Report

23rd Extract from the EECS's Database of Enforcement

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The decisions included in this extract were taken by national enforcers in the period from December 2016 to December 2018. ESMA will continue publishing further extracts from the database on a regular basis.

List of abbreviations and acronyms used in this report

BC	Basis for Conclusions
CU	Currency Unit
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
ESMA	European Securities and Markets Authority
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretation Committee Interpretation
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretation Committee
P/B ratio	Price to Book ratio

The European Securities and Markets Authority (ESMA) is publishing extracts from its confidential database of enforcement decisions on financial statements, with the aim of strengthening supervisory convergence and providing issuers and users of financial statements with relevant information on the appropriate application of the International Financial Reporting Standards (IFRS). According to its founding regulation, ESMA shall act in the field of financial reporting to ensure the effective and consistent application of European legislation. In order to fulfil these responsibilities, ESMA organises the European Enforcers Coordination Sessions (EECS), a forum of 42 European enforcers from all European Economic Area (EEA) countries with responsibilities in the area of supervision and enforcement of financial information.

With responsibility for the coordination of supervision of approximately 6,000 issuers listed on the regulated markets in the EEA preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS. Through EECS, European enforcers discuss and share their experience on the application and enforcement of IFRS. In particular, they discuss significant enforcement cases before and/or after decisions are taken in order to promote a consistent approach to the application of IFRS. In addition, EECS produces technical advice on ESMA Statements and Opinions on accounting matters and reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and practices.

In taking enforcement decisions, European enforcers apply their judgement, knowledge and experience to the circumstances of the cases that they consider. Relevant factors may include other areas of national law beyond the accounting requirements. Interested parties should therefore consider carefully the circumstances when reading the cases. As IFRS are principles based, there can be no one particular way of dealing with numerous situations which may seem similar but in substance are different. Decisions taken by enforcers do not provide generally applicable interpretations of IFRS; this remains the role of the IFRS Interpretations Committee (IFRS IC). The decisions published in each extract are based on the IFRS requirements valid at the time of the IFRS financial statements and may be superseded by future developments in IFRS.

The publication of selected enforcement decisions informs market participants about which accounting treatments European enforcers may consider as complying with IFRS; i.e. whether the treatments considered are within the accepted range of those permitted by IFRS. Such publication, together with the rationale behind the decisions, will contribute to a consistent application of IFRS in the EEA.

In accordance with the provisions of the ESMA Guidelines on the enforcement of financial information, cases submitted to the enforcement database are considered to be appropriate for publication if they fulfil one or more of the following criteria:

- The decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS;
- The decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties;
- The decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences;
- The decision has been taken on the basis of a provision not covered by an accounting standard.

I. Decision ref EECS/0119-01 – Presentation of cash flows arising from changes in ownership interests in a subsidiary

Financial year end: 31 Dec 2016
Category of issue: Statement of cash flows, Investment entities
Standards or requirements involved: IFRS 10 *Consolidated Financial Statements***,** IAS 7 *Statement of Cash Flows*

Description of the issuer's accounting treatment

1. The issuer is a long-term investment company whose stated objective is to create value by developing assets over the long term, favouring organic growth of its investments. The issuer does not meet the definition of an investment entity in IFRS 10 and, therefore, consolidates its subsidiaries rather than accounting for them at fair value through profit and loss.
2. During 2016, the issuer acquired additional shares in one of its subsidiaries. The cash flow relating to this 2016 acquisition was presented as 'cash flows from investing activities' in its statements of cash flows even though the change in the ownership interests in the subsidiary did not result in a change of control.
3. The issuer considered that the presentation of acquisitions and/or disposals of shares, irrespective whether it leads to a change of control, as cash flows from investing activities in the statement of cash flows provides more relevant information for users given the issuer's activity, as such transactions are part of its investment strategy.

The enforcement decision

4. The enforcer did not agree with the issuer and required the issuer to present cash flows arising from changes in ownership interests in a subsidiary that do not result in a change of control as cash flows from financing activities in the statement of cash flows.

