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Activity report for 2020

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 of economic interest grouping (GIE) "*Commission des normes Comptables*" (CNC) (Accounting standards board) in the year 2020.

The year 2020 was marked by the emergence of the Covid-19 pandemic. Following the declaration of a state of crisis ([1]), CNC adapted its mode of operation by making a transition from face-to-face to remote meetings. The economic consequences of the pandemic on the health of undertakings also influenced the technical issues addressed by CNC.

- **Accounting doctrine**

In 2020, CNC published two Q&A's with doctrinal implications:

- Q&A CNC 20/020 – Impact of the Covid-19 pandemic on the annual and consolidated accounts of Luxembourg undertakings and groups;
- Q&A CNC 20/021 – Optional principle of substance (art. 29 (3) LRCS).

In response to the health crisis and the consequences of the containment measures on undertakings and their accounting departments, CNC assisted the Ministry of Justice in drafting the preliminary draft law extending the deadlines for filing and publishing annual accounts, consolidated accounts and related reports during the state of crisis (doc. parl. 7541) which, following its promulgation, became the law of 22 May 2020.[2]

Similarly, in view of the worsening economic situation, work has been launched on the subject of discontinued operations and accounting on a liquidation basis. A doctrinal publication on this subject is expected in the first half of 2021.

In addition, an applied research partnership with the University of Luxembourg[3] has been initiated on the subject of accounting practices of Luxembourg undertakings in liquidation (filing, content and relevance of financial data). A summary of the findings and conclusions will be published as the results become available (by 2021 / 2022).

[1] Grand Ducal Regulation of 18 March 2020 introducing a series of measures to combat Covid-19 and Law of 24 March 2020 extending the state of crisis declared by the Grand Ducal Regulation of 18 March 2020 introducing a series of measures to combat Covid-19.

[2] Law of 22 May 2020 extending the deadlines for filing and publishing annual accounts, consolidated accounts and related reports during the state of crisis.

[3] *Master in Accounting & Auditing* (MAA), Faculté de Droit, d'Économie et de Finance (FDEF), Université du Luxembourg.

For the rest, and as part of the doctrinal collaboration with the technical committees of the member organisations of the GIE CNC, work has been carried out in cooperation with the "*Ordre des experts-comptables*" (OEC) on the issue of corrections of accounting errors, changes in accounting policies and estimates under LUX GAAP[4]. A doctrinal publication on this subject is expected in 2021.

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

The year 2020 was also marked by the first application of the new standard chart of accounts (PCN 2020), the content of which was determined by the Grand Ducal Regulation of 12 September 2019[5] . For the majority of undertakings whose financial year coincides with the calendar year, the trial balance of accounts prepared in accordance with the PCN 2020 will be filed for the first time in 2021 at the same time as the other elements of the accounting package.

In the context of this first application of the PCN 2020, CNC has been monitoring the situation in conjunction with CTIE, manager of the eCDF platform, and STATEC, manager of the Central Balance Sheet Office.

It should be noted that the entry into force of the new PCN 2020 will not only affect undertakings and their accounting service providers but will also affect teaching in accounting. In this respect, contact has been established with representatives of the national curriculum committees for secondary education. As a result of these contacts and in partnership with the "*Institut de Formation de l'Éducation Nationale*" (IFEN) and the House of Training, it was decided to develop a training course designed to make economics and social sciences teachers of secondary schools aware of the new principles relating to the PCN 2020 and the new approach to annual accounts. CNC has undertaken to run a total of 7 training sessions between December 2020 and March 2021.

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

During 2020, CNC received 20 requests for exemptions pursuant to Article 27 of the amended law of 2002 (2019: 26; 2018: 24).

Of these 20 applications, 17 were for authorisation renewals and 3 were for new authorisations. 18 of these applications concerned authorisation to use an alternative set of accounting standards (US GAAP) for the preparation and publication of statutory consolidated accounts. 2 requests related to other interpretative issues which were deemed not to fall within the scope of requests for exemption (art. 27 L.2002).

As a reminder, only requests submitted by undertakings in compliance with their accounting obligations may be examined and, where appropriate, authorised.

- **European and international affairs**

On the European front, 2020 was marked by the work and debates on the revision of the Directive on the publication of non-financial and diversity information by large undertakings and groups (Directive 2014/95/EU).

In this context, CNC participated in the public consultation launched by the European Commission on the revision of the Directive, for which a legislative initiative is expected in the first quarter of 2021.

[4] The research and identification of a doctrinal solution was carried out by the '*Accounting Law and Legislative Studies*' Commission *(DCEL)* of the "*Ordre des Experts Comptables*" (OEC). This work was the subject of presentations to the CNC and its working group dedicated to accounting doctrine.

[5] 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.

