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Activity report for 2019

Disclaimer: This document – provided as a courtesy – is an unofficial translation of the French original document. In case of discrepancy in interpretation, the French version shall prevail.

Luxembourg, __________________

Ladies and Gentlemen,

I have the honour of reporting to you on the activities during financial year 2019 of the Economic Interest Grouping (EIG) "Commission des normes comptables (CNC)" (Accounting Standards Board).

The main highlight of 2019 was the publication of the Grand Ducal regulation of 12 September 2019 determining the content of the Standard chart of accounts referred to in Article 12 of the Commercial Code. This new Standard chart of accounts (PCN) will apply, for the first time, to financial years beginning on or after 1st January 2020.

A summary of CNC's work is presented below.

- **Accounting doctrine**

During 2019, CNC published several Q&A with doctrinal scope, namely:

- Q&A CNC 19/016 – Accounting offsetting of contracts in progress and advance payments received on contracts in progress;
- Q&A CNC 19/017 – Deadline for filing consolidated financial statements prepared for legal / statutory purposes with the RCS;
- Q&A CNC 19/018 – Restricted alternative investment funds (FIAR): Standard chart of accounts (PCN) and formalism for filing financial data;
- Q&A CNC 19/019 – Categorisation of undertakings: interpretation of the repetition criterion referred to in Article 36 LRCS.

In addition, the CNC has circulated to its member organisations an inventory of accounting topics that could be the subject of useful doctrinal clarification. The underlying idea is to enable the technical committees existing within the member organisations of the GIE CNC to take up certain doctrinal issues of interest to their members and thus participate in the development of Luxembourg accounting doctrine.

Finally, in 2019 CNC continued its monitoring exercise on the question of the accounting treatment applicable to crypto-currencies, digital tokens and other transactions linked to the so-called Blockchain technology. CNC also examined other doctrinal issues, including the accounting treatment of non-performing loan portfolios acquired for significantly less than their nominal value. At this stage, and in view of the preliminary research and reflection work that has been carried out, no doctrinal publication by CNC on these issues is anticipated.

- **Standard chart of accounts (PCN)**

During 2019, CNC assisted the teams of the Ministry of Justice in the preparation of government amendments to the draft regulation revising the PCN. These amendments followed the opinion of the Council of State ("*Conseil d'État*") of 13 November 2018 as well as suggestions communicated by interested parties, in particular through the feedback channel (pcn@cnc.lu).

Similarly, and in close collaboration with CTIE (manager of the eCDF platform) and STATEC (manager of the Central Balance Sheet Office), CNC participated in the preparation and dissemination of various communications for the public as well as various tests relating to the computerisation of the new PCN and the transition from the old PCN of 2009 to the new PCN of 2020.

In addition, awareness-raising and training initiatives were carried out in collaboration with the member organisations representing the accounting profession (OEC and IRE).

As previously announced and following the publication of the Grand Ducal regulation of 12 September 2019 determining the content of the standard chart of accounts referred to in article 12 of the Commercial Code, the new PCN will apply to financial years beginning on or after 1stJanuary 2020. For the majority of undertakings, the transition from the old chart of accounts (2009 PCN) to the new chart of accounts (2020 PCN) will take place during 2020 and at the latest when the financial data for the 2020 financial year is filed (i.e. during the first half of 2021 for the vast majority of undertakings whose financial year corresponds to the calendar year).

As a reminder, the purpose of the Grand Ducal Regulation of 12 September 2019 is to modernise the 2009 PCN by replacing it with an PCN that is better adapted to the needs of undertakings and of public users. The introduction of a mandatory transition table, which can be adapted by undertakings, is aimed in particular at improving the traceability of accounting information and simplifying the process of preparing annual accounts, particularly for smaller undertakings.

- **Filing of financial data and publication of annual accounts**

Ahead of the first application of the 2020 PCN and in view of the growing number of vehicles (legal forms and regulatory statuses), CNC has updated and published in December 2019 a table summarising the obligations applicable to the filing of financial data and disclosure.