Rationale for the enforcement decision

5. Paragraph 42A of IAS 7 requires cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control to be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity as defined in IFRS 10.
6. Furthermore, paragraph 42B of IAS 7 clarifies that as changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions, unless the subsidiary is held by an investment entity as defined in IFRS 10. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners, i.e. as cash flows from financing activities.
7. Consequently, regardless of its activity, as the issuer did not meet the definition of an investment entity as defined in IFRS 10, the enforcer considered that the issuer cannot use the exemption of classification given in paragraph 42A of IAS 7.

II. Decision ref EECS/0119-02 – Disclosure of changes in liabilities arising from financing activities

Financial year end: 31 March 2018
Category of issue: Changes in liabilities arising from financing activities
Standards or requirements involved: IAS 7 *Statement* of Cash Flows

Description of the issuer's accounting treatment

8. The issuer sells computers and multimedia equipment. In the issuer's financial statements, financial liabilities account for nearly 30% of the balance sheet total and have increased by 80% since the end of the previous annual reporting period.
9. The issuer did not explain the changes in liabilities arising from financing activities, either in narrative form or by reconciling the changes in financial liabilities in the statement of financial position to the changes from financing cash flows and non-cash changes.

The enforcement decision

10. The enforcer required the issuer to explain changes in liabilities arising from financing activities.

Rationale for the enforcement decision

11. It was the enforcer's view that, based on the information provided in the primary financial statements and in the notes, a user could not evaluate the changes in liabilities arising from financing activities both from cash items and non-cash items.
12. Paragraph 44A of IAS 7 requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from both cash flows and non-cash changes.
13. The enforcer considered that that one way to fulfil the disclosure requirement in paragraph 44A of IAS 7 is suggested in paragraph 44D of IAS 7, in the form of a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.
14. Further, the enforcer noted that the implementation guidance to IAS 7 also includes an illustration of how to present such a reconciliation. Even if not specifically required by IAS 7, ESMA encouraged issuers in its European Common Enforcement Priorities for the 2017 year-end[1] to use the tabular format from the illustrative example E.

[1] Public Statement, European common enforcement priorities for 2017 IFRS financial statements, ESMA32-63-340, 27 October 2017

III. Decision ref EECS/0119-03 – Definition of cash and cash equivalents

Financial year end: 31 December 2017
Category of issue: Cash and cash equivalents
Standards or requirements involved: IAS 7 *Statement of Cash Flows*

Description of the issuer's accounting treatment

15. The issuer is a mining company that had invested in the development of two sites, which achieved commercial production in the reporting period. The issuer disclosed as cash equivalents balances having a contractual maturity greater than three months from the reporting date. These represented funds placed in interest-bearing deposits for six months without the issuer having the contractual right to withdraw the funds before maturity.
16. The issuer had disclosed in the prior period financial statements that, in light of the projected cash flows for capital expenditure and debt repayments for the next 12-month period, current investments were reclassified as cash equivalents. The issuer explained that the change of classification arose owing to a change in purpose for the deposits, from funding the projects and providing contingency for potential overruns to holding funds to meet scheduled loan principal and interest payments.
17. The issuer considered the six-month deposits to meet the definition of cash equivalents set out in paragraphs 6 and 7 of IAS 7. In particular, the issuer was of the view that IAS 7 gives three months as an illustration of what is meant by 'short term', not as a mandatory maximum time. Hence investments with longer maturities may be cash equivalents. The issuer believed that the deposits were held for the purpose of meeting short term cash commitments, were not subject to risk of significant changes in value and were readily convertible to known amounts of cash, despite there being no contractual right to early termination, owing to the issuer's relationship with the deposit-taking banks.

The enforcement decision

18. The enforcer did not agree with the classification of these deposits as cash equivalents.

Rationale for the enforcement decision

19. The enforcer noted that paragraph 7 of IAS 7 states that "an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition". Therefore, the enforcer considered that extending this to six months is an unwarranted departure from the sense of 'short term' in paragraphs 6 and 7 of IAS 7. In particular, the enforcer considered that the lack of contractual right to early termination prevented classification of the deposits as cash equivalents.

