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Implementation of Accounting Directive 2013/34/EU via draft Law 6718

The **Directive 2013/34/EU** on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings ("new Accounting Directive") was published on 29 June 2013 in the Official Journal of the European Union. Member States must bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 20 July 2015.

This Directive is mainly a recast of the 4th and 7th Accounting Directives and provides more consistency and coherence to the accounting framework of non-listed companies. Please refer also to our **Deloitte Regulatory News Alert "New Accounting Directive"** of 3 July 2013 and its **flyer**.

Luxembourg's legislative bodies decided to adopt a 2-step approach for the implementation of the new Accounting Directive's provisions. The first step will aim to align Luxembourg Law to the Directive's requirements; the second step will deal with Member State options on certain accounting provisions and update existing Luxembourg Accounting Law. In this context, the draft Law 6718, tabled with the Luxembourg *Chambre des Députés* on 15 September 2014, implements the requirement for a report on payments to governments and various amendments related to annual financial statements and consolidated financial statements.

Impacts of draft Law 6718 (step 1)

The draft Law 6718 will modify:
Title II on accounting records and annual accounts of undertakings of the Law of 19 December 2002 on the register of commerce and companies and the accounting and annual accounts of undertakings, as amended ("2002 Law");
Law of 10 August 1915 on commercial companies, as amended ("1915 Law"); and
Title II, 1st Book of Commercial Code.

The following table presents the key topics of the new Accounting Directive within the scope of the draft Law 6718.

Main topics in scope of PL 6718	Category	Impact on 2002 Law	Impact on 1915 Law
Structure of balance sheet and profit and loss account (and abridged accounts) will be defined by Grand-Ducal regulations to come	Balance sheet, Profit and loss account	Art 34, 35, 46 and 47	
Removal of extraordinary charges/income captions	Profit and loss account	Art. 49, 50	
Disclosure of gross amounts where amounts of charges and income are offset in the profit and loss account	Notes to the accounts	Art. 33	
Materiality principle introduced regarding presentation and information disclosures	Notes to the accounts	Art. 51 point g	
Disclosure of details on other provisions is not required	Notes to the accounts	Art. 64	
Repeal of exemption for small and medium enterprises concerning disclosure of off-balance sheet operations	Notes to the accounts	Art. 65 point 7*bis*	
Disclosure of significant post balance sheet events	Notes to the accounts	Art. 65 point 18	
Disclosure of details on deferred taxes	Notes to the accounts	Art. 65 point 11 *litera c)*	
Information disclosures for small enterprises: additions and removals	Notes to the accounts	Art. 66	
Accounting treatment of goodwill: amortisation period on useful life – if it cannot be estimated reliably, minimum 5 years and maximum 10 years	Valuation method	Art. 55 (1) c), dd), Art. 59	
Repeal of consolidation exemption for passive holdings	Scope of consolidation		Art. 312
Enhancement of auditor's opinion	Auditor's opinion	Art. 69*bis*	
Introduction of new report on material payments to governments	Country-by-country reporting (CBCR)	Art. 72*quater* to 72*nonies*	Art. 340*ter* to 340*octies*

Country-by-country reporting (CBCR) will introduce new transparency rules for the extractive industry and loggers of primary forests. It will create a framework where public-interest entities (“PIEs”) and large non-PIE companies with activities in the extractive industry and the logging of primary forests must disclose material payments made to governments (above EUR 100,000), contributing to transparency and the fight against tax fraud and corruption. The following types of payments must be reported:

- Production entitlements;
- Taxes levied on the income, production and profits of companies;

- Royalties;
- Dividends;
- Signature, discovery and production bonuses;
- License fees, rental fees, entry fees and other considerations for licenses and/or concessions;
- Payments for infrastructure improvements.

Large companies are currently those defined by Article 47 of the 2002 Law, i.e. undertakings exceeding at least two of the three following criteria: balance sheet total of EUR 17.5 million - net turnover of EUR 35 million - average number of employees during the financial year of 250.

The CBCR is a separate report that will need to be published in *Mémorial* C, by way of a reference to the filing at the register of commerce and companies within twelve months of the end of the financial year.

Entry into force

New requirements included in draft Law 6718 will be applicable to financial statements for financial years beginning on 1 January 2016 or during the calendar year 2016.

Second draft Law expected (step 2)

The following table presents main topics of the new Accounting Directive, which are out of scope of the draft Law 6718 and will be covered by another draft Law.

Main topics out of scope of draft Law 6718
• Bottom-up structure of Accounting Directives
• Modernisation of accounting terms
• Options of certain accounting provisions
• Scope of the companies subject to statutory audit
• Extent of simplification for smaller firms (micro-entities)
• IFRS for SMEs
• Concept of control and dominant influence
• *Lex specialis* principle concerning sectoral specificities

We trust this information is of assistance and remain at your disposal for any further questions.

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