishing its financial statements?

Exemptions for financial reporting are separate from those for sustainability reporting. Both exemption regimes work independently from each other. Therefore, it could be that a large undertaking is exempted from preparing/publishing a management report and/or publishing financial statements but not exempted from preparing a sustainability report. There are no specific regulations on this situation in the CSRD. It needs to be seen whether this question requires any specific provisions when the CSRD applies.

We assume that, in most cases where a large undertaking is exempted from preparing a management report, it is also exempted from preparing a sustainability report (see above). In this case, the large undertaking does not have to provide the information on the exemption (such as the exempting parent undertaking's name and registered office). However, it does have to publish the exempting parent undertaking's consolidated management report on its own.

IND FAQ 2.1.7 - What if a large undertaking is a parent undertaking?

Where an undertaking itself is a 'large undertaking' on a stand-alone basis, and it is also a parent undertaking of a 'large group', it could be that the undertaking is within the scope of both Articles 19a and 29a of the Accounting Directive.

In this case, the CSRD foresees that there is no double reporting requirement. 'Double reporting' refers to a single undertaking preparing two reports: one report at the single reporting entity level, and a consolidated report at the group level. Instead, Article 29a(7) of the Accounting Directive provides that, if a parent undertaking complies with the reporting requirements of Article 29a(1) to (5) of the Accounting Directive, it is deemed to have complied with the requirements set out in Article 19a of the Accounting Directive. That means that only the group reporting is mandatory.

The large undertaking would be required to follow the sustainability reporting requirements of Article 29a of the Accounting Directive (see scenario 3 below).

What if the large undertaking is a parent and a subsidiary undertaking?

If the large undertaking is a parent undertaking and a subsidiary undertaking, it is not the ultimate parent, and so it may be exempted from its own (consolidated) reporting requirements, according to Articles 19a(9) and (10) and 29a(8) and (9) of the Accounting Directive. See the provisions on exemption above and in scenario 3 below.

IND FAQ 2.2 - Scenario 2: What are the provisions for 'small and medium-sized undertakings'?

According to Article 19a(1) of the Accounting Directive, "*small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2*" should include, in the management report, information necessary to understand the undertaking's impacts on sustainability matters, as well as information necessary to understand how sustainability matters affect the undertaking's development, performance and position. This information should contain sustainability-related information on the business model and strategy, the policies and targets, incentive schemes, due diligence processes and impacts, risks and other aspects.

To ensure that the disclosed information is comparable and that all relevant information is disclosed, the CSRD provides that undertakings within the scope of Article 19a(1) of the Accounting Directive should report in accordance with common reporting standards (European Sustainability Reporting Standards (ESRS)). The development of the ESRS is based on the European Financial Reporting Advisory Group's (EFRAG) technical advice.

IND FAQ 2.2.1 - Which small and medium-sized undertakings are in scope?

Small and medium-sized undertakings (for a definition of the term "undertaking" see above) must fulfill two requirements to be considered in scope:

1. They must be a PIE, as "*referred to in Article 2, point (1), point (a)*" – that is, an undertaking governed by the law of an EU Member State whose transferable securities (equity or debt) are admitted to trading ('listed') on an EU-regulated market.
2. They must fulfil the size criteria for small or medium-sized undertakings (see table below) without being micro-undertakings.

In general, an undertaking's size is classified based on the following size criteria on the balance sheet date in two consecutive financial years (where exceptions exist):

Not exceeding the limits of at least two of the three following criteria	Medium-sized undertakings	Small undertakings	Micro-undertakings
Balance sheet total (EUR)	20,000,000	4,000,000	350,000
Net turnover (EUR)	40,000,000	8,000,000	700,000
Average number of employees during the financial year	250	50	10

The definition of these terms (for example, the term 'employee' and rules on how to calculate the average) might differ between EU Member States. Therefore, national provisions must be respected.

Generally speaking, PIEs are deemed to be large for the purposes of financial reporting, thereby generally having the same reporting obligations regardless of size. However, for the purposes of the reporting obligations in Article 19a of the Accounting Directive, the size criteria need to be taken into consideration, and so they must also be fulfilled.

IND FAQ 2.2.2 - When is first-time application for small and medium-sized undertakings with a calendar year-end that are in scope?

First-time application is for financial years starting on or after 1 January 2026.

Can a small and medium-sized undertaking delay reporting?

A small or medium-sized undertaking that is within the CSRD's scope may defer the first-time application until financial years starting before 1 January 2028. In this case, the undertaking must provide a statement in the management report, declaring briefly why the sustainability reporting was not provided.

IND FAQ 2.2.3 - Which type of standard is to be used for sustainability reporting?

Pursuant to Article 19a(6) of the Accounting Directive, small and medium-sized undertakings within the scope of Article 19a of the Accounting Directive should report in accordance with the sustainability reporting standards referred to in Article 29c of the Accounting Directive, which indicates that ESRS specific for small and medium-sized undertakings are applicable ('SME-specific ESRS'). Small and medium-sized undertakings can also report in accordance with 'full' ESRS.

