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Financial Reporting Brief.

The final quarter of 2013 has seen the publication of the new international hedge accounting standard; there has also been comment on corporate reporting and disclosure and progress on guidance in relation to corporate governance.

The International Accounting Standards Boards (IASB) has published the general hedge accounting chapter of IFRS 9. It has also published an amendment to IAS 19 on employee contributions, a draft of proposed amendments to IFRS for SMEs and changes proposed as part of the annual improvements projects.

The European Securities and Markets Authority (ESMA) has published the priority issues that the enforcement authorities will focus on for 2013 reporting. ESMA has also issued a report on the accounting practices of European financial Institutions.

The International Integrated Reporting Council (IIRC) has published its Integrated Reporting Framework.

The UK Financial Reporting Council (FRC) has had a busy quarter with (1) proposals for amendments to FRS 102 on hedge accounting, in line with IFRS 9; (2) the Corporate Reporting Review 2013; (3) calls for improvements to the quality of disclosures; (4) reporting of exceptional items; (5) consultation draft guidance for directors on risk management, internal control and going concern, (6) reporting of audit committees (7) consultation on executive remuneration, (8) proposed amendments to the FRSSE following the introduction of regulations in the UK for micro-entities.

The EU Council has adopted an updated Transparency Directive, which must be legislated for by 2015.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published its 2013 Observations document.

The Central Bank has announced changes to corporate governance requirements, and proposals for a tiered structure for credit unions.

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

International accounting and related developments

Hedge Accounting

The IASB has published its chapter in IFRS 9 on general hedge accounting, which is another phase of the IASB's project to replace IAS 39. The new model will allow reporters to have a closer alignment with risk management activities and reflect these in the financial statements, removing 'bright line' restrictions included in IAS 39 and providing more opportunities to apply hedge accounting.

Investment Entities

The EU has adopted the amendments made by the IASB providing an exemption from consolidation of subsidiaries under IFRS 10 Consolidated Financial Statements in circumstances which meet the definition of an 'investment entity'. The amendments have an effective date of periods beginning on or after 1 January 2014 with earlier application permitted.

Employee Contributions

The IASB has issued an amendment to IAS 19 Employee Benefits to clarify how contributions from employees or third parties are linked to service should be attributed to periods of service in a defined benefit plan. In addition it permits a practical expedient if the amount of the contributions is independent of the number of years' service. The amendments are effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

Annual Improvements

The IASB has issued the final documents on its Annual Improvements cycles for 2010-12 and 2011-13 which make minor changes and clarifications to eleven standards, which changes are effective for annual periods beginning on or after 1 January 2014 and 1 July 2014 respectively. The IASB has also issued an ED of amendments under its annual improvements project cycle 2012-14, with proposed amendments to four standards to be effective 1 January 2016.

IFRS for SMEs

The IASB has published an ED of proposed amendments which are the result of the first comprehensive review of the standard, which is to be conducted at three-yearly intervals. The IASB suggests minor changes to 21 of the 35 sections, with the vast majority of changes concerning clarifications to the current text without any changes in accounting recognition or measurement. The most significant change proposed is to include the full content of IAS 12 'Income Taxes' as a chapter in IFRS for SMEs to replace what is currently there.

The FRC has put forward the opinion that the IASB is interpreting the scope of the IFRS for SMEs too narrowly. Instead of addressing the needs of all entities that don't have public accountability and publish general purpose financial statements for external users, the IASB is focusing on the smallest entities of this kind that typically don't have as many less complex transactions and are normally limited in their resources to apply full IFRSs.

Enforcement Priorities

ESMA has announced the priority issues that the assessment of listed companies' 2013 financial statements will focus on which, in the light of the current economic situation, will be:

- Impairment of non-financial assets
- Measurement and disclosure of post–employment benefit obligations
- Fair value measurement and disclosure
- Disclosures related to significant accounting policies, judgements and estimates
- Measurement of financial instruments and disclosure of related risks.

ESMA and national competent authorities will monitor the application of the IFRS requirements outlined in the priorities.

ESMA has also published further extracts from its confidential database of enforcement decisions taken by European National enforcers.

Financial Institutions: Disclosures

ESMA has issued a report 'Review of Accounting Practices: Comparability of IFRS Financial Statements of Financial Institutions in Europe'. It assesses the comparability and quality of disclosures in the 2012 IFRS financial statements of 39 major European Financial Institutions and provides recommendations to enhance the transparency of financial information.

Integrated Reporting

The IIRC has released its 'International Integrated Reporting Framework'. It seeks to explain the fundamental concepts, principles and content requirements underlying an integrated report, to be considered as a next step in the evolution of corporate reporting.

Financial reporting council and related bodies – developments

Hedge Accounting

The FRC has issued proposals to amend FRS 102 in respect of hedge accounting, which are based on the recently published chapter of IFRS 9. A more practical and simplified approach is being proposed to provide for smaller less complex businesses that may enter into arrangements to hedge financial risks. The amendments are proposed to be effective, as an integral part of FRS 102, for accounting periods beginning on or after 1 January 2015. The comment period closes on 14 February 2014.

Corporate Reporting Review

The FRC has published the Corporate Reporting Review (CRR) 2013, which finds that while reporting by larger companies remains at a good level, reporting by some smaller listed companies suffers from a lack of sufficient or appropriate resources. The report adopts a new approach by providing an overview of the main issues encountered during the year, including illustrative case studies. The CRR will continue to challenge companies where the exercise of judgement appears to result in aggressive accounting.

