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Activity report for the year 2023

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) for the year 2023.

- **Project to overhaul Luxembourg accounting law**

The year 2023 was marked by the adoption by the Council of Government on 28 July 2023 of the draft law concerning accounting, annual financial statements and consolidated financial statements of undertakings as well as related reports and repealing the function of "Commissaire" (supervisory auditor) in company law. The bill was tabled the same day in the Chamber of Deputies, where it was given the number 8286.

Bill 8286 will now follow the legislative procedure. CNC will issue an opinion on the bill in 2024, which will be available to the public on the Chamber of Deputies website[1].

- **Accounting doctrine**

During 2023, CNC published two new doctrinal Q&As and made targeted revisions to three existing Q&As.

The two new Q&A published by CNC are as follows:

- Q&A CNC 23/029 – Accounting aspects of company migrations to Luxembourg under LUX GAAP and LUX GAAP-FV;
- Q&A CNC 23/030 – Change of currency of bookkeeping and of presentation of annual accounts under LUX GAAP and LUX GAAP - FV.

The Q&A that have been the subject of a targeted revision are:

- Q&A CNC 15/004 (R) – Exemption from the obligation to draw up consolidated accounts of sub-groups: concept of conformity and equivalence (Art. 1711-7 point 2° LSC)[2] ;

[1] Bill no. 8286 and all documents relating to the legislative procedure (e.g. opinions of the Professional Chambers, work of the Parliamentary Committee, etc.) will be available on the Chamber of Deputies website at the following URL address: https://www.chd.lu/fr/searchfolders.

[2] Q&A CNC 15/004 (R) has been revised to reflect the following:
- the UK's exit from the European Union and
- the renumbering of the articles of the law of 10 August 1915 concerning commercial companies.

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- Q&A CNC 21/024 (R) – Changes in accounting policies, measurement basis and accounting estimates in LUX GAAP and LUX GAAP - FV regimes[3];
- Q&A CNC 22/026 (R) – Currency of bookkeeping and of presentation of the annual accounts under LUX GAAP and LUX GAAP - FV regimes[4].

For 2024, the Management Board agreed that the working group dedicated to accounting doctrine (GT1) would focus mainly on accounting issues relating to company restructuring operations (e.g. mergers, demergers). CNC was also asked to look into the accounting issues associated with the so-called "Pillar 2" legislation[5]. Finally, as a result of the collaboration between the CNC and the Commission « Droit comptable et études législatives (DCEL) » of the "Ordre des Experts Comptables (OEC)" (Order of chartered accountants), an introductory Q&A on currency hedge accounting should be published in 2024.

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

In 2023, the CNC received 16 requests for derogations under article 27 of the amended law of 2002 (2022: 20; 2021: 19).

Of these 16 applications, 12 were for authorisation renewals and 4 were for new authorisations. Almost all of these applications concerned authorisation to use an alternative framework (US GAAP or IFRS as published by the IASB) for the preparation and publication of statutory consolidated accounts in Luxembourg. Among the new requests received was also a non-standard request concerning the possibility for a Luxembourg parent undertaking to continue to benefit from the exemption from drawing up and publishing statutory consolidated accounts, known as the "passive holding exemption", as referred to in the former article 312 of the amended law of 10 August 1915 ("the 1915 law"). Said article 312 of the law of 1915 having been repealed in Luxembourg law by the law of 18 December 2015[6] applicable as from the financial years beginning on 1st January 2016 and this exemption no longer existing within the accounting directive 2013/34/EU, it follows that Luxembourg and European Union undertakings can no longer benefit from the "passive holding exemption". Consequently, a negative opinion has been issued.

As a reminder, only applications submitted by undertakings that are in compliance with their accounting obligations may be examined and, where appropriate, granted authorisation.

- **Conference to raise awareness on the CSRD directive[7] and on the so-called "ESRS" sustainability standards[8] and creation of a contact group**

In 2023, CNC – in partnership with the *House of Sustainability* (HoS) and the "*Institut National pour le Développement durable et la Responsabilité sociale des entreprises*

[3] Q&A CNC 21/024 (R) has been revised to clarify that, in the event of a change in accounting policy or valuation method, adequate information must be provided in the notes to the financial statements, including a presentation of the reasons and motivations justifying the undertaking's decision in accordance with article 51, para. 2 LRCS.

[4] Q&A CNC 22/026 (R) has been revised to remove the reference to ISO 4217 "Currency Codes" as the international standard used to delimit the currencies that may be chosen by Luxembourg undertakings for their accounting and the preparation of their annual accounts and to replace it with a reference to the well-established practice in the Grand Duchy of Luxembourg. According to this well-established practice, "*an undertaking governed by Luxembourg law may freely select a legal tender currency of its choice for keeping its accounts and drawing up its annual accounts, provided that it is a fully convertible and freely usable currency and that it is issued or guaranteed by a central bank or by a public authority*".

[5] Law of 22 December 2023 on minimum effective taxation with a view to transposing Council Directive (EU) 2022/2523 of 15 December 2022 to ensure a worldwide minimum level of taxation for multinational undertakings and large domestic groups within the European Union.