What is meant by SME-specific ESRS, and what types of ESRS will be in place?

SME-specific ESRS, or ESRS specific for small and medium-sized undertakings (SME), are those standards that are specified by Article 29c of the Accounting Directive. They should contain less information than the full ESRS (see above). So far, EFRAG has not published any drafts for SME-specific ESRS.

Besides the SME-specific ESRS, the CSRD envisages the development of two further sets of standards:

- 'full' ESRS, consisting of a set of sector-agnostic standards and a set of sector-specific standards (see above); and
- Sustainability Reporting Standards for third country undertakings (see Section C).

IND FAQ 2.2.4 - Are these undertakings also within the scope of Article 8 of the Taxonomy Regulation?

Yes, all undertakings that are subject to Article 19a of the Accounting Directive must also include Taxonomy Regulation disclosures covering the same scope.

Specifically, Article 8(1) of the Taxonomy Regulation provides that "*any undertaking which is subject to an obligation to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU shall include in its non-financial statement or consolidated non-financial statement information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of this Regulation*".

Consequently, a small or medium-sized undertaking within the scope of Article 19a of the Accounting Directive is also within the scope of Article 8 of the Taxonomy Regulation. It must include in its sustainability report the information required by Article 8 of the Taxonomy Regulation, starting from FY 2026 (see 'First-time application' above).

IND FAQ 2.2.5 - Are there other specific provisions, such as exemption possibilities?

It is worth noting that a small or medium-sized undertaking within the scope of Article 19a of the Accounting Directive may fall under the same exemption rules as a large undertaking (by inclusion in the parent undertaking's consolidated management report). In this respect, the same explanations as under 'What if a large undertaking is also a subsidiary undertaking? Is exemption possible?' would apply, with one exception:

As explained above, a large undertaking that is a listed PIE cannot benefit from the exemption possibility. However, pursuant to Article 19a(10) of the Accounting Directive, a small or medium-sized undertaking that is a listed PIE can be exempted from Article 19a of the Accounting Directive if it is also a subsidiary undertaking that is included in the consolidated management report prepared in accordance with Articles 29 and 29a of the Accounting Directive by its parent undertaking.

In addition to the above, the explanations under 'What if a large undertaking is exempted from preparing/publishing a management report and/or publishing its financial statements?' and 'What if the large undertaking is a parent undertaking?' apply analogously to small and medium-sized undertakings within the scope of Article 19a of the Accounting Directive.

IND FAQ 2.3 - Scenario 3: What are the provisions for parent undertakings?

According to Article 29a(1) of the Accounting Directive, "*parent undertakings of a large group as referred to in Article 3 (7)*" should include in the consolidated management report information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position. This information should contain sustainability-related information on the group's business model and strategy, the policies and targets, incentive schemes, due diligence processes and impacts, risks and other aspects.

To ensure that the disclosed information is comparable and that all relevant information is disclosed, the CSRD provides that undertakings within the scope of Article 29a(1) of the Accounting Directive should report in accordance with common reporting standards (European Sustainability Reporting Standards (ESRS)). The development of the ESRS is based on the technical advice of the European Financial Reporting Advisory Group (EFRAG).

IND FAQ 2.3.1 - Which parent undertakings are in scope?

Only parent undertakings of a large group are within the scope of Article 29a of the Accounting Directive and required to prepare consolidated sustainability reporting. The parent undertaking for the entire group would conduct reporting for the entire group on a consolidated basis if it is in scope.

To be considered in scope, an undertaking (for a definition of the term 'undertaking', see above) must be:

1. a parent undertaking;
2. of a large group.

'Parent undertaking' means an undertaking that controls one or more subsidiary undertakings, in accordance with Article 2 of the Accounting Directive. There are detailed provisions on these terms in the Accounting Directive, but the definitions of 'subsidiary' and ‘control’ are dependent on the GAAP used. Therefore, this needs to be assessed on the basis of national law of the EU Member States.

As defined in Article 3(4) of the Accounting Directive, a ‘large group’ is a group consisting of parent and subsidiary undertakings to be included in a consolidation and which, on a consolidated basis, must exceed at least two of the three following size criteria on the balance sheet date of two consecutive financial years (where exceptions exist):

A. balance sheet total: €20,000,000;
B. net turnover: €40,000,000;
C. average number of employees during the financial year: 250.

These criteria are to be calculated on a consolidated basis (that is, including inter-company eliminations). National provisions might foresee other calculation methods (such as an aggregated basis without inter-company eliminations) and thresholds.

The definition of these terms (for example, the term ‘employee’ and rules on how to calculate the average) can differ between EU Member States. Therefore, national provisions must be respected.

