



cutting through complexity™

Law of 10/12/2010 on IFRS for undertakings

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Christelle Bousser, Stephan Lego-Deiber

Purpose

Transposition into Luxembourg law of

- Options in “IFRS” Regulation N°1606/2002
- “Modernisation of Accounts” Directive 2003/51/EC
- “Modernisation of Accounts” Directive 2006/46/EC
- “Fair Value” Directive 2001/65/EC
- “Simplification” Directive 2009/49/EC

Partial implementation already in

- Grand-Ducal decree of 24 July 2006 re. commercial companies
- Grand-Ducal decree of 11 September 2006 re. commercial companies (fair value option)

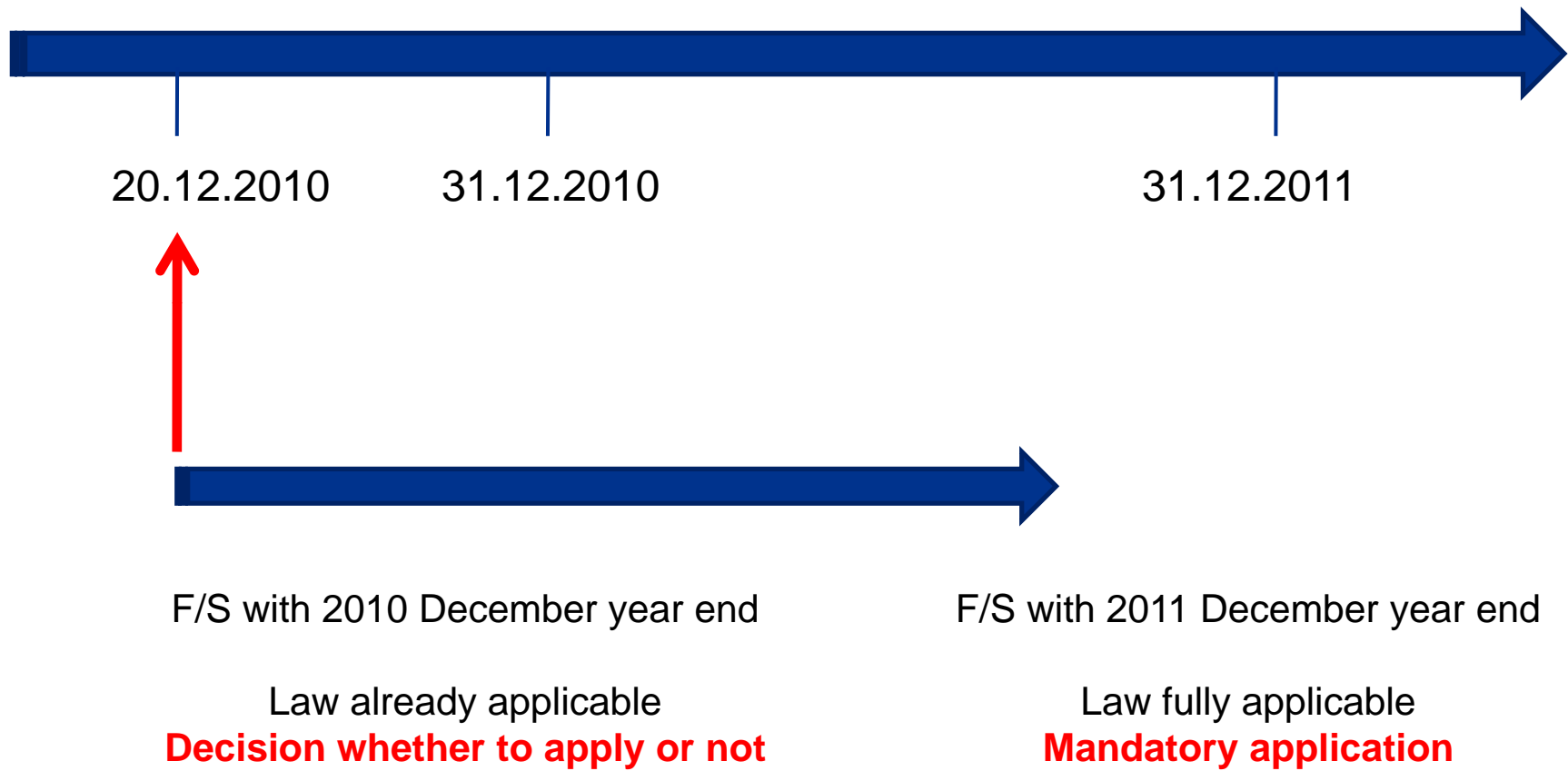
Summary

Vote of the draft law 5976 on 18 November 2010 by the Luxembourg Parliament

Three-fold objective

- Introduction of international financial reporting standards (“IFRS”)
- Confirmation of the fair value accounting option for financial instruments under Lux GAAP
- Modernisation and simplification of accounting

Time application



Contents

- 1. Introduction of IFRS & confirmation of FV accounting option**
- 2. Modernisation and simplification of accounting**
 - 2.1 Management's collective duty for F/S
 - 2.2 Increased transparency requirements for listed entities
 - 2.3 Financial reporting proportionate to the size and complexity of the business
 - 2.4 Other changes
- 3. Questions and challenges**
 - 3.1 Substance over form
 - 3.2 Reporting to Luxembourg administrations
 - 3.3 Corporate events
 - 3.4 Tax consequences

1.0
Introduction of IFRS
&
Confirmation of FV
accounting option

Introduction of IFRS

Before the new law

		IFRS (EU)	Lux GAAP + FV option	Lux GAAP
Listed companies	Annual accounts	Individual exemption from Ministry of Justice (CNC)		Obligation
	Conso accounts	Obligation		
Banks, (re-)insurance companies	Annual accounts	Optional	Optional	Common regime
	Conso accounts	Optional	Optional	Common regime
Other companies	Annual accounts	Individual exemption from Ministry of Justice (CNC)		Obligation
	Conso accounts		Optional	Common regime