IV. Decision ref EECS/0119-04 – Disclosure of fair value measurement of investments by investment entity

Financial year end: 31 December 2017
Category of issue: Investment entities, Fair value disclosures
Standards or requirements involved: IFRS 10, IFRS 12 *Disclosure of Interests in Other Entities,* IFRS 13 *Fair Value Measurement,* IAS 1 *Presentation of Financial Statements*

Description of the issuer's accounting treatment

20. The issuer is an investment company, which manages a portfolio of listed and unlisted investments in various industry sectors. These investments are held through a chain of subsidiaries ('intermediate companies'). The issuer and all the intermediate companies meet the definition of an investment entity set out in paragraph 27 of IFRS 10. Therefore, the issuer applied the exception to consolidation for investment entities under paragraphs 31 and 32 of IFRS 10 and accounted for its subsidiaries at fair value through profit and loss.
21. The issuer did not present in its statement of financial position the assets and liabilities of its subsidiaries. All investments were summarised under a single item ('subsidiaries at fair value'), representing 99.98% of the total assets. Further information presented in the financial statements was limited.

The enforcement decision

22. The enforcer required the issuer to disclose additional information about the fair value of its indirectly held investments. These included the level of fair value hierarchy, qualitative and quantitative information on inputs, and valuation techniques used to determine the fair value.

Rationale for the enforcement decision

23. Because of the application of the investment company exception, no information was disclosed in the issuer's financial statements about the underlying investments of the issuer's subsidiaries i.e. the investments held by the intermediate companies, which are also investment companies. The enforcer considered this lack of detailed information as particularly significant, notably for the unlisted investments.
24. The enforcer notes that paragraphs 19A-19G of IFRS 12 include disclosure requirements on the underlying investments of investment entities. Paragraph 19B of IFRS 12 requires an investment entity to disclose for each unconsolidated subsidiary: its name, principal place of business and the proportion of ownership interest and voting rights held. In the case of an investment entity investing into another investment entity, paragraph 19C of IFRS 12 requires the parent to provide the information required by paragraph 19B of IFRS 12 also for the investments controlled by the investment entity subsidiary. IFRS 12 allows the parent to provide this information by attaching the accounts of its subsidiaries containing the required information to its own accounts.
25. The enforcer performed an analysis of comparable companies with similar structures which showed that they generally provide more detailed information related to the fair value measurement of their underlying investments than explicitly required by IFRS 12, including:

- a description of the control framework put in place to review and ensure the accuracy and reliability of valuations, particularly those provided by external sources;
- the level of fair value hierarchy associated with these underlying investments by type or category of investment; and
- a description of valuation techniques and unobservable inputs used to determine the fair value of the underlying investments.

26. Quantitative and qualitative disclosure on determination of fair value of the underlying investments are not specifically required by IFRS 12. However, the enforcer highlighted that paragraph 31 of IAS 1 specifies that an entity shall consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events or conditions on the entity's financial position and financial performance. From the enforcer's point of view, considering the financial statements of the issuer, in addition to the information required by IFRS 12, the information required by paragraph 93 of IFRS 13 should have been provided for indirectly held financial investments to satisfy the objective of giving investors quantitative and qualitative information allowing them to better understand the financial situation of the issuer.

V. Decision ref EECS/0119-05 – Impact of forbearance on assessment of significant increase in credit risk

Financial year end: 31 December 2018
Category of issue: Expected credit losses, Forbearance, Significant increase in credit risk
Standards or requirements involved: IFRS 9 *Financial Instruments*

Description of the issuer's accounting treatment

27. The issuer is a financial institution that grants forbearance measures to its customers, both in retail and corporate sectors. The issuer defines forbearance as concessions given to debtors due to their financial difficulties, including the modification of the terms and conditions of the contract or its refinancing that would not have been granted if there had not been financial difficulties.
28. The issuer's application of the expected credit loss (ECL) model under IFRS 9 is, in many aspects, based on its internal credit rating system. The credit rating system plays an important role in identifying significant increase in credit risk (SICR) for granted loans. The internal credit rating process contains multiple phases, and forbearance measures are one of the inputs when determining the internal credit rating for a contract or a customer. According to the issuer's procedures, forbearance measures affect the internal credit rating model partly through automatic rating processes and partly through internal expert judgement.
29. The issuer considered that the credit risk has increased significantly since initial recognition when the contractual payments are more than 30 days past due, without rebutting this presumption set by paragraph 5.5.11 of IFRS 9 (i.e. the issuer treats 30 days past due as an absolute indicator of SICR). Consequently, the entity immediately starts recognizing lifetime ECL of the instrument instead of the 12-month ECL for these instruments.

