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## 1. Objective

This chapter explains what commitments are to be disclosed in the consolidated IFRS financial statements.

## 2. Summary

When disclosing commitments in the annual report, we distinguish between:

- Financial guarantees; and
- Non-financial guarantees, including
  - Commitments for leases that have not yet commenced,
  - Commitments other than commitments for leases that have not yet commenced, and
  - Contingent liabilities.

In order to avoid a double counting, we do not report any commitments related to liabilities that have been recognized or disclosed elsewhere in the consolidated financial statements.

## 3. Financial guarantees

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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Debt instruments are contractual receivables actually recognized by the debtor (e.g. a borrowing provided by a bank, a pension receivable of a pension plan beneficiary). They exclude items like tax receivables of a governmental authority, future receivables of a supplier related to future sales to Solvay, claims to recover possible environmental damages for which no contractual right to payment has yet been established, etc.

The entity discloses the amount that best represents its *maximum exposure to credit risk* at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements with a financial institution that do not qualify for offset). Contrary to contingent liabilities (cf. infra), for which no disclosures are made if the probability of outflows is remote, for financial guarantees, the maximum exposure is disclosed irrespective of the probability of outflows.

### Examples

- A guarantee given by a Group subsidiary to a financial institution related to a borrowing obtained by a joint venture;
- A guarantee given by a Group subsidiary to defined benefit plan beneficiaries, in excess of the defined benefit obligation recognized in the consolidated statement of financial position.

## 4. Non-financial guarantees

Non-financial guarantees are not related to debt instruments as described above and contain the below:

### 4.1. Commitments for leases that have not yet commenced

Leases have been discussed in FRG *Leases*. For commitments related to leases entered into, and that have not yet commenced, the best estimates of the future lease liabilities are to be disclosed.

### Example

On January 30, 20X1, the Group commits to leasing a production asset to be constructed by the lessor, with an estimated cost of M€70. Construction is expected to be completed in the course of 20X2. At year-end 20X1, the lessor has already incurred costs of M€50.

In its consolidated IFRS financial statements for the year ended December 31, 20X1, the commitment of M€70 is disclosed, irrespective of costs already incurred by the lessor.

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## 4.2. Commitments other than for leases that have not yet commenced

Those commitments contain any unrecognized contractual commitments that are not related to leases that have not yet commenced. The best estimates of the future liabilities are to be disclosed.

### Examples

The best estimates of commitments to purchase items of property, plant and equipment, intangible assets, inventory items, or a business are to be disclosed.

## 4.3. Contingent liabilities

Contingent liabilities have been discussed in FRG *Provisions, Contingent Liabilities and Contingent Assets*.

A contingent liability is either:

- An obligation that is estimated to be less than 50% likely to exist (i.e. it does not meet the definition of a liability);
- A present obligation that has a less than 50% chance of requiring an outflow of economic benefits (i.e. it meets the definition of a liability, but it does not meet the recognition criteria); or
- A present obligation for which a sufficiently reliable estimate cannot be made (i.e. it meets the definition of a liability, but it does not meet the recognition criteria).

A guarantee contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of an instrument that is not a debt instrument in the scope of IFRS 9 generally will be analyzed as a contingent liability.

The best estimate of a contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits is remote (below 20% probability of occurrence). Such probability is assessed at the end of each annual reporting period.

### Examples

- For environmental obligations stemming from past pollution from production of goods, and for which probability of settlement is estimated to range between 20% and 50%, the best estimate of the obligations are to be disclosed;

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- A contractual commitment to a purchaser of a business, related to environmental issues, for which an actual settlement depends on future changes of law, and for which probability of settlement is remote, is not to be disclosed;
- A guarantee given by a Group subsidiary to make payments to the VAT authorities in certain cases is not considered a financial guarantee contract because the underlying VAT payable is not a debt instrument in the scope of IFRS 9. Hence, the best estimate will be disclosed in case probability of a payment is estimated to range between 20% and 50%.
- A contingent liability has a probability of settlement by the Group that is estimated to range between 20% and 50% at the end of December 31, 20X1. Consequently, it is disclosed in the financial statements for the year ended December 31, 20X1. At the end of December 31, 20X2, the probability of settlement has become remote (below 20% probability of occurrence). As a consequence, the item is no longer disclosed in the financial statements for the year ended December 31, 20X2.

### 5. No double counting

In order to avoid a double counting, we do not report any commitments related to liabilities that have been recognized or disclosed elsewhere in the consolidated financial statements.

#### Examples

- A guarantee given by a Group subsidiary to a financial institution related to a borrowing obtained by another Group subsidiary is not disclosed, because the borrowing of the subsidiary is already included in the consolidated statement of financial position;
- A guarantee given by a Group subsidiary to defined benefit plan beneficiaries up to the amount of the defined benefit obligation recognized in the consolidated statement of financial position is not disclosed;
- A guarantee given by a Group subsidiary to a lessor related to a lease liability of another Group subsidiary is not disclosed, because the lease liability of the subsidiary is already included in the consolidated statement of financial position;
- A guarantee given by a Group subsidiary to a lessor related to a lease obtained by another Group subsidiary that has not yet commenced is not disclosed, because the commitments for leases that have not yet commenced are disclosed separately in the consolidated financial statements;
- A guarantee given by a Group subsidiary for environmental obligations for which a provision has been recognized because an outflow of economic benefits is considered probable is not disclosed, because a liability is already recognized in the statement of financial position.

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### Document tracking – Versions

Version	Change(s)	Date	Changed by
1	Document issued	January 2020	IFRS Desk