Introduction of IFRS

After the new law

**Free options
No permission
from Ministry of Justice needed**

		IFRS (EU)	Lux GAAP + FV option	Lux GAAP
Listed companies	Annual accounts	Optional	Optional	Common regime
	Conso accounts	Obligation		
Other companies	Annual accounts	Optional	Optional	Common regime
	Conso accounts	Optional	Optional	Common regime

Introduction of IFRS

Free option to draw up annual / consolidated under IFRS

1. IFRS as adopted by the EU
2. Obligation to comply with Luxembourg specific requirements
3. Exemption to lodge the balance of accounts drawn up in accordance with the standard chart of accounts if accounts prepared in accordance with IFRS

Introduction of IFRS

Obligation to comply with Luxembourg specific requirements

1. Additional disclosures in the notes to the annual / consolidated accounts
 - average number of staff employed during the financial year
 - emoluments / pensions granted to (former) directors
 - advances, loans and guarantees granted to directors
 - total fees charged by the statutory auditor
 - for annual accounts
 - information on participating interest
 - information on the smallest / largest groups which consolidate the company
 - for consolidated accounts: information on the consolidation scope
2. Content of the management report
3. Preparation of the corporate governance statement
4. Audit by a Réviseur d'Entreprises Agréé when required by the law
5. Collective duty of directors
6. Special conditions applicable to parent companies and subsidiaries

Confirmation of fair value accounting option for financial instruments

Scope

Financial instruments, including derivatives

Methods for determining fair value set by the law

Change in fair values

Either in equity or profit & loss account

Additional disclosure required in both the annual and the consolidated accounts

1. When fair value is used
2. When fair value is NOT used
 - FV, nature and extent of derivatives
 - information about financial fixed assets carried at an amount in excess of their FV