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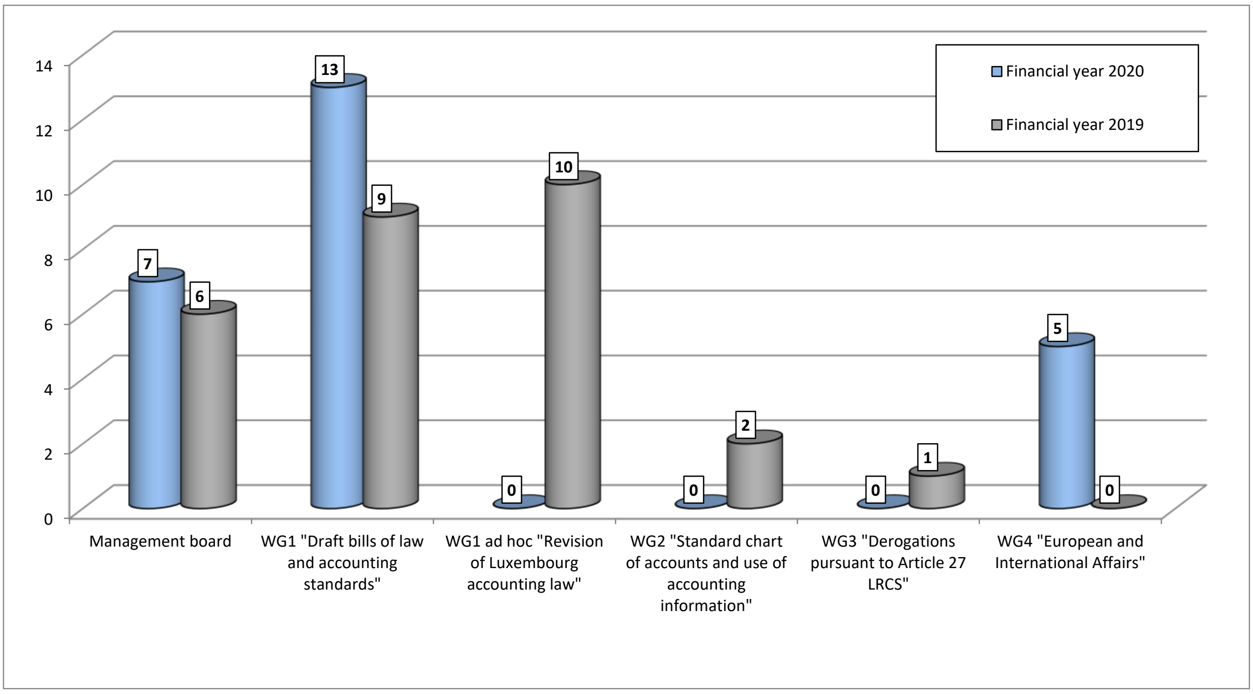
In this respect, it should be noted that, in view of the wide variety of frameworks for presenting non-financial information and the resulting lack of harmonisation, the European Commission is considering entrusting EFRAG with the role of European standard-setter for non-financial information. In this context, and as a member organisation of EFRAG, CNC participated in the discussions and consultations on the reform of EFRAG's governance and financing, should the European Parliament and the Council adopt the European Commission's proposal. EFRAG's main task is currently to advise the European Commission on the adoption of International Financial Reporting Standards (IFRS).

With regard to the *endorsement* of IFRS by the European Union, the year 2020 was marked by the publication by the IASB of amendments to IFRS 17 "Insurance Contracts" and by debates on the adoption by the European Union of this long-awaited standard. In the Luxembourg context, stakeholder consultation work has been carried out to assess the impact of adopting IFRS 17, which will apply to financial years beginning on or after 1 January 2023.

- **CNC meetings in 2020**

During 2020, CNC's Management Board and working groups met 25 times (2019: 28).



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- **Key figures for GIE CNC [6]**

		2020	2019	2018
Profit and loss account				
State subsidy	(1)	€ 290 000	€ 290 000	€ 290 000
Other income	(2)	€ 1 815	€ 3 150	€ 7 350
Staff costs and similar expenses	(3)	€ (196 182)	€ (197 113)	€ (195 832)
Contribution to EFRAG ("NFM")	(4)	€ (10 000)	€ (10 000)	€ (10 000)
Other expenses	(5)	€ (11 911)	€ (13 298)	€ (15 152)
Net profit		**€ 73 722**	**€ 72 739**	**€ 76 366**

	2020	2019	2018
Balance sheet			
Fixed assets	€ 0	€ 533	€ 3 712
Current assets	€ 291 019	€ 220 285	€ 144 878
Total assets	€ 291 019	€ 220 818	€ 148 590
Liabilities	€ 5 403	€ 8 924	€ 9 436
Shareholders' equity	**€ 285 616**	**€ 211 894**	**€ 139 154**

(1) The CNC is mainly financed by an annual subsidy (Government grant) from the State budget 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 organising information sessions on current accounting issues for professional organisations and training bodies.

(3) "Personnel and similar expenses" includes all remuneration paid to persons contributing directly to the work of the CNC, including the costs of salaried staff, the Chairman's allowances and the attendance fees paid to the members and observers of the Management Board and to the experts of 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 to support the activities of EFRAG, whose main task is to advise the European Commission on the adoption of International Financial Reporting Standards (IFRS) and whose broader remit is currently being considered.

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

[6] **The above key figures are an abbreviated version of the annual accounts for financial years ending 31 December 2018 and 2019 as filed with the Trade and companies register (RCS) and the annual accounts for the financial year ending 31 December 2020 as submitted for approval to the General Meeting of GIE members. Said annual accounts have been subject to a contractual audit by an approved statutory auditor who has issued an unqualified opinion for each of the financial years.**

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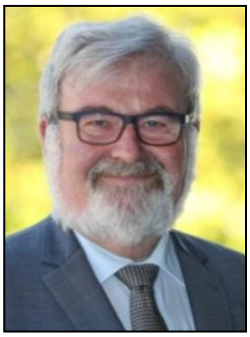
I would like to thank all the members of the Management Board and the experts of the working groups for their support and contribution to the CNC's activities and missions over the past year, despite the particular context of the Covid-19 pandemic and the related containment and restriction measures.



Alphonse KUGELER

President of the Management Board