Deloitte.

Audit, July 2013

Financial Reporting Brief.

Revised proposals on accounting for both leases and insurance contracts, amendments to disclosures on impairments of assets, and a draft of the integrated framework are some of the many developments in financial reporting during the quarter. New EU Accounting and Transparency Directives are in the final stages of adoption.

The International Accounting Standards Board (IASB) has published an Exposure Draft of the revised proposals for Lease accounting, retaining the proposal that all leases are recognised on balance sheet, with a possible exception for short-term leases, but with some potential complexity in the income statement. Revised proposals have also been published on Accounting for Insurance Contracts. Amendments have been made to IAS 36 'Impairment of Assets', consequent to the introduction of IFRS 13 'Fair Value'. Accounting for Levies and Regulatory Deferral Accounting have also seen development.

The International Integrated Reporting Committee (IIRC) has released the Consultation Draft of its proposed Integrated Reporting framework.

The UK Financial Reporting Council (FRC) has urged all companies to consider and abide by the principles of the recommendations of the Sharman Panel on going concern and liquidity and is proposing to do further work in the area. The FRC is also initiating a project on accounting policy disclosures.

The EU is in the final stages of adopting the new Accounting and Transparency Directives, with one of the main developments being the simplification of financial reporting for smaller companies.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published a report of its observations on compliance by Irish equity issuers with disclosure requirements for key management compensation.

This Brief comments on accounting and regulatory developments during the second quarter of 2013.

International Accounting and Related Developments

Lease Accounting

The IASB has re-exposed its proposed approach for the recognition and measurement of leases. It is proposed that lessees will recognise a liability and a right of use asset for all leases, with a profit or loss impact dependent on the classification of a lease. There is a possible exception available for short term leases. The proposed lessor model is similar to current lease accounting with some different nuances for the recognition of revenue and discounting of the residual asset.

The ED is open for comment until September 13th.

For additional information, refer to our *Accounting Alert*.

Insurance Accounting

The IASB has published a revised Exposure Draft of proposals for the accounting by insurers for Insurance Contracts. The ED responds to comments made on the ED issued in 2010, including:

- The approach to the adjustment of unearned profits reflecting the inherent uncertainty in calculating the best estimate of the settlement cash flows
- The presentation of information relating to insurance contract revenue and the effects of changes in insurance liabilities due to discount rates
- Transitional arrangements on first application of the standard that recognise the long term nature of certain insurance contracts.

The ED is open for comment until October 25th.

Recoverable Amount Disclosures

Arising from the introduction of IFRS 13 'Fair Value', the IASB has amended certain of the disclosure requirements of IAS 36 'Impairment of Assets'. The amendments are:

- Remove the requirement to disclose the recoverable amount of each cash generating unit (CGU) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant
- Require an entity to disclose the recoverable amount of an individual asset or CGU for which the entity has recognised or reversed an impairment loss during the period
- Require an entity to disclose additional information about the fair value less costs of disposal of an individual asset or CGU where impairment has been recognised or reversed during the period
- Require an entity to disclose the discount rate used, where recoverable amount is based on fair value less costs of disposal, and the entity has recognised or reversed an impairment loss during the period.

The amendments apply on a retrospective basis for annual periods beginning on or after 1 January 2014, with earlier adoption permissible for periods where IFRS 13 is also applied.

Levies

The IASB has released IFRIC 21 'Levies', which provides guidance on when to recognise a liability for a levy imposed by a government. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides guidance on circumstances where an obligating event occurs over a period of time and those where a minimum threshold applies. Taxes within the scope of IAS 12 are excluded, as are fines and penalties.

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, on a retrospective basis.

Regulatory Deferral Accounts

The IASB has published proposals to allow entities that are adopting IFRS for the first time and which currently recognise regulatory assets and regulatory liabilities in accordance with their current GAAP accounting policies to continue that basis of accounting until the longer term rate-regulated activities project is completed.

The ED is open for comment until September 4th.

Bearer Plants

The IASB has published an ED of proposed amendments to bring bearer plants which no longer undergo significant biological transformation into the scope of IAS 16 so that they would be accounted for in the same way as property, plant and equipment.

The ED is open for comment until October 28th.

Disclosure Framework

The IASB has published a feedback statement summarising the discussions at a forum on financial information disclosures, outlining that it wishes to act as a catalyst for collective action by preparers, regulators, the accounting profession, as well as the IASB to address on-going concerns about the quality and quantity of disclosures. A number of initiatives are to be considered including narrow scope amendments to IAS 1 'Presentation of Financial Statements', educational guidance on materiality and developing an agenda to address broader challenges.

The European Financial Reporting Advisory Group (EFRAG), together with the UK and French financial reporting authorities, have published a summary of comments received on their Discussion Paper 'Towards a Disclosure Framework for the Notes'.

Integrated Reporting

The IIRC has released the consultation Draft of its proposed International Integrated Reporting (IIR) Framework. The Draft Framework seeks to create the foundations for a new reporting model to enable organisations to provide concise communication of how they create value over time.

