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ANC regulation no. 2022-06: new definition of exceptional items

ANC regulation 2022-06, approved by order of 26 December 2023, introduces a conceptual approach to defining exceptional items.

Income and expenses directly linked to a major and unusual event are now recognised as exceptional items.

This regulation applies to financial statements for periods beginning on or after 1 January 2025, with early application permitted.

New definition of exceptional income

The new definition of exceptional income and expense proposed by ANC regulation 2022-06 is based on a conceptual approach (**major and unusual event**), whereas the current accounting framework defines exceptional income and expense only in the form of a list of accounts. Income and expenses directly linked to a major and unusual event will therefore be recognised as exceptional income or expense.

An **event is material** when its consequences are likely to influence the judgement that users of the financial statements may make about the entity's assets and liabilities, financial position and profit or loss, and the decisions that they may be required to take.

An **unusual event** is an event that is not related to the normal and current operations of the entity. An event is presumed to be unusual when it has not occurred in recent accounting periods and is unlikely to recur in future accounting periods.

The assessment of whether an event is major or unusual is specific to each entity.

The same event, in a specific circumstance, can be qualified in different ways.

For example, one entity may classify a dispute as a major and unusual event, whereas another entity may consider that the same type of dispute does not meet the conditions for classification as a major and unusual event, given the usual nature of the occurrence of such disputes in the course of its normal and ordinary business.

By its nature, a major and unusual event is not intended to recur from one financial year to the next, but may have consequences over several financial years.

In this case, if the income and expenses directly related to the event meet the conditions for recognition as exceptional items, subsequent income and expenses are also classified as exceptional items until the consequences of the event are resolved.

For example, if an allocation to provisions meets the conditions for recognition under exceptional items, the expenses actually incurred and the subsequent reversal of the provision are recognised under exceptional items.

Income and expenses directly linked to a major and unusual event are those that would not have been recognised in the absence of this event.

For example, an entity suffers a production stoppage and considers that this stoppage meets the conditions for a major and unusual event. The expenses incurred during the production stoppage (rent, staff costs, depreciation, etc.) would have been incurred by the entity independently of the production stoppage.

These expenses are therefore included in operating income. On the other hand, insurance reimbursements and indemnities received directly as compensation for these expenses should be classified as operating income.

Examples of events that may qualify as major and unusual events include a divestment or divestiture (including the abandonment of activities or assets that are no longer related to the entity's normal and ongoing business), expropriation, a cyber attack or a natural disaster.

Transactions carried out in the normal course of the entity's business are now excluded from exceptional items and are included in profit or loss from ordinary activities, depending on their nature, under operating income or financial income or expense.

By way of example, purchases and sales are, by their very nature, part of the normal and ordinary activities of the entities. Contract penalties and forfeitures paid or received on purchases and sales are therefore included in operating income, unless they result from a major and unusual event.

In the absence of a definition of exceptional items in ANC regulation 2020-01 on consolidated financial statements, **we should refer to the concept of exceptional items defined in this regulation and assess this concept at group level.**

The assessment of the major and unusual nature of an event within the Group may potentially lead to a different classification from that used in the annual financial statements.

Items to be recognised in exceptional items

Exceptional items include :

- **Income and expenses directly linked to a major and unusual event,**
- **Accounting entries that are purely tax-based,** in particular those relating to regulated provisions and accelerated depreciation,
- **Changes in accounting method** that companies are required to recognise in profit or loss rather than equity as a result of the application of tax rules,
- **Corrections of errors,** except where the correction relates to an entry that has been charged directly to equity.

Changes to the chart of accounts

The chart of accounts for accounts 67 and 77 (exceptional income and expenses) has been amended accordingly. The book value of tangible and intangible fixed assets sold and the proceeds from the sale of these fixed assets, which do not meet the new definition of exceptional income, are to be presented under operating income and expenses. The write-back of investment subsidies is now recognised in profit on ordinary activities (account 747 instead of account 777).

The correlation table (see Appendix 1) shows the accounts to be used for items currently recognised as exceptional items, which will no longer qualify as exceptional items under the new regulations.

Presentation of exceptional items in the financial statements

ANC regulation 2022-06 requires a summary presentation of total exceptional income and expenses for the year (see table 1). Exceptional income and expense will therefore include all items recognised as exceptional income or expense, in particular exceptional charges and reversals. The regulation also abolishes the technique of transferring expenses.