It is important to note that the parent undertaking’s size on a stand-alone basis is not decisive; it is the group’s size that determines the reporting requirements.

Which entities should be considered for the group size criteria?

Similar to financial reporting, when determining the group size criteria, the parent undertaking and all subsidiary undertakings to be included in a consolidation, regardless of whether they are EU entities, must be considered. The detailed provisions on this rule, such as the definition of ‘subsidiary’, are dependent on the GAAP used, and they need to be assessed on the basis of national law of the EU Member States.

Which entities are to be included in a parent undertaking’s consolidated report?

Article 29a of the Accounting Directive imposes a group reporting requirement, whereby the parent undertaking needs to prepare a consolidated sustainability reporting. This means that the group reporting covers the entire group, including the parent and all subsidiary undertakings, regardless of whether any single subsidiary entity is in scope on a stand-alone basis, and regardless of whether any subsidiary entity is situated inside or outside the EU.

According to Draft ESRS 1.66 (as of November 2022), “*The reporting undertaking for the sustainability statements shall be the one retained for the related financial statements. For example, if the reporting undertaking is a group and if the parent company is required to prepare consolidated financial statements, the consolidated financial and sustainability statements will be for the parent and its subsidiaries*”. In general, immaterial subsidiary undertakings do not need to be included in the scope of consolidation for consolidated financial statements. However, the assessment of the materiality of a subsidiary undertaking from a financial reporting perspective might differ from the assessment from a sustainability reporting perspective. We would have to judge (at a later stage) how to handle such a situation.

IND FAQ 2.3.2 - When is first-time application for undertakings with a calendar year-end?

Parent undertaking of a large group as of	Parent itself is a PIE*	Number of employees (group-wide)	First-time application
31.12.2024	Yes	More than 500	Calendar year 2024
31.12.2024	Yes	Less than 500	Calendar year 2025 (if the group is still large as of 31.12.2025)
31.12.2024	No	More than 500	Calendar year 2025 (if the group is still large as of 31.12.2025)
31.12.2024	No	-	Calendar year 2025

[illegible]

As set out above, first-time reporting for companies that already report consolidated non-financial information under the NFRD[6] is one year earlier than first-time reporting for 'new reporters' (that is, those that are not already required to report under the NFRD). In this context, it remains open when first-time application for companies that already report consolidated non-financial information only due to national provisions (some EU Member States have enlarged the scope of the NFRD) will be.

[6] *Articles 19a and 29a of the Accounting Directive, as amended by the NFRD (Directive 2014/95/EU).*

IND FAQ 2.3.3 - Which type of standard will be used for consolidated sustainability reporting?

Article 29b of the Accounting Directive provides for sustainability reporting standards that specify the information that parent undertakings of a large group are to report in accordance with Article 29a of the Accounting Directive – that is, 'full' ESRS are applicable, under Article 29a(5) of the Accounting Directive. To learn more about 'full' ESRS, see above.

It should be noted that 'full' ESRS in accordance with Article 29b of the Accounting Directive applies, irrespective of the parent undertaking's size on a stand-alone basis. For example, where the parent undertaking is small but the group is large, 'full' ESRS would still apply for group reporting.

IND FAQ 2.3.4 - Are these undertakings also within the scope of Article 8 of the Taxonomy Regulation?

Yes, all undertakings that are subject to Article 29a of the Accounting Directive must also include Taxonomy Regulation disclosures covering the same scope.

Specifically, Article 8(1) of the Taxonomy Regulation provides that "*any undertaking which is subject to an obligation to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU shall include in its non-financial statement or consolidated non-financial statement information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of this Regulation*".

Consequently, a parent undertaking that is within the scope of Article 29a of the Accounting Directive is also within the scope of Article 8 of the Taxonomy Regulation. 'New reporters' (that is, those that are not already required to report under NFRD) must include in their consolidated sustainability report the information required by Article 8 of the Taxonomy Regulation, starting from FY 2025 (see 'First-time application').

IND FAQ 2.3.5 - Is there a double reporting requirement for the parent undertaking itself and as a group after consolidation?

No, CSRD foresees that there is no double reporting requirement ('double reporting' refers to a single undertaking preparing two reports: one report at the reporting entity level, and the other at the group level).

This applies to scenarios where the parent undertaking is a 'large undertaking' or a 'listed small or medium-size undertaking' on a stand-alone basis and is also the parent undertaking of a 'large group'. This could mean that the parent undertaking is within the scope of Articles 19a and 29a of the Accounting Directive. Instead, Article 29a(7) of the Accounting Directive provides that, if a parent undertaking complies with the reporting requirements of Article 29a(1) to (5) of the Accounting Directive, it is deemed to have complied with the requirements set out in Article 19a of the Accounting Directive. That means that only the group reporting is mandatory.

IND FAQ 2.3.6 - In what scenario is a parent undertaking exempted from consolidated sustainability reporting?