[6] Act of 18 December 2015 (...) to transpose Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertaking, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

[7] CSRD for "*Corporate Social Responsibility Directive*": 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 disclosure of sustainability information by undertakings.

[8] ESRS stands for "*European Sustainability Reporting Standards*".

(INDR) – organised a conference on the CSRD and on the European Sustainability Reporting Standards (ESRS) to raise awareness among interested parties in Luxembourg.

On this occasion, CNC – as a member organisation of EFRAG – had invited Mr Patrick de Cambourg, President of the *Sustainability Reporting Board* (SRB), to present the state of play of EFRAG's work on the first series of draft ESRS standards. During the conference, the CNC gave participants an introduction to the CSRD directive.

In addition, during 2023, CNC set up a Contact Group 1 (CG1) dedicated to the CSRD and to ESRS, with a broad membership that brings together a wide range of stakeholders from both the public and private sectors. The main objective of this CG1 is to relay to its members the information available to CNC through its participation in EFRAG's *Sustainability Reporting* (SR) pillar.

As a reminder, the CSRD significantly broadens the scope of undertakings subject to the preparation and publication of sustainability information (specific section of the (consolidated) management report). By way of illustration, all large Luxembourg undertakings and Luxembourg parent undertakings at the head of a large group will be subject to the CSRD from the financial year beginning on or after 1st January 2025. Sustainability information will have to be prepared in accordance with the ESRS standards, the drafts of which are being prepared by EFRAG and the final version of which is being adopted by the European Commission by means of delegated acts.

For the undertakings and groups covered by the CSRD, the preparation and publication of (consolidated) sustainability information in accordance with the ESRS will represent a real paradigm shift.

- **Anniversary conference to mark the CNC's 10th anniversary**

To mark the 10th anniversary of the Economic Interest Grouping (EIG) “Commission des normes comptables (CNC)” (Accounting Standards Board), an anniversary conference – to which all stakeholders were invited free of charge – was held on Friday 22 September 2023.

During this conference, CNC presented to the public a summary of draft law no. 8286 on the overhaul of Luxembourg accounting law.

In addition, other presentations and interventions took place, including that of a panel of stakeholders on the theme “*Has the CNC contributed sufficiently to accounting doctrine and its other missions over the last 10 years*?”.

At the end of this conference, the CNC's Management Board decided – in order to make CNC even more transparent – to submit future draft doctrinal Q&As to Luxembourg stakeholders for comment prior to their finalisation and publication. In this context, CNC's website will be completely overhauled in 2024 to enable public consultations on future draft doctrinal Q&A.

- **Assistance with the accounting applicable to not-for-profit associations and to foundations**

Following the adoption of the law of 7 August 2023 on not-for-profit associations and foundations, published on 19 September 2023, the Ministry of Justice requested CNC's assistance regarding the accounting regime for not-for-profit associations and foundations.

The new law introduces a new accounting regime for not-for-profit associations, divided into 3 categories: the regime for "small associations", that for "medium-sized associations" and that for "large associations", it being understood that all foundations – whatever their size – must apply the accounting regime for large associations.

In this respect, and in order to facilitate the transition from the old accounting regime to the new accounting regime, CNC has assisted the Ministry of Justice in drafting an application guide. In addition, during 2024, CNC will be called upon to draft grand-ducal regulations determining the accounting layouts for each of the three categories of associations.

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- **Key figures for GIE CNC** [9]

		2023	2022	2021
Profit and loss account				
State subsidy	(1)	€ 290 000	€ 290 000	€ 290 000
Other income	(2)	€ 11 160	€ 2 895	€ 1 200
Staff costs and similar expenses	(3)	€ (221 291)	€ (349 213)	€ (211 476)
Recruitment fees		€ 0	€ 0	€ (36 036)
INDR partnership ("Sustainability standards")		€ 0	€ (10 000)	€ (15 000)
Contribution to EFRAG ("NFM")	(4)	€ (20 000)	€ (20 000)	€ (10 000)
Costs of organising the CNC conference		€ (13 041)	€ 0	€ 0
External audit costs		€ (5 367)	€ (4 862)	€ (4 597)
Professional indemnity insurance premium		€ (1 651)	€ (1 573)	€ (1 530)
Meeting organisation costs		€ (1 617)	€ (6 465)	€ 0
Amortisation of IT development costs		€ (1 231)	€ 0	€ 0
Other expenses	(5)	€ (4 453)	€ (3 659)	€ (4 137)
Net profit		**€ 32 509**	**€ (102 877)**	**€ 8 424**

	2023	2022	2021
Balance sheet			
Fixed assets	€ 6 153	€ 0	€ 0
Current assets	€ 232 094	€ 208 696	€ 314 231
Total assets	€ 238 247	€ 208 696	€ 314 231
Liabilities	€ 14 574	€ 17 533	€ 20 191
Shareholders' equity	**€ 223 673**	**€ 191 163**	**€ 294 040**

(1) 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 grouping.

(2) "Other income" corresponds to ancillary income generated by: (i) organising information sessions on accounting news and accounting law for professional organisations, training bodies and other institutions; and (ii) providing ad hoc assistance to government institutions.