Fair value accounting option for other assets

Scope

Assets other than financial instruments

Methods for determining fair value set by current IAS 39

Change in fair values

Ruled by current IAS 39

Additional disclosure required in both the annual and the consolidated accounts

1. When fair value is used
2. When fair value is NOT used
 - FV, nature and extent of derivatives
 - information about financial fixed assets carried at an amount in excess of their FV

2.0

Modernisation and simplification of accounting

2.1 Management's collective duty for F/S

Management's collective duty for F/S

Collective duty for F/S

1. Introduction of a general principle of collective duty for
 - Directors
 - Management and supervisory body
2. Drawing up and publication
3. Annual accounts, management report and corporate governance statement if any
4. Compliance with the modified law of 19/12/2002 and IFRS as adopted by the EU, as appropriate

Responsibility

1. No change in civil responsibility implemented in draft law voted by the Luxembourg Parliament
2. No change in criminal responsibility implemented in draft law voted by the Luxembourg Parliament

2.2

Increased transparency requirements for listed entities

Increased transparency requirements for listed entities

Listed entity: companies with securities admitted to trading on a regulated market of any Member State

As a general rule, no “light” financial reporting anymore

1. Withdrawal of certain exemptions
2. Increased financial reporting requirements

Increased transparency requirements for listed entities

Layout and content of the annual accounts

1. No abridged balance sheet
2. No abridged profit and loss account
3. Full disclosure of off balance sheet items
4. Full disclosure of transactions with related parties

Requirement to have annual accounts audited by a Réviseur d'Entreprises Agréé

Management report

1. Requirement to draw up a management report
2. Requirement to disclose non financial key performance indicators in the management report

Requirement to prepare and publish a corporate governance statement

No “light” publication of the annual accounts, (consolidated) management report and audit report

Corporate governance statement

Minimum content

1. Reference to the corporate governance code and/or corporate governance practices
2. Description of the internal control and risk management systems re. financial reporting process
3. Information required by the EC Directive on takeover bids
4. Operation of AGMs and shareholders' rights
5. Composition and operation of management, administrative and supervisory bodies and their committees

Exemption for certain entities with debt instruments only

Combination allowed if consolidated management report

Location: 3 options

1. Specific and clearly identified section of the management report, or
2. Separate report published together with the management report, or
3. Availability to the public on the company's website (incorporation by reference in the management report)


Subject to certain controls by the Réviseur d'Entreprises Agréé

2.3

**Financial reporting
proportionate to the size
and complexity of the
business**

Size thresholds

No change in definition – Soparfis are on safe side ...



	Small companies		Medium companies / consolidation	
	Law of 19/12/2002	Law 10/12/10	Law of 19/12/2002	Law 10/12/10
Net turnover (EUR mio)	6.25	8.80 +41%	25	35 +40%
Total balance sheet (EUR mio)	3.125	4.400 +41%	12.5	17.5 +40%
Average staff	50	50	250	250

Thresholds to be considered over two consecutive financial years

Size thresholds

Increase in size thresholds

Consequences for both annual and consolidated accounts

1. Layout of the balance sheet and profit & loss account
2. Content of the notes to the annual accounts
3. Obligation to draw up a management report
4. Content of the management report
5. Statutory audit by a Réviseur d'Entreprises Agréé
6. Publication of the annual accounts
7. Consolidation exemption (art 313 law of 10/08/1915)

Be careful with exemptions!

Disclosures

Additional disclosures in the notes

Off balance sheet items

1. Nature, business purpose and financial impact if
 - material risks, and
 - necessary for assessing the financial position of the company
2. Exemption (financial impact) for small companies

Related parties

1. Transactions with related parties (IAS 24) if such transactions
 - material, and
 - not concluded under normal market conditions
2. Exemptions for small companies

Fair valuation

1. Information on assets that are fair valued
2. Information on derivatives and financial fixed assets which are not fair valued

Applicable to
consolidated
accounts as well

Disclosures

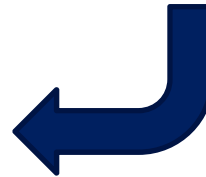
Additional exemptions re. disclosures in the notes for medium sized companies