The only possibility for a parent undertaking to be exempted from its own consolidated sustainability reporting requirements is if all of the provisions of Article 29a(8) and (9) of the Accounting Directive are fulfilled. These provisions encompass:

1. The parent undertaking (the exempted parent undertaking) and its subsidiary undertakings are included in the consolidated management report of a parent undertaking, drawn up in accordance with Article 29 and 29a of the Accounting Directive. That means that the parent undertaking of the exempted parent (sub-holding entity) needs to prepare a consolidated management report, including a sustainability report, in accordance with Article 29a of the Accounting Directive – in particular, Articles 29a(5) of the Accounting Directive that foresees the application of the 'full' ESRS for the consolidated sustainability report.
2. The management report of the exempted parent undertaking must contain the following information:
   a. The exempting parent undertaking's name and registered office.
   b. Web links to the exempting consolidated report and to the assurance opinion thereon. In terms of timing, this could mean that the exempting consolidated management report must be prepared, assured and published before the exempted subsidiary prepares its management report. Transposition of the CSRD into national law needs to be monitored carefully to reach clarity on this aspect.
   c. The information that the parent undertaking is exempted from the sustainability reporting obligations of Article 29a of the Accounting Directive.
3. The EU Member State of the exempted undertaking might require the exempting consolidated management report to be published in a specific language. A certified translation is not required but, if the translation is not certified, this fact should be stated.

In the case of a non-EU parent undertaking preparing the exempting consolidated sustainability reporting, see Section C.

Does the exemption apply if the parent undertaking is a subsidiary undertaking and a PIE?

Similar to the question on a large undertaking being a subsidiary and a PIE in IND FAQ 2.1.5 - What if a large undertaking is also a subsidiary undertaking?, the exemption does not apply to a large PIE that is specifically defined under Article 2(1)(a) of the Accounting Directive (undertaking governed by the law of an EU Member State whose transferable securities (equity or debt) are admitted to trading ('listed') on an EU-regulated market). Therefore, if a parent undertaking is a subsidiary undertaking of another parent undertaking, and it is large and listed on an EU-regulated market, it cannot be exempted from Article 29a of the Accounting Directive.

The following table contains some examples to explain the exemption rules for parent undertakings of a large group:

		Reporting requirements and exemption possibilities of the parent undertaking	
Parent undertaking (itself)	**Other parent undertaking (ultimate parent)**	**Report as a group(Art. (Article 29a)**	**Report on its own entity (Art.Article 19a)**
Large undertaking	None	Required, with no exemption	In scope but not required to report on its own entity level
Large undertaking	There is a parent undertaking	In scope, exemption possible	In scope, exemption possible
Large undertaking and listed on an EU-regulated market	None	Required, with no exemption	In scope but not required to report on its own entity level
Large undertaking and listed on an EU-regulated	There is a parent	Required, no exemption possible, even if its ultimate	In scope but not required to

		Reporting requirements and exemption possibilities of the parent undertaking	
market	undertaking	parent undertaking also reports	report on its own entity level
Small or medium-sized undertaking and listed on an EU-regulated market	None	Required, with no exemption	In scope but not required to report on its own entity level
Small or medium-sized undertaking and listed on an EU-regulated market	There is a parent undertaking	In scope, exemption possible	In scope, exemption possible

IND FAQ 2.3.7 - What if the parent undertaking is exempted from preparing consolidated financial statements and a consolidated management report, but it is not exempted from preparing a consolidated sustainability report?

Recital 26 of the CSRD specifies that "*the exemption regime for consolidated financial statements and consolidated management reports operates independently from the exemption regime for consolidated sustainability reporting. An undertaking can therefore be exempted from consolidated financial reporting requirements but not from consolidated sustainability reporting requirements where its ultimate parent undertaking prepares consolidated financial statements and consolidated management reports in accordance with Union law, or in accordance with equivalent requirements if the undertaking is established in a third country, but does not carry out consolidated sustainability reporting in accordance with Union law, or in accordance with equivalent requirements if the undertaking is established in a third country*".

Since the two exemption regimes are deliberately to be assessed independently of each other, a parent undertaking is not automatically exempted from the obligation to prepare consolidated sustainability reporting if it is exempted from the obligation to prepare consolidated financial reporting. In such a case, the sustainability report would still have to be prepared (that is, as a separate report without being part of the group management report), unless the aforementioned exemption option according to Article 29a(8) and (9) of the Accounting Directive applies.

However, it is our understanding that, in most cases of a parent undertaking seeking exemption through inclusion in the reporting of an EU parent undertaking, both exemption provisions (for financial and sustainability reporting) will apply at the same time. In the case of a non-EU parent undertaking, the two different exemption regimes might cause more inconsistencies and practical issues (see Section C).

What challenges might there be where a parent undertaking is required to prepare a consolidated sustainability report but is exempted from preparing consolidated financial statements?