30. Since the internal credit rating system includes multiple process steps and contains multiple parameters which are weighted in order to determine the credit rating class for a loan, instruments that are subject to forbearance measures may still be classified in stage 1 by the issuer, i.e. as not having suffered significant increase in credit risk since initial recognition. Thus, the impact of forbearance on SICR assessment is not direct.

The enforcement decision

31. In the view of the enforcer, expected and granted forbearance measures should lead, as a minimum, to triggering SICR, resulting in recognition of lifetime ECL for such forborne financial assets. In addition, the issuer was required to assess whether such financial assets were credit-impaired.

Rationale for the enforcement decision

32. According to paragraph 5.5.3 of IFRS 9 an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. In accordance with paragraphs 5.5.9-5.5.11 of IFRS 9, issuers are required to determine what elements and events they regard as indicators of significant increase in credit risk.
33. Paragraph B5.5.17(m) of IFRS 9 says that expected changes in the loan documentation including an expected breach of contract may be relevant in assessing changes in credit risk. Appendix A of IFRS 9 presents evidence of events for when a financial asset is credit-impaired. One example of such an event, that has a detrimental impact on estimated cash flows, is concessions granted for economic or contractual reasons relating to the borrower's financial difficulty.
34. The enforcer concluded that, due to the link to the financial difficulties of the debtor, forbearance measures should result in lifetime ECL to be recognised for forborne financial assets as defined by the issuer, as these have suffered SICR since initial recognition. In addition, as financial difficulties of the debtor and concessions granted as a consequence that the lender would not otherwise consider are evidence of potential impairment, the issuer was required to assess whether such assets are credit-impaired.

VI. Decision ref EECS/0119-06 – Accounting treatment of leased-out property acquired with a view to redevelopment

Financial year end: 31 December 2017
Category of issue: Investment property
Standard or requirements involved: IAS 40 *Investment Property*

Description of the issuer's accounting treatment

35. The issuer is a real estate development company active in the acquisition and redevelopment of office buildings. The development contracts do not qualify as construction contracts under IAS 11 *Construction Contracts*.

36. Properties were acquired with a view to being redeveloped. The properties had been leased to a third party under operating leases and the issuer benefited from rents until the end of the lease term. At acquisition date all rights and obligations of the former lessor were transferred to the issuer, which became the lessor for the remaining part of the lease term in respect of the property acquired. The acquisition price included a prepayment to the former lessor/owner of the lease payments (the rents) still to be collected during the residual term (in some cases a few months, in other cases a few years) of the lease. Construction work on the redevelopment did not commence prior to the end of the lease, although some related activities were already taking place (e.g. planning, requesting construction permits).

37. At the acquisition date, the issuer accounted for the rents as a separate asset (a prepayment classified as 'other current assets'), which was deducted from the total purchase price of the property acquired. The remaining part of the purchase price was included in inventory. The prepayment was reduced upon receiving the rent and no rental income was recognised in profit or loss over the lease term.

38. The issuer argued that the inclusion of the prepaid rents in the cost of inventory and the recognition of rental income prior to the development without recognizing a write down of the cost of inventory would result in recognising (part or all of) the margins of the redevelopment during the lease term (i.e. prior to the start of the redevelopment) rather than at the moment of the sale of the redeveloped property.

39. The issuer believed it would be misleading to recognise any margin or profit prior to selling the redeveloped property and, in particular, before the development has even started, i.e. before the substantial risks and rewards on the property are transferred to another party since its core business activity and its main business risk is the development and sale of real estate properties.

The enforcement decision

40. The enforcer disagreed with the accounting treatment by the issuer and required that the lease property acquired for redevelopment be classified as investment property.