1. Formation expenses
2. Net turnover broken down by categories of activity and into geographical markets

Management report

Actual content of management report

- Fair review of the development of the company's business and of its position
- Any important subsequent event
- Likely future development
- Activities in the field of research and development
- Existence of branches
- Information about own shares acquired and disposed of during the financial year
- Information about takeover bids in certain circumstances



Extended content of the management report

- Fair review of the performance
- Principal risks and uncertainties
- Key performance indicators, both financial and non financial
- References to the amounts reported in the accounts



Where material

- Objectives / policies re. financial risk management
- Exposure to financial risks

2.4

Other changes

Content, layout and basis of preparation

Content for both annual and consolidated accounts

1. Now: balance sheet, profit & loss account, notes
2. Flexibility to conform to IFRS

Slight changes in the layout of the annual accounts

1. Structure
2. Titles, e.g.
 - « Provisions pour risques et charges » ⇔ « Provisions »
 - « Dettes » ⇔ « Dettes non subordonnées »
3. New title, e.g. A.VII « Acomptes sur dividendes » on the liability side

Consolidated accounts

1. Additional layout for the balance sheet
2. Possibility to opt for a banking / insurance layout if one or several subsidiary undertakings are banks or insurance companies

Provision

Change in the name

1. « Provisions for liabilities and charges » ⇔ « Provisions »

Change in the definition of a provision

1. Before: obligation to provide for all foreseeable liabilities and potential losses
2. After
 - Obligation to provide for all present liabilities
 - Option to provide for all foreseeable liabilities and potential losses

Closer to IAS 37

Consolidation requirements

Exclusion / exemption withdrawn

1. Not permitted to scope out undertakings with dissimilar activities
2. No “EU parent company” exemption for a Luxembourg parent company whose securities are admitted to trading on a regulated market of any Member State