Table 1: Presentation of exceptional items before and after ANC regulation 2022-06

Current regulations	ANC regulation no. 2022-06
Non-recurring income : - On management transactions - On capital transactions Reversals of provisions and expense transfers Total	Extraordinary income
Exceptional expenses : - On management transactions - On capital transactions Depreciation, amortisation and provisions Total	Exceptional expenses
Exceptional items	Exceptional items

Disclosures in the notes to the financial statements

ANC regulation 2022-06 specifies the information to be provided in the notes to the financial statements, i.e. **a description of the income and expenses recognised under exceptional items**. For each major and unusual event that gives rise to the recognition of income and expenses under exceptional items, the notes to the financial statements should include the following information:

- Description of the event,
- Amounts already booked in previous years,
- The nature of the income and expenses recorded during the year.

First application of ANC regulation 2022-06

This regulation applies to accounts for financial years beginning on or after 1 January 2025. It may be applied in advance from the date of its publication in the Journal Officiel.

The provisions of this regulation apply from the financial year of first application without any impact on previous accounts, other than the reclassifications necessary to comply with the new balance sheet and income statement models in the first year of application.

In the first year of application, entities present the balance sheet and income statement in accordance with the models prescribed by the regulation (see table 1). The balance sheet and income statement for the year preceding the year of first-time application are presented in accordance with these models, with reclassifications where necessary.

To simplify matters, transfers of expenses recognised in the income statement for the previous year should be presented in the "Year N-1" column, under items relating to reversals of impairment losses and provisions. Where reclassifications are made, the balance sheet and income statement for the previous year are presented separately in the notes to the financial statements.

The relevant information needed to understand the changes in presentation are available in the annex.

Impact of implementation

To comply with the new regulations, companies need to carry out **an impact analysis**, as the application of these new rules could result in changes to their management indicators.

For financial years beginning on or after 1 January 2025, two changes in accounting method are likely to affect the amount of profit-sharing and even incentive payments.

This concerns the new definition of exceptional items and the abolition of the technique of transferring expenses.

An expense (or income) currently recorded under exceptional items that would be classified under profit on ordinary activities under the new definition will change the value determined for the profit-sharing reserve.

This change could also affect profit-sharing agreements and other contracts (e.g. executive remuneration, bank covenants), where these are determined using an indicator based on operating income or ordinary income, the amount of which would be modified by the new definition of exceptional income.

Appendix 1: Correspondence table
(Source: CNOEC technical note - September 2023)

Exceptional expenses	Operating expenses
6711 - Penalties on contracts (and forfeitures paid on purchases) sales) 6712 - Penalties, tax and criminal fines 6713 - Gifts and donations 6714 - Receivables that have become irrecoverable during the financial year 6715 - Grants awarded 6717 - Tax reminders (other than income tax) 674 - Setting up or winding up trusts 6751- Book value of assets sold - Intangible fixed assets 6752 - Book value of assets sold - Tangible fixed assets 6781 - Depreciation arising from indexation clauses 6782 - Lots	6581 - Contract penalties (and forfeitures paid on purchases and sales) sales) 6582 - Penalties, tax and criminal fines 6238 - Miscellaneous (tips, current donations) 654 - Bad debt losses 638 - Tax reminders (other than income tax) 6588 - Trust formation or winding-up transactions 657 - Book value of intangible assets and property, plant and equipment sold 657 - Book value of intangible assets and property, plant and equipment sold 6583 - Depreciation arising from indexation clauses 6584 - Lots
Exceptional expenses	Financial expenses
6756 - Carrying amount of assets sold - (in ' millions) Long-term investments 6783 - Capital losses arising on the repurchase by the company of shares and bonds issued by itself	6671 - Book value of long-term investments sold 6683 - Mali resulting from the repurchase by the entity of shares and bonds issued by itself
Extraordinary income	Operating income
7711 - Deductions and penalties received on purchases and sales 7713 - Donations received 7714 - Write-backs of amortised receivables 7715 - Balancing subsidies 7717 - Tax relief other than income tax 774 - Setting up or winding up trusts 7751- Proceeds from disposals of assets Intangible fixed assets 7752 - Proceeds from disposals of assets Tangible fixed assets 777 - Share of investment grants transferred to profit or loss for the year 7781 - Bonuses from indexation clauses 7782 - Lots	7581 - Deductions and penalties received on purchases and sales 7582 - Donations received 7583 - Write-backs of amortised receivables 742 - Balancing subsidies 7584 - Tax relief other than income tax 7588 - Formation or winding up of trusts 757 - Proceeds from disposals of intangible assets and property, plant and equipment 757 - Proceeds from disposals of intangible assets and property, plant and equipment 747 - Share of investment grants transferred to profit or loss for the year 7585 - Bonuses from indexation clauses 7586 - Lots
Extraordinary income	Financial income
7756 - Proceeds from disposals of fixed assets financial 7783 - Bonuses arising from the repurchase by the company of shares and bonds issued by itself	7671 - Proceeds from disposals of fixed assets financial 7683 - Bonuses arising from the repurchase by the company of shares and bonds issued by itself



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