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Financial Reporting Brief.

The new Revenue Standard is the highlight of the second quarter of 2014. The quest to improve corporate reporting continues to gather momentum with a number of initiatives taken during the quarter. The EU continues its activities in relation to both regulatory and supervisory matters.

The International Accounting Standards Boards (IASB) has published its new standard on revenue recognition, effective in 2017. The IASB has also amended its standards on joint ventures, depreciation and bearer plants. It continues its work in such areas as investment entities, macro hedging and leases, while the publication of the financial instruments standard is expected in the third quarter.

The UK Financial Reporting Council (FRC) has commenced projects on digital reporting and other corporate reporting initiatives. It has also reconfirmed that the presentation of a true and fair view is fundamental to financial reporting. The Financial Reporting Standard for Smaller Entities (FRSSE) has been amended to deal with micro entities in the UK. The FRC has also published proposals for a number of changes to the UK Corporate Governance Code.

The European Securities and Markets Authority (ESMA) has published its 2013 Report of Activities and has also published its fifteenth report from its confidential database of enforcement decisions.

The EU continues its regulatory initiatives with regard to developments in both non-financial information and financial regulatory reform.

This Brief comments on accounting and regulatory developments during the second quarter of 2014.

International accounting and related developments

New Revenue Standards

The IASB has published its new revenue standard 'IFRS 15 – Revenue from Contracts with Customers'. The FASB has published its equivalent revenue standard. The standards are the result of a convergence project between the two Boards. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. Application of the standards will be mandatory for all IFRS reporters and it will apply to nearly all contracts with customers – the main exceptions include leases, financial instruments and insurance contracts. The effective date of IFRS 15 is accounting periods beginning on or after 1 January 2017.

The IASB and the FASB have announced the formation of a Joint Transition Resource Group that will focus on potential implementation issues associated with the new standard.

The June article in our Financial Reporting Brief series commented on the new standard and links with a number of Deloitte Global publications providing insights and observations.

Joint Operations

The IASB has issued amendments to IFRS 11 'Accounting for Acquisition of Interests in Joint Operations'. The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a separate business. An acquirer of an interest is required to apply all of the principles of IFRS 3 'Business Combinations', and other related IFRSs, with the exception of any principles that conflict with the guidance in IFRS 11. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Depreciation and Amortisation

The IASB has published amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'. The main purpose of the amendments is to clarify that a depreciation method that is based on revenue is generally not appropriate as it should be based on the pattern of usage or consumption of an asset's expected future economic benefits. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Investment Entities

The IASB has published an ED of proposed amendments to IFRS 10 and IAS 28, aimed at addressing issues that have arisen in relation to the exemption from consolidation for investment entities. The proposed amendments relate to:

- Confirmation of exemption from preparing consolidated financial statements
- A subsidiary providing services that relate to the parent's investment activities
- Application of the equity method by a non-investment entity investor to an investment entity investee.

Comments are requested by 15 September 2014.

Macro Hedging

The IASB has published a Discussion Paper (DP) exploring an approach to better reflect entities' dynamic risk management activities in their financial statements, otherwise known as macro hedging. The DP proposes a 'revaluation approach' which is based on adjusting the measurement of the portfolio for changes in the hedged risk, with the corresponding gain or loss recorded in profit or loss to provide a natural offset against derivatives, measured at fair value through profit or loss, and which are used to hedge those risks.

Bearer Plants

The IASB has published 'Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)'. The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

Financial Instruments

The IASB has announced the creation of a transition resource group that will focus on the upcoming new requirements of IFRS 9 for impairment of financial instruments. The transition group will support stakeholders by providing a discussion forum on implementation issues that may arise.

Leases

EFRAG, together with certain European standard-setters, has conducted a limited survey on proposed simplifications to accounting for leases. Findings include:

- A majority of respondents indicated their preference for a single Type A model for all leases in the income statement
- A majority of respondents supported additional recognition exemptions beyond the current short term exemption.

An additional public consultation has commenced on the two different income statement approaches for lessees.

The IASB and the FASB continue to jointly deliberate issues and there is currently no firm indication of when revised proposals will be published.

Integrated Reporting

The Corporate Reporting Dialogue, introduced by the IIRC, brings together organisations that have significant International influence on the corporate reporting landscape. Participants aim to respond to market calls to reduce the burden of corporate reporting, developing practical ways to bring cohesiveness to the direction, content and ongoing development of reporting frameworks, standards and related requirements.

Valuations

The International Valuation Standards Council (IVSC) has published a policy paper to support the role of valuation in global regulatory convergence. In support of consistent and effective regulation, the valuation profession aims to ensure the global adoption and implementation of high quality internationally accepted standards for the undertaking and reporting of those valuations that are relied upon by investors and regulators in the global financial markets.