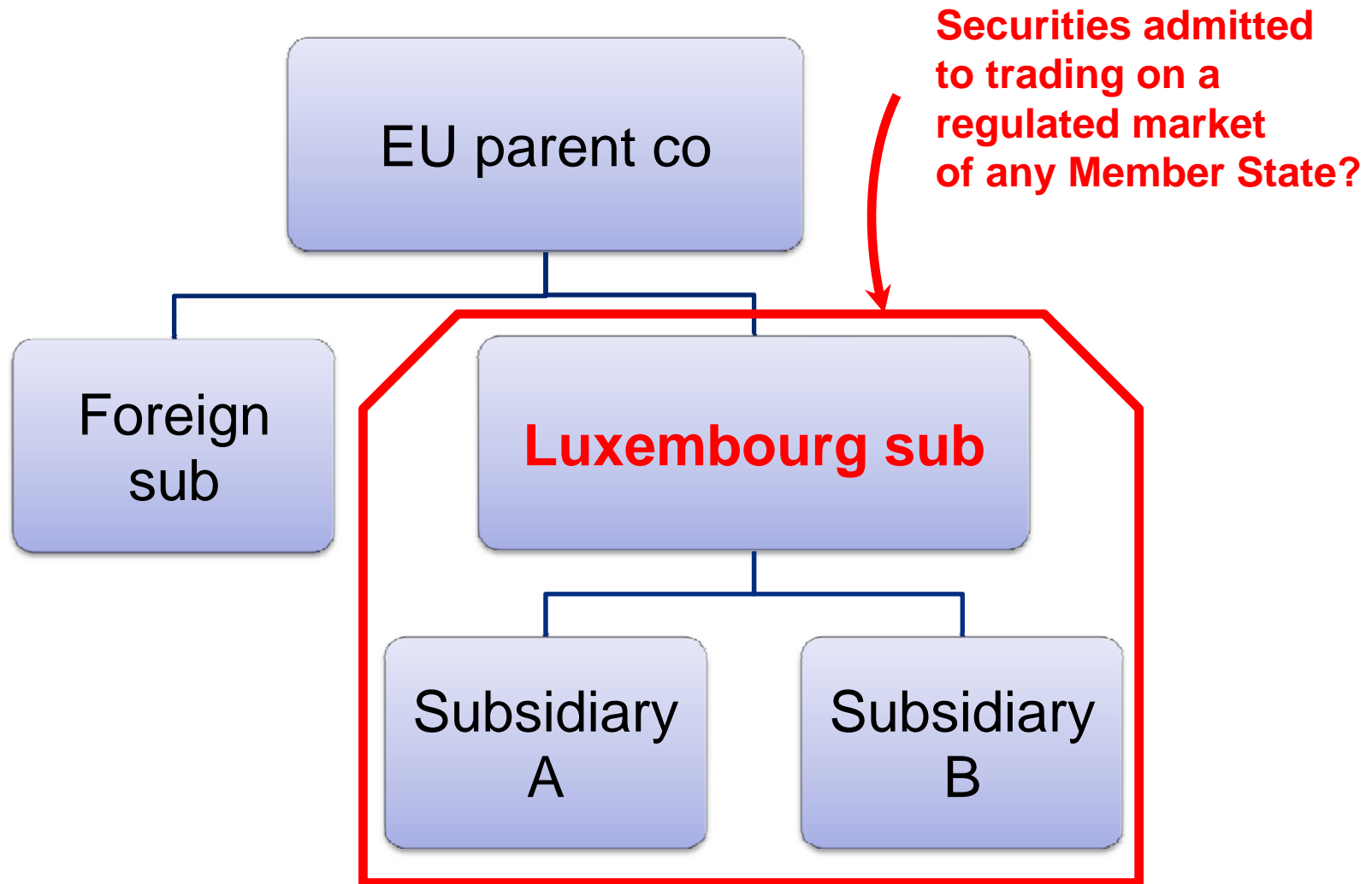
New exemption

1. Only subsidiary undertakings considered as not being material, both individually and as a whole

Exemption modified by change in size thresholds

1. “Small group” exemption

Consolidation requirements



3.0

Questions and challenges

Substance over form

Requirement for all entities within the scope of art. 25 of the modified law of 19/12/2002

1. The presentation of amounts within items in the P/L account and B/S have regard to the substance of the reported transaction or arrangement

Meaning

1. No legal definition
2. CNC capacity to give an opinion on this matter

Implementation and consequences of such a requirement

1. Prepare for analysis of amounts that may affect F/S

Reporting to Luxembourg administrations

Standard chart of accounts

1. Applicable for financial periods starting after 31 December 2010
2. Account 121 “Réserves de réévaluation en application de la juste valeur” available
3. Standard chart of accounts currently not fit for IFRS purposes
4. Exemption to lodge the balance of accounts drawn up in accordance with the standard chart of accounts if accounts prepared in accordance with IFRS
5. However requirement to report to Luxembourg administrations

Corporate events

Corporate events based on accounts

1. Contributions in kind, mergers, redemptions of shares
2. (Interim) dividends

Different “view” proposed by IFRS F/S or Lux GAAP F/S with FV option

1. Understanding of the distributable nature of results

Current situation

1. No provision in the law, subject to interpretation
2. CSSF view (CSSF circular 08/340)
3. Work in progress at the Ministry of Justice
4. Various options adopted in other EU Member States

Management’s responsibility re. distributions to consider

Different scenarios

Tax consequences

Tax aspects not addressed by draft law

1. First time adoption of IFRS
2. IFRS / FV considerations
3. Current taxes / deferred taxes

Current situation

1. “IFRS Pillar” of draft law 5924 deposited on 1 October 2008 with Luxembourg Parliament, withdrawn and not reintroduced yet
2. Discussions with tax administration on a case by case basis

Thank you

Presentation by

- Christelle Bousser

- Stephan Lego-Deiber



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