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Activity report for the year 2022

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 the Economic Interest Grouping (EIG) "Commission des normes comptables (CNC)" (Accounting Standards Board) in 2022.

The year 2022 was marked by a partial resumption of face-to-face meetings, an alternation between face-to-face and remote meetings having been put in place at the request of the CNC's members and experts.

- **Project to overhaul Luxembourg accounting law**

During 2022, Working Group 1 (WG1) "Draft Accounting Law and Doctrine" met on more than 20 occasions to conduct an in-depth review of a first version of the "*Preliminary draft law recasting Luxembourg accounting law*" as developed by the CNC's internal services.

At the end of this in-depth review, which led to changes in both form and substance, the preliminary draft law was validated by the CNC's Management Board and sent to the Ministry of Justice's departments responsible for commercial law.

- **Accounting doctrine**

During 2022, the CNC published three Q&A with doctrinal scope, namely:

- Q&A CNC 22/026 – Currency of bookkeeping and of preparation of annual accounts under LUX GAAP and LUX GAAP-FV;
- Q&A CNC 22/027 – Accounting treatment of transactions and balances denominated in foreign currencies under LUX GAAP and LUX GAAP-FV;
- Q&A CNC 22/028 – Implementation of the small group consolidation exemption (article 1711-4 LSC): practicalities.

It should be noted that the first two Q&A relating to the currency of bookkeeping and of preparation of annual accounts (Q&A CNC 22/026) and the accounting treatment of transactions and balances denominated in foreign currencies (Q&A CNC 22/027) were developed in collaboration with the "Accounting Law and Legislative Studies Commission" (DCEL) of the "Ordre des Experts Comptables (OEC)" (Order of chartered accountants). These Q&A take a position on important issues in Luxembourg, but on which European accounting law and Luxembourg accounting law are both silent.

This collaboration between the OEC's DCEL Commission and the CNC's Working Group 1 (WG1) on accounting doctrine should continue in 2023 on the subject of hedge accounting for foreign exchange risk under LUX GAAP and LUX GAAP-FV.

The third Q&A published in 2022 (Q&A CNC 22/028) specifies the practical arrangements for implementing the "small groups" consolidation exemption provided for in article 1711-4 LSC.

- **European affairs: European sustainability standards**

As announced last year, following the reform of EFRAG's governance in January 2022, CNC has become a member of the second pillar dedicated to European sustainability standards ("*Sustainability Reporting Pillar*") alongside the historic first pillar dedicated to IFRS standards ("*Financial Reporting Pillar*"). As a member of the second pillar, CNC has undertaken to pay EFRAG an annual amount of €10 000 equal to the amount already paid as a member of the first historical pillar, i.e. a total amount of €20 000 per year.

In April 2022, EFRAG's *Project Task Force (PTF) on European Sustainability Reporting Standards (ESRS*) concluded its work and submitted its draft sustainability standards to EFRAG's new governance bodies (*Sustainability Reporting (SR) Board* and *Sustainability Reporting (SR) Technical Experts Group (TEG*)). In this context, the partnership between CNC and the “National Institute for Sustainability and Corporate Social Responsibility” (INDR) has come to an end. For the record, this partnership consisted of CNC's participation in the work of the PTF ESRS through the involvement of the Secretary General of the INDR.

EFRAG then submitted the draft sustainability standards developed by the PTF ESRS for public consultation. CNC took part in this public consultation through its Working Group 4 "European and International Affairs" in an expanded composition involving representatives of the ministries concerned and undertaking representatives. In this respect, the Management Board agreed to the potential creation of a CNC WG5 fully dedicated to sustainability standards and whose membership would be adapted accordingly.

Following this public consultation, EFRAG, through the relevant bodies (SR TEG and SR Board), reviewed and amended the draft ESRS standards, taking into account the comments made during the consultation.

At the end of this review and amendment procedure, ERAG communicated to the European Commission the revised draft ESRS standards which – after examination – will be adopted by means of delegated acts in the course of 2023.

Finally, in December 2022, Directive (EU) 2022/2464 on the publication of sustainability information by undertakings[1] was adopted and published in the Official Journal of the European Union.

This directive, known as the "CSRD[2] ", which must be transposed by 6 July 2024 at the latest, provides – as already indicated – for a significant broadening of its scope. This will include large (unlisted) undertakings as defined by the Accounting Directive 2013/34/EU. The directive also provides for a gradual initial application depending on the category of undertaking concerned. By way of illustration, the national provisions resulting from the transposition of Directive (EU) 2022/2464 will apply from the financial year beginning 1st January 2024 to large public interest entities (PIEs), whereas they will only apply to large (unlisted) undertakings from the financial year beginning 1st January 2025.

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[1] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014 and Directives 2004/109/EC, 2006/43/EC and 2013/34/EU as regards publication of sustainability information by undertakings.

[2] *Corporate Social Responsibility Directive* (CSRD).

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

During 2022, the CNC received 20 requests for derogations pursuant to article 27 of the 2002 amended law (2021:19; 2020: 20).

Of these 20 applications, 17 were for authorisation renewals and 3 were for new authorisations. Almost all of these applications were for authorisation to use an alternative set of accounting standards (US GAAP or IFRS as published by the IASB) to prepare and publish 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.