Parent undertakings that do not prepare consolidated financial statements might face practical issues – for example, where they have no processes and tools in place to consolidate the financial information.

Examples where this could be a problem include disclosures related to Article 8 of the Taxonomy Regulation and some ESRS disclosure requirements that require reconciliations to the financial amounts (for example, energy intensity per net turnover). The disclosures related to Article 8 of the Taxonomy Regulation involve mapping consolidated financial data (revenue, capex, opex) to Taxonomy-eligible or Taxonomy-aligned economic activities. This means that some consolidated financial information is required to fulfil all disclosure obligations of the sustainability reporting.

IND FAQ 2.3.8 - Is there a requirement to present an information breakdown about individual subsidiaries within the consolidated sustainability report?

A parent undertaking of a large group is required to prepare a consolidated sustainability report (without consideration of the exemption possibility in Article 29a(8) and (9) of the Accounting Directive). Subsidiary undertakings included in the consolidated sustainability report will not be required to prepare their own individual sustainability report under the conditions of Article 19a(9) and (10) of the Accounting Directive.

Even though Article 29a of the Accounting Directive imposes a group reporting requirement, Article 29a(4) of the Accounting Directive provides that, where the reporting parent undertaking identifies significant differences between the risks for, or impacts of, the group and the risks for, or impacts of, one or more of its subsidiary undertakings, the undertaking should provide an adequate understanding of the risks for, and impacts of, the subsidiary undertaking or subsidiary undertakings concerned, as appropriate. It is important to note that this provision includes all subsidiaries – that is, not only those that are within the CSRD reporting requirements' scope.

It is expected that the disclosure requirements to fulfil this provision will be detailed in the ESRS.

IND FAQ 2.4 - What are the special provisions for credit institutions and insurance undertakings?

Content related to this question will be added later.

Section C - Special provisions for an EU undertaking with a non-EU parent undertaking

Content related to this section will be added later.

Practice aids

The tools below ***(free registration required to view)***, also referred to as 'practice aids', outline the key accounting considerations and the relevant published guidance to help audit teams navigate the resources available on topical accounting technical issues.

- Sales of loans and other amortised cost assets

Credit-impaired financial assets

Credit-impaired financial assets

There are a number of different measurement, derecognition, presentation and disclosure considerations which can be overlooked when accounting for and reporting credit-impaired financial assets (sometimes referred to as ‘stage 3’ or ‘defaulted’). To help identify and address these, this practice aid gathers together different possible IFRS considerations when dealing with financial asset(s) that are credit-impaired.

Practice Aid on the Accounting Policies Disclosures (Amendments to IAS 1)

On 12 February 2021, the International Accounting Standards Board (‘the Board’) issued **narrow-scope amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 *Making Materiality Judgements***.

The Board amended IAS 1 Presentation of Financial Statements to require companies to disclose their material accounting policy information rather than their significant accounting policies. Paragraph 117 of the amendment provides the following definition of material accounting policy information:

> *“Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.”*

The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Paragraph 117B of the amendment provides illustrative examples of accounting policy information that is likely to be considered material to the entity’s financial statements.

Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information.

To support this amendment, the Board also amended IFRS Practice Statement 2, *Making Materiality Judgements*, to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted (subject to any local endorsement process).

For more details see the In brief INT2021-02 Narrow-scope amendments to IAS 1, IFRS Practice Statement 2 and IAS 8 and the following FAQs in the MoA Chapter 4 paragraph 4.150:

- FAQ 4.150.2 – What accounting policy information is likely to be material to an entity’s financial statements?
- FAQ 4.150.3 – How should an entity determine if particular accounting policy information should be disclosed?
- EX 4.151.1 – Determining whether accounting policy information is material.

This Practice Aid provides guidance on the disclosures of the accounting policies in the light of the narrow-scope amendments to IAS 1 and includes the following examples:

1. Disclosures of the accounting policies for cryptocurrency investments;
2. Disclosures of the accounting policies about defined benefit obligation schemes;
3. Disclosures of the accounting policies for the cap and trade schemes;
4. Disclosures of the accounting policies about leasing activities by a lessee;
5. Disclosures of the accounting policies for fixed-fee services contracts; and
6. Disclosures of the accounting policies on revenue recognition.

The list of examples is not exhaustive and the same conclusions might not always be reached in different fact patterns.

If management has used significant judgments and assumptions in developing and/or applying the accounting policies, an entity would need to consider disclosing these as required by paragraphs 122 and 125 of IAS 1.

1. Disclosures of the accounting policies for cryptocurrency investments

Background information

In March 20X2, the Board of Directors (BoD) of Entity A, an investment entity, decided to modify its investment strategy, and allocate a portion of the assets under management (AUM) to cryptocurrencies.

The BoD decided, as a first step, to immediately allocate 2.5% of AUM into cryptocurrencies. The revised strategy further dictates an increase in the cryptocurrency portion of AUM to 5% before year-end 20X3, before converting into a permanent level of 5–10% share of AUM.