Rationale for the enforcement decision

41. Paragraph 8(c) of IAS 40 gives building owned by the entity and leased out under one or more operating leases as an example of investment property. The enforcer considers that current use of the property is to receive rents and that, even if acquired for redevelopment, it should be accounted for as investment property. This is so even if the rental revenue is incidental to the acquisition of the property[2].

42. When the leased-out property is classified as investment property during the remaining lease term, the rent revenue recognised is (partially) compensated by the depreciation charges (cost model) or the fair value changes (fair value model) of the investment property.

[2] The assessment could be different if the lease term were so short that a different classification would not have a material effect.

43. Any transfer from investment property to inventory must be evidenced by a change of use, and judgment will need to be exercised to determine exactly when that change of use takes place for the property in question.

VII. Decision ref EECS/0119-07 – Vesting and non-vesting features of performance conditions in share-based payment plans

Financial year end: 31 December 2016
Category of issue: Cash-settled share-based payments
Standard or requirements involved: IFRS 2 *Share-based Payment*

Description of the issuer's accounting treatment

44. The issuer provided several free share allocation plans to its employees in 2016. These plans were share-based payment arrangements in the scope of IFRS 2 and presented with the following characteristics:

- Attribution of preferred shares in July 2016 ('the grant date') which were definitively awarded after a service condition of 12 months (i.e. 'the final award date' was July 2017). If an employee ceases employment with the issuer during this 12 month-period, he or she is not entitled to any preferred shares.
- Non-transferability of those preferred shares for an additional 24 months from the final award date (i.e. 'non-transferability period' ends in July 2019).
- The acquired preferred shares may be converted into ordinary shares at the end of the non- transferability period (i.e. in July 2019).

45. Therefore, preferred shares were vested after completing of a service period of 12 months and ordinary shares are obtained by converting the preferred shares after 24 months additional period. The conversion ratio depended on the following criteria:

- The performance of the issuer such as revenue and operating profit growth rates of the issuer between 2016 and 2019 and
- Continued employment of the employee. The number of shares depended on whether the employee remains for the full period from 2017 to 2019, with the coefficient ranging from 0.01 in July 2017 to 1 in July 2019.

46. The number of ordinary shares obtained therefore increases sharply depending on both performance and additional employment-based criteria embedded in the conversion ratio. If all other conditions are met to their maximum, the presence-based coefficient implies that:

- An employee who leaves employment between July 2017 and July 2018 will be entitled to a maximum of 100 ordinary shares for 1 preferred share.
- An employee who leaves employment between July 2018 and July 2019 will be entitled to a maximum of 200 ordinary shares for 1 preferred share
- An employee who is still in service in July 2019 will be entitled to a maximum of 10.000 ordinary shares for 1 preferred share.

47. The preference shares had no other use than the conversion to common shares in the plan and were primarily used for award calculation purposes.

48. The issuer considered the performance and employment criteria for the conversion of preferred shares into ordinary shares to be non-vesting conditions because these conditions are on a longer period (36 months) than the initial service condition (12 months). Hence, these elements were taken into account by the issuer for the calculation of the fair value of attributed instruments in accordance with paragraph 21A of IFRS 2.

The enforcement decision

49. The enforcer disagreed with the accounting treatment of the issuer and considered that the performance and employment criteria embedded in the conversion ratio should be considered as vesting performance conditions. Consequently, they should not be taken into account in the initial fair value of the instrument at grant date and any modification of the number of shares finally awarded upon conversion of the preferred shares will impact the income statement as IFRS 2 expense.

Rationale for the enforcement decision

50. Appendix A of IFRS 2 defines vesting conditions as conditions determining whether the entity receives the services that entitle the counterparty to the share-based payment. Vesting conditions can be service conditions (which requires the counterparty to complete a specified period of service during which services are provided to the entity) or performance conditions. The latter are either market or non-market conditions and require the counterparty to complete a service period and to meet specified performance targets while the counterparty is rendering the services.

51. Appendix A of IFRS 2 adds that a service condition can be explicit or implicit. Paragraph BC346 of IFRS 2 emphasises that if the share-based arrangement does not contain an explicit requirement to provide service, the arrangement may still contain an implicit service condition.