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- **Key figures for GIE CNC** [3]

		2022	2021	2020
Profit and loss account				
State subsidy	(1)	€ 290 000	€ 290 000	€ 290 000
Other income	(2)	€ 2 895	€ 1 200	€ 1 815
Staff costs and similar	(3)	€ (349 213)	€ (211 476)	€ (196 182)
Recruitment fees	(4)	€ 0	€ (36 036)	€ 0
INDR partnership ("Sustainability standards")	(5)	€ (10 000)	€ (15 000)	€ 0
Contribution to EFRAG ("NFM")	(6)	€ (20 000)	€ (10 000)	€ (10 000)
Meeting organisation costs	(7)	€ (6 465)	€ 0	€ 0
External audit costs	(8)	€ (4 862)	€ (4 597)	€ (4 488)
Other expenses	(9)	€ (5 231)	€ (5 668)	€ (7 423)
Net profit		**€ (102 876)**	**€ 8 423**	**€ 73 722**

	2022	2021	2020
Balance sheet			
Fixed assets	€ 0	€ 0	€ 0
Current assets	€ 208 696	€ 314 231	€ 291 019
Total assets	€ 208 696	€ 314 231	€ 291 019
Liabilities	€ 17 533	€ 20 191	€ 5 403
Shareholders' equity	**€ 191 163**	**€ 294 040**	**€ 285 616**

(1) The CNC is mainly financed by an annual subsidy (Government grant) from the State budget to cover the investment and expenses generated by the tasks entrusted by law to the grouping.

(2) "Other income" corresponds to ancillary income generated by organising information sessions on accounting news and accounting law for professional organisations, training bodies and other institutions.

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

(4) During financial year 2021, CNC used the services of a recruitment firm to identify candidates likely to strengthen the CNC's internal services.

(5) In July 2021, CNC entered into a partnership with INDR concerning participation in EFRAG's work in relation to the development of draft European sustainability standards. Under this partnership, INDR provides the CNC with a sustainability standards expert who represents CNC on EFRAG's working group dedicated to sustainability standards (PTF-ESRS). This partnership ended in April 2022 when the EFRAG working group finalised its work.

(6) As a member organisation of EFRAG Aisbl, GIE CNC pays - as from the financial year 2022 - a financial contribution (*"National funding mechanism (NFM)"*), the annual amount of which is € 10 000 for the first pillar dedicated to IFRS ("*Financial Reporting Pillar* ") and € 10 000 for the second pillar dedicated to European sustainability standards ("*Sustainability Reporting Pillar* "), i.e. a total annual amount of € 20 000.

(7) As from the 2022 financial year, the CNC has organised meetings of its Management Board and working groups - where these are held face-to-face - at the Chamber of Commerce's Conference and Training Centre. The costs under this heading include the cost of renting meeting rooms and related expenses (coffee breaks, parking).

(8) GIE CNC's grouping contract provides for its annual accounts to be audited by an approved statutory auditor.

(9) "Other expenses" mainly includes 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.

[3] **The above key figures are an abbreviated version of the annual accounts for the financial years ending 31 December 2020 and 2021 as filed with the "*Registre de Commerce et des Sociétés*" (RCS) and of the annual accounts for the financial year ending 31 December 2022 as submitted to the General Meeting of EIG members for adoption. 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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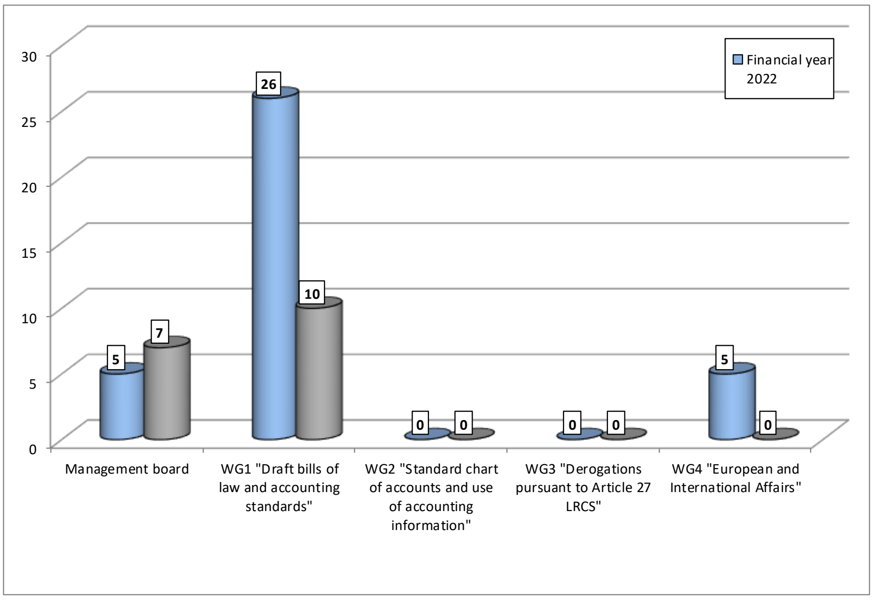
- **CNC meetings in 2022**

During 2022, CNC's Management Board and working groups met 36 times (2021: 17).



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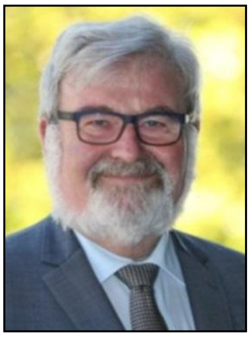
I would like to thank all the members of the Management Board and their deputy observers, as well as the experts in the working groups, for their support and contribution to CNC's activities and missions during the past year.



Alphonse KUGELER

President of the Management Board