Improving Disclosures

The FRC has called for preparers and auditors to consider improving the quality of disclosures in annual reports. A guiding principle of the Corporate Governance Code is for annual reports as a whole to be fair, balanced and understandable which is crucial to high quality financial reporting. Disclosures should focus on communication of relevant information to investors, with the exclusion of immaterial information and the avoidance of boilerplate language.

Exceptional Items

The FRC has issued a reminder to Boards on the need to improve the reporting of additional and exceptional items by companies and ensure consistency in their presentation. The approach taken in identifying additional items that qualify for separate presentation should be even handed between gains and losses, clearly disclosed and applied consistently from one year to the next, with the FRC commenting on a number of other related aspects.

Reduced Disclosure Framework

The FRC has published a consultation draft of its first update of FRS 101 Reduced Disclosure Framework to ensure that it maintains consistency with developments in IFRS. Particular attention is being given to the new disclosure requirements on impairment of assets and the new accounting requirements for investment entities. The proposals are open for comment until 21 March 2014.

Guidance for Directors

The FRC has published 'Risk management, internal control and the going concern basis of accounting: Consultation on draft guidance to the Directors of companies applying the UK Corporate Governance Code'.

The draft guidance seeks to integrate the FRC current guidance in those areas and proposes some consequential revisions to the UK Corporate Governance Code and auditing standards. The draft guidance will replace 'Internal Control: Guidance for Directors'(2005) and 'Going Concern and Liquidity Risk: Guidance for Directors' (2009). It is proposed that the revised guidance, along with changes to the UK Corporate Governance Code, will be applicable for accounting periods commencing on or after 1 October 2014.
The FRC has issued separately supplementary draft guidance 'Guidance for the Directors of Banks: Solvency and Liquidity Risks and the Going Concern Basis of Accounting'. Separate guidance for directors of non-listed companies is expected to issue in 2014.

Reporting of Audit Committees

The FRC's Financial Reporting Lab has published its report 'Reporting of Audit Committees' which provides insights from companies and investors. The Report suggests that the audit committee chairman should

- Demonstrate ownership and accountability by personalising his report
- Ensure reports are specific to the company and current year's activities
- Describe in detail actions taken rather than just the functions they service
- Depict their specific activities during the year and their purpose
- Disclose judgements made for the year, sources of assurance and other evidence used to conclude.

Corporate Governance Report

The FRC has published its Annual Review Report 2013 on the Corporate Governance and Stewardship Codes commenting on positive developments by listed companies with regard to strengthening their processes and reporting procedures. The FRC does, however, call for improved transparency of reporting and more clarity with the comply or explain approach where companies deviate from the Corporate Governance Code.

Executive Remuneration

The FRC is consulting on whether to amend the UK Corporate Governance Code to address issues relating to executive remuneration, with specific proposals in three separate areas:

- Claw back arrangements
- Whether non-executive directors who are also executive directors in other companies should sit on the remuneration committee
- What actions companies might take if they fail to obtain at least a substantial majority in support of a resolution on remuneration.

If changes are ultimately proposed to the Code, they would apply to accounting periods beginning on or after 12 January 2014.

Major changes have been introduced into legislation in the UK with effect from 1 October 2013, as follows:

- o Next year shareholders will have a binding vote on board pay
- o Directors who authorise payments not approved by shareholders will be personally liable
- o Much greater disclosure of board pay, including a single pay figure which will be subject to an advisory shareholder vote.

The aim of the new rules is to ensure greater transparency for board pay and to encourage engagement between shareholders and companies.

Micro Entities

The UK Small Companies (Micro Entities' Accounts) Regulations 2013 introduced a number of deregulatory measures for micro-entities. For periods ending on or after 30 September 2013, companies eligible to follow the new regulations are able to prepare and file more simplified accounts with fewer disclosures.
The FRC has issued for consultation proposals to amend the FRSSE to reflect the legislative amendments.

Legal and regulatory developments

Transparency Directive

The EU Council has adopted an updated Transparency Directive for issuers of securities on regulated markets. Major changes include
- Abolishing the requirement to publish quarterly financial information
- Requiring disclosure of major holdings of all financial instruments that could be used to acquire economic interests in listed companies
- Country by country reporting for listed companies operating in the oil, gas and mineral extractive industry as well as the forestry industry.

IAASA Observations

IAASA has published its annual Observations document which highlights some key topics that should be considered for improving financial reporting. These include impairment testing, forbearance measures, deferred tax assets, provisions, pension liabilities, alternative performance measures and others. The document also highlights areas where the quality of disclosure needs to be carefully considered.

Political Donations

The limit below which particulars of political donations are not required to be disclosed in the directors report has been reduced to €200, under the Electoral (Amendment) (Political Funding) Act 2012.

Central Bank Developments

The Central Bank has released:
- A revised Corporate Governance Code for credit institutions and insurance undertakings, effective from 1 January 2015, with changes to a number of governance structures and processes including risk management and board diversity
- Proposals for a tiered approach in the credit union sector including activities and available services at the different levels and a framework for provisioning.

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, and now includes a focused subsite, UK Accounting Plus

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