The Global Reporting Initiative (GRI) has released the fourth major revision of its Sustainability Reporting Guidelines. The revised guidelines are intended to be easier to use, place a greater emphasis on materiality and include new and updated disclosures in various areas.

Conceptual Framework

EFRAG, together with the national standard-setters of UK, France, Germany and Italy, have agreed to work to promote discussion and to ensure that European views are influential in the debate on the IFRS Conceptual Framework. The first three Bulletins arising from this partnership have been published which deal with (a)Prudence, (b) Reliability of Financial Information, and (c) Uncertainty – to consider whether it is solely a matter of measurement or whether it plays a role in both the definition of accounting elements and the recognition criteria.

Legal and Regulatory Developments

Accounting & Transparency Directives

The European Parliament has voted to approve the new Accounting and Transparency Directives. Some of the main features of the proposed new Directives are as follows:

Accounting Directive – reduces unnecessary and disproportionate administrative costs on small companies by simplifying the preparation of financial statements and reducing the amount of information required by small companies in the notes to the financial statements.

The new Accounting Directive, when adopted, will replace the EU Fourth and Seventh Company Law Directives.

Transparency Directive – closes an existing gap in the notification requirements by requiring disclosure of major holdings of all financial instruments that could be used to acquire an economic interest in listed companies. The new Directive also abolishes the requirement to publish quarterly information.

Country by country reporting is introduced, which will require listed and large non-listed companies with activities in the extractive industry and the logging of primary forests to report any payments made to governments on a country by country basis in an effort to improve transparency.

The new rules will enter into force following formal approval by the EU Council. Member States will have two years to transpose them into their national legislation.

ESG Disclosure

The European Commission has published proposed amendments to European accounting legislation in order to require certain large companies to provide additional information on social and environmental matters. Companies could be required to disclose additional information on policies, risks and results as regards environmental matters, social and employee – related aspects, respect for human rights, anti-corruption and bribery issues and diversity on boards of directors.

Key Management Personnel Compensation

IAASA has published a report on its review of the application of accounting standard requirements with regard to the disclosure of key management personnel (KMP) compensation by Irish equity issuers. Based on the reviews undertaken by IAASA between 2007 and 2012, a number of instances of non-compliance with the relevant reporting requirements were identified, albeit that in general the standard of compliance by issuers was found to be good.

Observations made by IAASA include:

- Whether the composition of KMP is appropriate, in particular whether there are individuals who are not directors but who have authority and responsibility for planning, directing and controlling the entity's activities, and whether there is sufficient clarity in the narrative disclosures as to the basis for determining the composition of KMP
- Whether all categories of compensation (in particular, share based payment expense) have been disclosed and included in the total of KMP compensation
- Whether there are other transactions with KMP which require disclosure (e.g. dividend payments) and whether there is any further information relating to KMP compensation that users might consider relevant and which should therefore be disclosed.

Narrative Reporting

In the UK, new regulations on narrative reporting have been finalised and laid before Parliament for approval, with the intention that they will come into force for periods ending on or after September 30, 2013.
The regulations:

- Require all companies (except small companies) to prepare a strategic report which will replace the current business review
- Require quoted companies to include information on greenhouse gas emissions in their directors' report
- Remove some currently required disclosures from the directors' report, such as principal activities
- Replace the option to prepare summary financial statements with an option to provide a 'strategic report with supplementary material'.

ESMA Decisions

The European Securities and Markets Authority (ESMA) has published another batch of extracts from the confidential database of enforcement decisions taken by European national enforcers. The decisions cover matters ranging across twelve different standards and interpretations.

Going Concern

In June 2012 an FRC appointed Panel (The Sharman Panel) published its proposals on going concern and liquidity, and in January 2013 the FRC published a consultation paper on implementing the recommendations of the Sharman Panel. The majority of respondents supported the principles behind the recommendations, and all companies are encouraged by the FRC to consider and abide by the principles.

The FRC proposes to:

- Issue separate, simplified guidance for SMEs
- Make a clearer distinction as to the meaning of going concern in the context meant by the Sharman Panel – with separate focus on (a) the specific assessment required when preparing the financial statements, and (b) the broader assessment of the risks affecting a company's viability. Changes may be made to the UK Corporate Governance Code, which could take effect in October 2014.

Accounting Policy Disclosures

The FRC's Financial Reporting Lab is initiating a project to provide insight from the corporate and investment communities on effective approaches to reporting, including both the content and style of presenting information, and will explore the ordering of footnotes to the financial statements to integrate both policy and note disclosures. The overall integration of disclosure through a financial report will also be considered.

Changes to Audit Report

The FRC has made significant changes to audit reports on financial statements of entities subject to the UK Corporate Governance Code, which will apply for periods commencing on or after 1 October 2012.

The changes will require auditors to:

- Provide an overview of the scope of the audit, showing how this addressed the risk and materiality considerations
- Describe the risks that had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team
- Provide an explanation of how they applied the concept of materiality in planning and performing the audit.

Contacts

Our firm's website, www.iasplus.com, provides a world-leading continuously updated information source on international financial reporting developments and includes a link to our freely accessible IFRS eLearning programme

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