The purpose of this table is to clarify the scope of the undertakings covered by the PCN, by the standardised eCDF collection, by the RCS filing and by the RESA publication and thus to contribute to a more harmonised application of Luxembourg accounting law.

- **Overhaul of Luxembourg accounting law**

In accordance with the work programme agreed for the 2018 / 2022 mandate, CNC devoted a significant part of its resources in 2019 to the project to overhaul Luxembourg accounting law.

In this respect, the working group dedicated to this project met 10 times and carried out an exhaustive analysis of the exercise of the options included in the Accounting Directive 2013/34/EU and the IAS Regulation (1606/2002). Similarly, findings were made and discussions were held on the gaps included in the accounting directive (e.g. revenue from contracts with customers, leases, deferred tax, changes in foreign exchange rates, employee benefits, long-term contracts, etc.) and the opportunity of filling them in national accounting law.

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In addition, the work and debates have enabled significant progress to be made on several key issues, including the scope of the new accounting law, its overall structure and its relationship with the provisions of special accounting law.

The year 2020 should see the finalisation of a preliminary draft law recasting Luxembourg's accounting law, on which there is consensus among CNC's member organisations, and which can be communicated to the Ministry of Justice.

In order to properly guide the work of CNC and to avoid a situation where the new Luxembourg accounting law would too quickly become outdated or even obsolete, particular attention will be paid to the communication from the European Commission following the public consultation entitled "*Quality check of the EU legislative framework on information to be published by undertakings*", in which the main directions and contours of European accounting law for the coming years should be specified.

- **Accounting derogations (art. 27 L.2002)**

During 2019, CNC received 26 requests for exemptions pursuant to Article 27 of 2002 amended law of 2002 (2018: 24; 2017: 34). Of these 26 applications, 24 were for authorisation renewals and 2 were for new authorisations. All of these applications related to authorisation to use an alternative set of accounting standards (US GAAP in almost all cases) for the preparation and publication of statutory consolidated accounts.

As a reminder, only requests submitted by undertakings that are in compliance with their accounting obligations may be examined and, where appropriate, granted authorisation. In this respect, the distribution – initiated in 2018 – of a questionnaire and explanatory note enabling undertakings submitting a request for exemption to carry out a self-assessment of their situation with regard to accounting law has had the effect of facilitating the processing of requests by clarifying the conditions for granting and renewing authorisations for applicant undertakings and their representatives.

- **European and international affairs**

In 2019, CNC continued to contribute to the work of the *European Financial Reporting Advisory Group* (EFRAG), in particular through its financial support (*National Funding Mechanism (NFM)*) and its participation in EFRAG's general meetings as a member organisation and in the Consultative Forum of Standard Setters (CFSS).

EFRAG's main task is to advise the European Commission on the adoption of International Financial Reporting Standards (IFRS).

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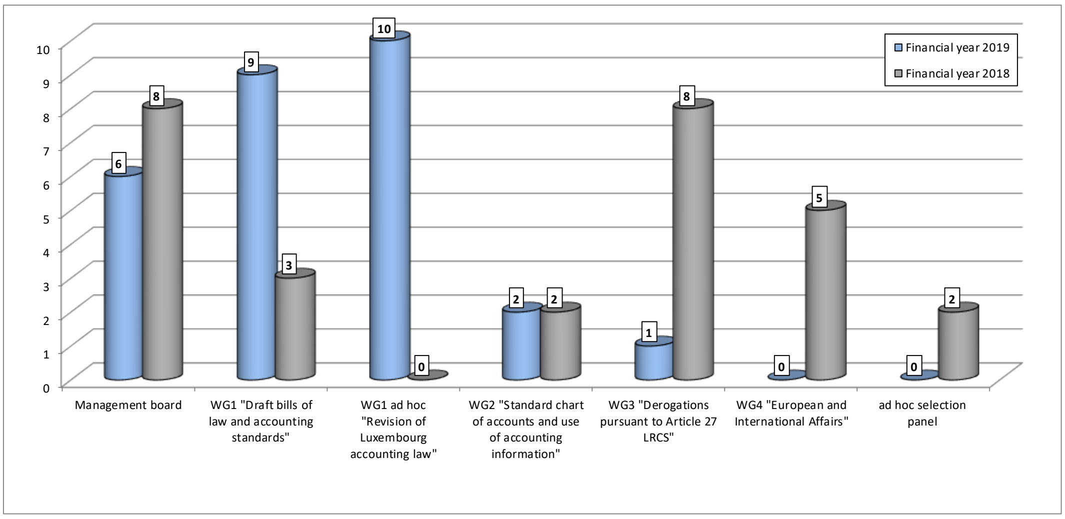
- ## CNC meetings in 2019

