



Financial Reporting Brief.

The long-awaited Companies Act was passed in December and will come into effect in June 2015. At a European level, enforcement priorities have been published regarding the 2014 financial statements of listed companies. Both the Irish and UK supervisors have published similar documents.

The International Accounting Standards Board (IASB) has proposed amendments to IFRS 2 'Share-based payments'. The European Securities and Markets Authority (ESMA) has announced the priority issues for listed companies and has also published another batch of enforcement decisions.

The Annual Corporate Reporting Review has been published by the Financial Reporting Council (FRC) which emphasises areas of reporting focus for the next reporting season.

The Pensions Reporting Advisory Group (PRAG) has published a new Pensions SORP which is consistent with FRS 102.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published its annual Observations document highlighting key topics for 2014 financial statements.

The Companies Act 2014 has been published, coming into effect in June 2015.

The Central Bank has published documents in relation to both Credit Unions and Skilled Persons.

This Brief, comments on Accounting and Regulatory developments during the final quarter of 2014.

International Accounting and Related Developments

IFRS 2 Amendments

The IASB has proposed amendments to IFRS 2 Share-based Payment to clarify and make amendments regarding the following issues:-

- » Accounting for cash-settled share based payment transactions that include a performance condition.
- » Classification of share-based payment transactions with net settlement features.
- » Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

Comments are requested by 25 March 2015.

ESMA Enforcement Activities

ESMA has announced the priority issues that the assessment of listed companies 2014 financial statements will focus on, which include:-

- » Preparation and presentation of consolidated financial statements and related disclosures.
- » Financial reporting by entities which have joint arrangements and related disclosures.
- » Recognition and measurement of deferred tax assets.

ESMA has published its sixteenth extract from its confidential database of enforcement decisions taken by European national enforcers which deals with decisions in relation to fourteen different standards.

In relation to the impact of IFRS in the European Union, ESMA believes that the responsibility for advising the European Commission on endorsement should be given further consideration and also supports new endorsement criteria to be included in the IAS Regulation.

Disclosure Recommendations

In October 2012, the Enhanced Disclosure Task Force (EDTF) presented a report to the Financial Stability Board (FSB) recommending key enhancements to the risk disclosures made by banks. The report identified seven fundamental principles for enhancing risk disclosures and included thirty-two specific recommendations.

A progress report confirms that significant progress has been made towards implementing the EDTF recommendations, showing that 73% of EDTF recommendations have been implemented with particular improvement in quantitative disclosures.

Effects of Mandatory IFRS Adoption

The ICAEW has responded to the EC's consultation on the impact of IFRS in the EU. The report finds that there is evidence of benefits following IFRS adoption in relation to financial reporting transparency and comparability, the cost of capital, market liquidity, corporate investment efficiency and cross-border capital flows. However, the report also states that the evidence on some of these matters is disputed and it is unclear on how far the benefits identified are attributable to the adoption of IFRS or to other concurrent institutional changes, particularly in enforcement.

Effects Analysis

The IFRS Effects Analysis Consultative Group, an independent group of experts established by the IFRS Foundation Trustees, presented its final report to them which included recommendations:-

- » The IASB should assess and explain how general purpose financial reports are likely to change because of new requirements, and why those changes will improve the quality.
- » The IASB should plan its fieldwork so that it is proportionate to the changes in financial reporting being processed.
- » The format of the analysis of the likely effects of a proposed change in financial reporting should reflect the stage of the proposals.

Public Sector Framework

The International Public Sector Accounting Standards Boards (IPSASB) has issued its conceptual framework for general purpose financial reporting by public sector entities providing concepts that will underpin the development of the IPSAs and related guidelines.

Public Interest Entities

The Federation of European Accountants (FEE) has recently conducted a survey on the definition of Public Interest Entities (PIEs) applicable in Europe. The definition has significant impact on the accounting and auditing requirements for companies active in the European market. Member States have the option to designate undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees as PIEs, and thus expand the number of companies falling under the Accounting Directive or the Audit Directive.

Update to Ethics Code

The International Ethics Standards Board for Accountants (IESBA) has issued an exposure draft of proposed changes to the Code of Ethics for Professional Accountants (the Code). The proposals focus on the requirements of professional accountants in business involved in the presentation of financial and non-financial information, and also provide guidance on dealing with pressure from supervisors and others which may give rise to engaging in unethical or illegal acts.