(3) "Staff costs and similar 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 the attendance fees paid to the members and alternate observers of the Management Board and to the experts of the working groups.

(4) As a member organisation of EFRAG Aisbl, GIE CNC pays - as from the 2022 financial year - a financial contribution (*"National funding mechanism (NFM)"*), the annual amount of which is € 10 000 for the first pillar dedicated to IFRS standards ("*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.

(5) Other expenses mainly include IT costs, travel expenses and other administrative costs. The GIE CNC also benefits from logistical support from the Ministry of Justice, which provides it with a fully equipped office, an IT infrastructure and administrative support free of charge.

[9] **The above key figures are an abridged version of the annual accounts for the financial years ending 31 December 2021 and 2022 as filed with the Trade and Companies Registry (RCS) and the annual accounts for the financial year ending 31 December 2023 as submitted for adoption to the General Meeting of EIG members. These financial statements have been audited under contract by an approved undertaking auditor, who has issued an unqualified opinion for each financial year.**

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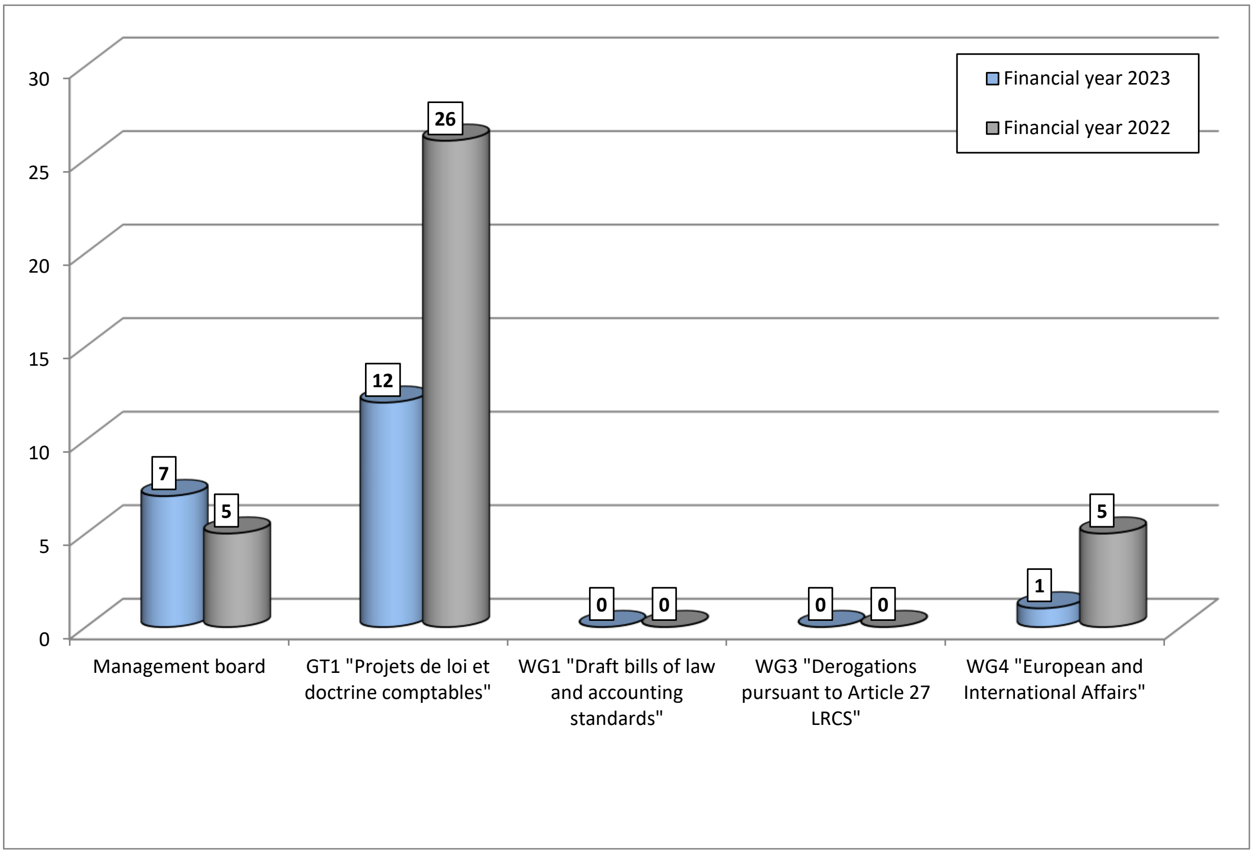
- **CNC meetings in 2023**

During 2023, CNC's Management Board and working groups met 20 times (2022: 36).



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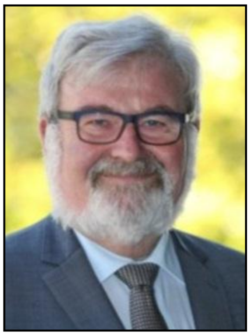
I would like to thank all the members of the Management Board and their deputy observers, as well as the experts of the working groups, for their support and contribution to the CNC's activities and missions during the past year.



Alphonse KUGELER

President of the Management Board