Historically, the AUM is measured and classified at fair value through profit or loss in its entirety.

When the BoD's decision was made, the total AUM was CU200, hence Entity A purchased cryptocurrencies for an amount of CU5 (2.5%).

Entity A accounts for its cryptocurrency assets as intangible assets and chooses to subsequently measure them at revalued amounts, following the requirements in paragraph 75 of IAS 38.

At the 20X2 year-end, the total AUM at Entity A had a fair value of CU220, out of which the cryptocurrency position counts for CU7 (3.2% of AUM).

Entity A concludes that the cryptocurrency position is material in terms of amounts as of 31 December 20X2, and will also be material when reaching a 5% portion of AUM.

Question

Should Entity A provide accounting policy information for its cryptocurrency investments in the financial statements for the year ending 31 December 20X2?

Answer

Entity A observes that there are observable market prices available for the cryptocurrencies. However, Entity A further observes that:

- the cryptocurrency position is determined to be material at year-end of 20X2;
- accounting principles for cryptocurrency activities are not explicitly described under IFRS. The accounting principles are derived from paragraphs 10–12 of IAS 8;
- an accounting policy choice was available to Entity A for subsequent measurement;
- the observable market prices for cryptocurrencies are associated with a significant degree of volatility;
- the cryptocurrencies are a new category of investments for Entity A in 20X2 and the remeasurements are presented in OCI whereas all the other AUM remeasurements are presented in profit and loss;
- Entity A plans to increase the cryptocurrency share of AUM in coming years.

Considering all facts and circumstances presented, Entity A is likely to conclude that accounting policy information about its cryptocurrency activities is material for a user's understanding of its financial statements in this case. Entity A would disclose accounting policy information about its accounting for cryptocurrency activities.

2. Disclosures of the accounting policies about defined benefit obligation schemes

Background information

Entity B operates in a jurisdiction with a retirement age of 67. Entity B has two post-employment benefit schemes for its employees:

-

a defined benefit scheme with two active employees, both aged 65. This scheme is closed for new entrants; and

- a defined contribution plan covering the remaining 255 of its employees.

In its previous years' financial statements, Entity B disclosed the following information regarding its defined benefit scheme:

> *"The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.*
>
> *The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.*
>
> *The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.*
>
> *Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.*
>
> *Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs."*

Entity B concludes that the amounts of both its net and gross defined benefit obligation, and the related expenses in the statement of comprehensive income, are immaterial for its financial statements, both for the current period and for the comparable period presented.

Question

Should Entity B provide accounting policy information about its defined benefit obligation scheme in the financial statements for the year ending 31 December 20X2?

Answer

Calculations of gross defined benefit obligations are, in general, complex, requiring significant judgements and assumptions to be made, in addition to actuary expertise. However, Entity B observes that:

- the defined benefit obligation amounts are immaterial both in the current period and in the comparable period presented;
- the defined benefit scheme is closed for new entrants. The two active members are near their retirement age, and the gross obligations are substantially covered by plan assets. Entity B therefore concludes that the risk of a material adjustment in the next financial year due to estimation uncertainty for the net obligation as per year-end 20X2 is remote;
- the accounting policies were unchanged during the year; and
- accounting policies for post-employment benefits are described under IFRS, and not derived by Entity B from paragraphs 10–12 of IAS 8.

From the fact pattern presented, Entity B is likely to conclude that accounting policy information for the defined benefit obligation scheme is not material for an understanding of its financial statements for the year ending 31 December 20X2.

By disclosing such information, Entity B could risk obscuring information that is material for its primary users' understanding of the financial statements.

Hence the accounting policy information for the defined benefit scheme is not required to be given.

3. Disclosures of the accounting policies for the cap and trade schemes

Background information

Entity C, an oil extraction company, operates 20 oil extraction platforms spread across different jurisdictions in the Atlantic Ocean.

As per the licence agreements in one of the jurisdictions, Entity C is obligated to comply with a “cap and trade” scheme the government has introduced to cut gas emissions. Under the scheme, companies will be allocated a limited number of allowances at the beginning of the year, where one allowance equals 1 tonne of carbon dioxide.

A market with observable prices and active trading of allowances exists, so any entity with insufficient allowances is able and allowed to purchase complementary allowances from an entity with a surplus of such.

At the end of each calendar year, entities are required to have sufficient allowances to cover the volume of emissions they have made throughout that particular year.

For the calendar year 20X1, which corresponds to Entity C’s reporting period, Entity C is allocated an allowance for 2,000 tonnes of carbon dioxide. In each of the previous three calendar years, Entity C has emitted carbon dioxide in the region of 2,500–3,000 tonnes, and it expects emissions at approximately the same level in 20X1, necessitating the entity to purchase allowances in the market.