Financial reporting council and related bodies – developments

Corporate Reporting

The FRC has announced a project to investigate how companies currently, and in the future, use digital media in their corporate reporting to improve investors' access to information. The project, to be undertaken by the Financial Reporting Lab , will initially review how companies currently use a wide range of digital media in their external communications to investors, and how investors use what is produced. Three projects will be carried out over the next eighteen months:

- **Digital Present:** The current state of corporate reporting through digital media
- **Digital Challenges:** Barriers to the use of digital media in reporting
- **Digital Future:** How companies might make the most of technology opportunities.

Reporting Initiatives

A programme to promote clear and concise reporting has been announced by the FRC, which comprises a series of initiatives to be delivered during 2014 and beyond. As a first step the FRC has published Guidance on the Strategic Report, which was introduced into UK reporting in 2013.

Further initiatives include:

- A review of progress towards clear and concise reporting in the 2014 reporting cycle, including examples of practical application
- Financial Reporting Lab case studies setting out investor feedback on how well companies have addressed clarity and conciseness
- Reporting on the findings of the Corporate Reporting Review team on reports where it commonly observes 'clutter'.

True and Fair

The FRC has published a statement reconfirming that the presentation of a true and fair view remains a fundamental requirement of financial reporting. The new statement reflects developments in UK/Irish GAAP, the new finalised European audit legislation, the legal advice obtained by the FRC in October 2013 and feedback from stakeholders seeking clarity as to the primary requirement for financial statements to present a true and fair view.

Corporate Governance

The FRC is consulting on its two-yearly review of changes to the UK Corporate Governance Code.

Changes proposed to the Code include measures which will require companies to:

- place greater emphasis on ensuring that remuneration policies are designed with the long term success of the company in mind
- put in place arrangements that will enable them to recover or withhold variable pay when appropriate to do so
- explain how they intend to engage with shareholders when a significant percentage has voted against any resolution at the Annual General Meeting
- state in the financial statements whether they consider it appropriate to adopt the going concern basis of accounting and identify any material uncertainties
- robustly assess their principal risks and uncertainties and explain how they are being managed and mitigated
- monitor their risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report in the annual report.

Subject to the outcome of the consultation, the proposed changes will apply to financial years beginning on or after 1 October 2014.

The UK Investment Managers Association has published its fourth report on adherence to the FRC Stewardship Code, indicating continuing developments in best practice in accordance with the Code.

Micro Entities

The FRC has published an amended Financial Reporting Standard for Smaller Entities (FRSSE) for use by UK companies that qualify as micro-entities which want to avail of new regulations allowing them to prepare simplified financial statements.

Intangible Assets

The FRC has published a paper detailing the results of research carried out into investor views on accounting for intangible assets under IFRS. More than half of survey respondents expressed a preference for accounting treatment different from that currently required by IAS 38. The key difference is that the majority are seeking a distinction between 'wasting' and 'organically replaced' intangible assets as follows:

- 'Wasting' intangible assets – examples include wireless spectrum and patents – to be amortised over their useful lives
- 'Organically replaced' intangible assets – examples include customer lists and brands - to be subject to annual impairment reviews.

Legal and regulatory developments

Enforcement

ESMA has published a report on 'Activities of the IFRS Enforcers in Europe in 2013'. In 2013, European enforcers performed full reviews of around 1,050 interim and annual IFRS financial statements covering around 14% of listed entities in Europe. In addition, around 850 financial statements were subject to partial review.

ESMA also considered the application of the 2012 European Common Enforcement Priorities, selecting a sample of 185 issuers from 25 European countries. National enforcers took 46 enforcement actions.

ESMA has published its fifteenth report from its confidential database of enforcement decisions taken by European national enforcers.

ESMA has also published a report 'Review of the Application of Accounting Requirements for Business Combinations in IFRS Financial Statements'. It finds that there are certain areas where improvements are needed and urges national enforcers to take action where material breaches of IFRS requirements are identified.

Non-Financial Information

The European Parliament has voted in favour of amendments in European Accounting legislation to require large companies, with more than 500 employees, to provide additional information on social and environmental matters. These companies will have to disclose 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 the boards of directors. To become law, the Commission's proposal needs to be adopted jointly by the European Parliament and by the EU Member States in the Council, and will have to be legislated for by Member States within two years of being passed into European legislation.

Financial Regulation Reform

In response to the financial crisis, the European Commission (EC) committed itself to a fundamental overhaul of the regulatory and supervisory framework of the financial sector. With most financial reform measures now adopted, the EC has published a first comprehensive review of the financial regulation agenda as a whole, which includes measures regarding accounting.

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 a focused subsite, UK Accounting Plus

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