Ireland and UK - Developments

IAASA Observations

IAASA has published its annual Observations document highlighting key topics to be considered by those preparing, approving and auditing 2014 financial statements.

These topics include:-

- » Measurement of recoverable amounts on cash generating units.
- » Recognition of uncertain tax positions.
- » Assessing control under IFRS 10 Consolidated Financial Statements.
- » Alternative performance measures.

IAASA has also published its findings from a thematic examination of how selected Irish equity issuers prepare cash flow statements under IAS 7.

FRC Corporate Reporting Review

The CRR Annual Report has found that Corporate Reporting by large public companies is generally of a high standard; however, the FRC continues to see a higher proportion of lower quality accounts produced by smaller listed and AIM quoted companies. In April 2014, the FRC established a project to help improve the quality of reporting by smaller companies within the next three years.

The CRR emphasises areas of reporting focus for Boards in the next reporting season, which include:-

- » Assess the accounting effect of any changes in the structure of pension arrangements .
- » Analyse the effect of new accounting standards in important areas such as consolidation and revenue.
- » Make a step change in the quality of disclosure of critical judgements and estimates around accounting policies.
- » Identify all the relevant intangibles assets arising in recently acquired businesses.

The FRC has published revised operating procedures for its review of company reports and accounts.

Pensions SORP

The Pensions Research Accountants Group (PRAG) has published an updated Statement of Recommended Practice (SORP) to help members apply accounting standards, particularly FRS 102, and comply with other requirements specific to pension funds.

FRS 101 Amendments

The FRC has issued FRED 57 which considers a number of amendments made by the IASB to its standards during the past year which were reviewed in the context of the reduced disclosure framework, and sets out a number of proposed amendments to FRS101. Comments are due by 20th March 2015.

Complex Supplier Arrangements

The FRC has called on Boards of retailers, suppliers and other businesses to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements. The FRC expects to see high quality disclosure in this area of reporting (including fees, contributions, discounts, multiple offers and volume rebates – complex supplier arrangements) in forthcoming annual and interim reports and accounts and plans to include it as an area of focus when it reviews accounts during 2015.

FRC – Interim Reporting

The FRC has issued FRED 56, draft FRS 104 – Interim Financial Reporting – which would revise the FRC’s existing guidance on interim Financial Reports for consistency with FRS 102. It is based on IAS 34, and it is proposed to be effective for years beginning on or after 1 January 2015.

FRC – Technical Actuarial Standards

The FRC is consulting on a new framework with changes which aim to ensure that users of actuarial information, mainly those involved in pensions and insurance, can rely on the quality of actuarial work, including areas of actuarial work where risks to the public interest may not yet have been identified or manifested.

FRC – Enforcement Measures

The FRC is issuing for consultation guidelines on how it proposes to impose enforcement measures set out in the UK Companies Act 2006 to address non-compliance by the audit recognised supervisory bodies and recognised qualifying bodies with their Companies Act obligations.



Legal and Regulatory Developments

Companies Bill

After much debate, the Companies Bill passed final stages in the Oireachtas on 10 December and is now ready to be signed into law by the President, probably by the end of December. The Act consolidates all existing company law into seventeen schedules. It is expected to come into effect on 1 June 2015.

One of the major changes will be the provision for new types of company to replace existing private limited companies, being a) private companies limited by shares, and b) designated activity companies.

It is important that some consideration is given to the options available so that the decisions made are informed, ensuring a smooth transition.

Credit Union Regulations

The Central Bank has published a consultation paper on new regulations for Credit Unions. The proposed regulations cover a number of areas including reserves, liquidity, lending and governance requirements.

Skilled Person's Reporting

The Central Bank (Supervision and Enforcement) Act 2013 provides for Skilled Person's Reporting Powers and has now published a statement of proposed use which covers (a) use of the skilled person's reporting powers, (b) preparations in respect of a skilled person's report, and (c) confidentiality.

Pensions – Model Disclosures

The Pensions Authority has published the first in a series of model documents concerning disclosure of information requirements. The first documents are a model defined contribution annual benefit statement (including statements of reasonable projection requirements) and a model statement of reasonable projections.

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