There are currently several acceptable accounting approaches to dealing with this type of cap and trade scheme. IFRIC 3 dealt with the accounting for cap and trade schemes. Even though IFRIC 3 was withdrawn by the IASB in 2005, it is still considered valid guidance on the accounting for such schemes under IFRS.

Entity C accounts for the cap and trade scheme based on IFRIC 3. For a detailed description of the accounting for emissions obligations, see EX 16.85.9.

Question

Should Entity C disclose accounting policy information for the cap and trade scheme for 20X1?

Answer

Entity C observes that:

- accounting for cap and trade schemes is not explicitly described under IFRS. Consequently, the accounting policies are derived from paragraphs 10–12 of IAS 8;
- the accounting policies applied are complex and not easy to understand for users;
- there is diversity in practice in how cap and trade schemes are accounted for; and
- the cap and trade scheme is fundamental to Entity C’s business and licence to operate.

Consequently, Entity C is likely to conclude that accounting policy information about its cap and trade scheme is material for an understanding of its financial statements for the year ending 31 December 20X1. Entity C would disclose accounting policy information about its accounting for the cap and trade scheme.

4. Disclosures of the accounting policies about leasing activities by a lessee

Background information

Entity D, an investment property entity, owns 15 investment properties in the high-end area of its jurisdiction’s capital.

The properties are leased out for periods up to, and never exceeding, ten years. Entity D has concluded that substantially all of the risk and rewards of the properties are retained, and has consequently classified them as operating leases in accordance with paragraph 62 of IFRS 16.

Entity D has outsourced the property management services for the entire portfolio of properties, and only a small administration is employed. Entity D is head-quartered at the 10th floor of one of its own properties. The headquarters are classified as owner-occupied property in the balance sheet, and measured at a revalued amount in accordance with paragraph 31 of IAS 16.

Entity D has rented two cars for use by their CEO and CFO as part of their respective remuneration packages. The original lease term on both contracts when entered into two years ago was five years.

In its previous financial statements, Entity D disclosed the following information about its leasing activities, when acting as a lessee:

> *"The entity leases vehicles for fixed periods of three to five years, usually without extension options. None of the entity's contracts are determined to contain any non-lease components.*
>
> *Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.*
>
> *The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the entity, the incremental borrowing rate is used, being the rate that the entity would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.*
>
> *To determine the incremental borrowing rate, the entity:*
>
> - *where possible, uses recent third-party financing received by the entity as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;*
> - *uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Entity D, which does not have recent third-party financing; and*
> - *makes adjustments specific to the lease, e.g. term and security.*
>
> *If a readily observable amortising loan rate is available to the entity (through recent financing or market data) which has a similar payment profile to the lease, then the entity uses that rate as a starting point to determine the incremental borrowing rate.*
>
> *The entity is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.*
>
> *Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the entity is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the entity revalues its owned property, plant and equipment, it has chosen not to do so for the right-of-use assets held by the entity.*
>
> *Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture."*

When preparing its financial statements for 20X1, Entity D observes that, in terms of amounts, its leasing activities when acting as the lessee are clearly immaterial.

Question

Should Entity D disclose accounting policy information for its leasing activities, acting as a lessee, in its financial statements for the year ending 31 December 20X1?

Answer

Lease accounting, in general, requires significant judgements and assumptions to be made; for example, when identifying a lease, identifying any non-lease components, calculating the discount rate, deciding on the accounting for any variable lease payments and assessing the probability for execution of any purchase options or extension options.

However, Entity D observes that:

- the financial statements figures in respect of their leasing activities, acting as the lessee, are immaterial;
- Entity D did not change its accounting policies during 20X1;
-

accounting policies for leases are described under IFRS, and not derived by Entity D from paragraphs 10–12 of IAS 8; and

- leasing of the cars for Entity D is relatively uncomplicated from an accounting perspective.

Based on the fact pattern presented, Entity D is likely to conclude that accounting policy information for the leasing activities, when acting as a lessee, is not material for a user's understanding of its financial statements for the year 20X1.

The entity could risk obscuring material information in its financial statements if accounting policy information on leasing activities as a lessee is disclosed.

Consequently, the accounting policy information related to the entity's activities as a lessee would not be required to be disclosed. Entity D would need to separately assess whether it should include accounting policy disclosure for its activities as a lessor.

In addition, Entity D should consider which disclosures should be made in accordance with IFRS 16 (in its activities as lessee) and IAS 24 (regarding the transactions with the CEO and CFO as related parties).

5. Disclosures of the accounting policies for fixed-fee services contracts

Background information

Entity E, an insurer, owns a portfolio of investment properties as part of its investment strategy. Entity E has established a subsidiary, Entity F, a property management company, to conduct the daily operating activities (for example maintenance and repairs) on the Group's investment properties.