52. The enforcer considers that in the case at hand the presence-based criteria embedded in the conversion ratio constitutes an “implicit” service requirement because the employment linked to the performance criteria creates a significant incentive for the beneficiary to be still employed after the initial 12 months service period until the conversion date of preferred shares into ordinary shares.

VIII. Decision ref EECS/0119-08 – Indications of impairment of assets

Period end: 30 September 2018
Category of issue: Impairment of property
Standard or requirements involved: IAS 36 *Impairment of Assets*; IAS 34 *Interim Financial Reporting*

Description of the issuer’s accounting treatment

53. The issuer is a ship owner and a leading provider of offshore tonnage to the international oil and gas industry. The issuer prepares quarterly accounts in accordance with IAS 34.

Considering information available on the market generally and given by the issuer through announcements specifically, it was clear that the issuer was facing a challenging market conditions with overcapacity and laid up vessels. This situation had led to liquidity problems and the issuer started negotiations with its financial creditors on suspension and deferral of payments of principal and interest of the issuer's debt in 2018.

54. In the reports for the first three quarters of 2018, no impairments were recorded and there was no information on whether the issuer had performed an impairment test by estimating the recoverable amount of the assets. The issuer explained that it had assessed several indications of whether the assets might be impaired. However, it had concluded that no indication of impairment was present at the time of the third quarter 2018 report and therefore it had not estimated the recoverable amount of the fleet.

The enforcement decision

55. The enforcer was sceptical of the values of the issuer's vessels and challenged the issuer's assessment of the potential indications of impairment and pointed out that several indications of impairment existed. The issuer was thus required to perform an impairment test and to estimate the recoverable amount for the vessels as of third quarter 2018.

Rationale for the enforcement decision

56. Paragraph 9 of IAS 36 requires an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. In the enforcer's opinion, there were impairment indicators at third quarter 2018.

57. In relation to the issuer's assessment, the enforcer highlighted the price to book (P/B) ratio of the issuer. The issuer's carrying amount of the net assets was significantly higher than the issuer's market capitalisation and the P/B was around 0.4. This ratio is one of the indicators mentioned in paragraph 12 of IAS 36. Even when pricing an entity, the market might take into account factors other than return generated from the entity's assets, the enforcer was of the opinion that a market value of the equity significantly below book value is an important impairment indicator.

58. Moreover, in addition to the P/B ratio, the enforcer highlighted the combination of the following elements:

    a. Comparison to other peer companies: the issuer argued that the indicators did not deviate much from other peer companies in the industry. However, the enforcer highlighted that comparison analysis needs to be specific to the preparer's assets and - in this case - consider factors such as the vessels type and age, their specification and quality etc. Furthermore, the issuer had not taken into account in its comparison that several companies in this industry actually had written down the value of their vessels during 2018.

    b. Sale of vessels: the issuer argued that there had been no material accounting losses from sale of vessels in 2018. However, in the enforcer's view even if the disposal losses were immaterial compared to the period's result and carrying value of total assets, there were several cases where the recognised loss per vessel was material in relation to the carrying amount of the vessel. Documentation showed that the sales prices for three of the vessels were half of the carrying amount.

c. Changes in broker valuations of the fleet: the issuer mentioned that there was only a slight change in the values estimated by brokers of the fleet in the third quarter, compared to the previous quarter. However, in the enforcer's view, the lack of change in broker valuations should not be taken as an indicator that there is *not* an impairment trigger. Furthermore, the issuer should have evaluated the relevance of brokers estimates because of limited information whether the estimates were based on actual transactions to which adjustments were made. In addition, these estimates tend to smooth market movements and include a time lag.

d. Improved demand and a positive underlying trend: the issuer pointed at an increasing oil price and improving demand for offshore service vessels. Nevertheless, the enforcer did not see any increase in the shipping rates and the issue of overcapacity of the vessels remained. Furthermore, based on the view of external consultants, the issuer mentioned that for future periods more conservative income estimates would be applied in the value in use calculations, indicating that a delayed market recovery was expected.

59. In the enforcer's view, therefore, indications of impairment of the vessels existed as of the third quarter 2018 and thus required that an impairment test be carried out and recoverable amounts for the vessels estimated.