During 2019, CNC's Management Board and working groups met 28 times (2018: 28).



- ## Key figures for GIE CNC [1]

		2019	2018	2017
Profit and loss account				
State subsidy	(1)	€ 290 000	€ 290 000	€ 288 000
Other income	(2)	€ 3 150	€ 7 350	€ 5 490
Staff costs and similar expenses	(3)	€ (197 113)	€ (195 832)	€ (222 539)
Contribution to EFRAG ("NFM")	(4)	€ (10 000)	€ (10 000)	€ (15 000)
Other expenses	(5)	€ (13 298)	€ (15 152)	€ (14 103)
Net profit		**€ 72 739**	**€ 76 366**	**€ 41 848**

	2019	2018	2017
Balance sheet			
Fixed assets	€ 533	€ 3 712	€ 9 005
Current assets	€ 220 285	€ 144 878	€ 62 611
Total assets	€ 220 818	€ 148 590	€ 71 616
Liabilities	€ 8 924	€ 9 436	€ 8 829
Shareholders' equity	**€ 211 894**	**€ 139 154**	**€ 62 787**

[1] **The above key figures are an abbreviated version of the annual accounts for the financial years ended 31 December 2017 and 2018 as filed with the Registre de Commerce et des Sociétés (RCS) and the annual accounts for the financial year ending 31 December 2019 as submitted for approval by the General Meeting of members of the GIE. Said annual accounts have been subject to a contractual audit by a "*réviseur d'entreprises agréé*" [approved statutory auditor] who has issued an unqualified opinion for each of the financial years.**

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(1) CNC is mainly financed by an annual subsidy (Government grant) from the State budget, which is intended to cover the investments and expenses generated by the tasks entrusted by law to the group.

(2) "Other income" corresponds to ancillary income generated by the organisation of two information sessions on current accounting issues as part of the continuing education programme of the "*Institut des réviseurs d'entreprises* " (IRE) and the "*Ordre des experts-comptables* " (OEC).

(3) "Personnel and similar expenses" includes all remuneration paid to persons contributing directly to the work of GIE CNC, including the expenses of salaried staff, the Chairman's remuneration and the attendance fees paid to members and observers of the Management Board and to experts in the working groups.

(4) As a member organisation of EFRAG Aisbl, GIE CNC pays a financial contribution (*"National funding mechanism (NFM)"*) of € 10 000 per year from 2018 to support the activities of EFRAG, whose main task is to advise the European Commission on the adoption of International Financial Reporting Standards (IFRS).

(5) "Other expenses" mainly include the costs of contractual auditing of the accounts, civil liability insurance, IT costs, travel expenses and other administrative costs. In addition, the GIE CNC receives logistical support from the Ministry of Justice, which provides it with a fully equipped office and administrative support free of charge.

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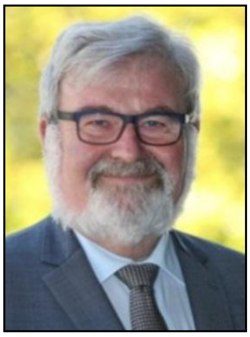
I would like to thank all the members of the Management Board and the experts in the working groups for their support and contribution to CNC's activities and missions during the past year.



Alphonse KUGELER

President of the Management Board