As the market's demand for property management services has increased, Entity F has expanded its business to provide property management services to external customers through fixed-fee service contracts. The contracts are for periods of 3–5 years and cover property management and repair work. Entity F is responsible for keeping the properties at a pre-defined standard, and all necessary repair and maintenance work is covered by Entity F as part of the fixed-fee contract.

The customers themselves are responsible for excessive repair work which does not arise from normal wear and tear, e.g. fire, or natural disasters such as flood or storm.

The contract fee agreed at inception is based on standard price factors such as the property's age, size and area of location. Entity F does not conduct a specific assessment of the property's condition.

Entity F concludes that its contracts with external customers meet the definition of an insurance contract. However, it can choose to account for the contracts applying IFRS 15 instead of IFRS 17 as per paragraph 8 of IFRS 17, because they are fixed-fee service contracts and:

- the specific risk of particular customers is not assessed;
- the customers are compensated by Entity F providing services only; and
- the insurance risk transferred to Entity F consists primarily of variability in the customer's use of the services, rather than from the costs of those services.

Entity F has chosen, as an accounting policy choice, to account for the fixed-fee service contracts in accordance with IFRS 17 and did so in the comparative period as well.

At year-end 20X1, management of Entity F concluded that, in terms of value, its fixed-fee service contracts could be determined material for its financial statements.

Question

Should Entity F disclose accounting policy information for its fixed-fee service contracts in its financial statements for the year ending 31 December 20X1?

Answer

Entity F observes that:

- the accounting policies were unchanged during the year; and

- the accounting policies are described in IFRS, and not derived by Entity F from paragraph 10–12 of IAS 8.

However, Entity F further observes that:

- the fixed-fee service contracts could be determined material;
- the accounting policies were chosen from a set of alternatives (IFRS 15 or IFRS 17);
- the measurement requirements in IFRS 17 are complex, requiring significant judgements and assumptions to be made; and
- the liability for remaining coverage is associated with a high degree of estimation uncertainty.

Considering all facts and circumstances presented, based on the fact that the accounting policy relates to material transactions, there is an accounting policy choice available and the level of complexity and judgement required, Entity F is likely to conclude that accounting policy information about its fixed-fee service contracts is material for an understanding of its financial statements for the year ending 31 December 20X1.

Entity F would disclose accounting policy information about its accounting for fixed-fee service contracts. Further, the disclosure requirements in IFRS 17 will apply.

6.Disclosures of the accounting policies on revenue recognition

Background information

Entity G is a retailer of new cars. According to local law, Entity G is required to repair any damages to the car up until 12 months after delivery, to the extent that the damage relates to defects existing at delivery date ("assurance warranty"). Each car sold also includes an obligation for Entity G to perform specific services beyond the mandatory warranty requirements for a period of three years ("the service plan"). Entity G does not sell similar service plans separately, but the sales contracts for the cars explicitly identify which services are included. Entity G's competitors do not bundle such service plans into their sale of cars by default, but offer similar service plans as an optional add-on for an extra fee. After consideration of all facts and circumstances, Entity G has concluded that the service plan meets the IFRS 15 definition of a service-type warranty.

Customers are charged the total contract price upon delivery of the car, i.e. for the car itself and the service plan.

Entity G recognises revenue when, or as, it satisfies its performance obligations. It has identified two performance obligations in the contracts: (1) the car and (2) the service plan.

Consequently, Entity G allocates the transaction price to each performance obligation and recognises revenue, separately, as it satisfies each performance obligation.

Entity G determines that its performance obligation for a car is satisfied at the point in time when the car key is delivered to the customer (and at the same time recognises an obligation for the mandatory warranty). The performance obligation for the service plan is satisfied over the three-year service period.

At year-end 31 December 20x1, Entity G concluded that revenues from both car sales and service plans are material in its financial statements.

Question

Entity G is preparing its financial statements for the year ending 31 December 20X1. Should accounting policy information on revenue recognition be disclosed?

Answer

Entity G observes that:

- the accounting policies were unchanged during the year;
- the accounting policies applied are not chosen from an available set of alternatives;
-

accounting policies for revenue recognition are described in IFRS, and not derived by Entity G from paragraphs 10–12 of IAS 8; and

- the accounting policies are not very complex.

However, Entity G observes that the revenue amounts are material to the financial statements and that judgement has been used in applying the accounting policies, for example in:

- identification of performance obligations, in particular concluding that its service plans are distinct from the sale of the car even though they are not sold separately;
- determining if any significant financing component exists in the prepaid service plan;
- allocating the contract price to the performance obligations; and
- determination of when the performance obligation for the service plans is satisfied.

Consequently, to sufficiently understand the amounts presented, primary users of Entity G's financial statements might need information about how the accounting policies for revenue recognition have been applied by Entity G.

Hence, entity-specific information about accounting policies for revenue recognition would likely be disclosed, in addition to the disclosures of significant judgements made in the application of paragraphs 123–125 of IFRS 15 and other relevant disclosure requirements in IFRS 15.