Deloitte.

Audit, April 2015

Quarterly Financial Reporting Brief

Continuing progress in significant areas such as accounting for leases and insurance contracts, moving towards completion of long-awaited standards in these areas. Irish GAAP reporting continues to evolve with new developments, some of which await changes in Irish Company Law. Corporate governance has also been under review.

The International Accounting Standards Board (IASB) has published updates on their projects in respect of both leases and insurance contracts explaining the current position and the way forward. It has published proposed amendments on the classification of liabilities. The IASB has continued its work with the US Financial Accounting Standards Board (FASB) on reviewing issues with the implementation of the Revenue Standard (IFRS 15). The relevant authorities in both the EU and the US have confirmed their continuing commitment to high quality standards and consistent application.

There have been significant developments in relation to sustainability reporting and other non-financial reporting including 'Making headway in Europe' with the EU Directive on non-financial reporting, climate change reporting, determining materiality, impact of disability in sustainability reporting and human capital management.

The Financial Reporting Council (FRC) has also been very active with a new standard on interim reporting effective in 2015, amendments to FRS 102 regarding pension obligations and, following UK legislation to implement the EU Accounting Directive, there are amendments proposed to standards to assist with a simplified regime for micro-entity reporting and improvements also for other entities. Equivalent legislative measures are due to be implemented in Ireland this year.

The FRC has carried out a review of the UK Corporate Governance Code and the Stewardship Code. The FRC has reported continuing improvement in compliance and that corporate governance reporting is increasingly informative and transparent, but the FRC calls for more to be done by asset managers and investors on their commitment to the principles of the Stewardship Code.

The amended Transparency Regulations, effective from 9 February 2015, extend the scope of the measures that can be taken by the Irish Accounting and Auditing Supervisory Authority (IAASA) where financial reporting issues are identified in their reviews of the financial statements of selected issuers.

IAASA has published an update of its review of Alternative Performance Measures.

The Central Bank has published a number of documents including its enforcement priorities and themed inspection plan for 2015, and a report of its observations on the implementation of anti-money laundering legislation.

This Brief comments on accounting and regulatory developments during the first quarter of 2015.

International Accounting and Related Developments

IAS 1 – Proposed amendment

The IASB has published a proposed amendment to IAS 1 'Presentation of Financial Statements', which aims at a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The proposals seek to make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The ED does not propose an effective date; it does propose that the amendments will apply retrospectively.

Revenue – Potential Clarifications

The Transition Resource Group (TRG) set up by the IASB and the FASB to review issues with the implementation of IFRS 15 where there may be potential diversity in application has met. It has reviewed a number of topics, including (1) licencing of intellectual property, (2) identifying performance obligations, (3) evaluating whether promised goods and services are distinct, (4) accounting for shipping and handling service costs, (5) sales tax presentation, (6) gross versus net, and (7) principal/agent relationships. The IASB expects to approve the clarifications arising and to include them in an exposure draft in June 2015.

Lease Project – Update

The IASB staff has published a document that provides an overview of the definition of a lease as it would be defined in the upcoming leases standard, as well as (1) accompanying guidance to assess whether a contract is a lease, (2) a summary of decisions, and (3) examples portraying hypothetical situations. The new leases standard is expected to be issued before the end of 2015.

The IASB has also published a document that provides an overview of (1) the likely practical effects of the new standard on leases, and (2) the similarities and differences between the IASB's requirements and those of the FASB.

Insurance Contracts Project – Update

The IASB has published a document that provides an overview of the general model for insurance contracts without participation features, and a summary of tentative decisions reached during deliberations. Completion of the standard is not expected until after 2015.

Goodwill - Response to Discussion Paper

A discussion paper 'Should goodwill still not be amortised?' published in July 2014 by major standard setters argued that amortisation of goodwill would be appropriate. A feedback statement responding to the DP is now available and the majority view is in support of reintroducing amortisation with the question to be addressed of determining the useful life of goodwill.

Extraordinary Items

The FASB has issued ASU 2012-01 'Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items'. The update will align more closely US GAAP income statement presentation with IAS 1 which prohibits the presentation and disclosure of extraordinary items in the income statement.

US and EU Convergence

Representatives of the European Commission and the EU supervisory authorities, together with their US counterparts, who participate in the US-EU financial markets regulatory dialogue, have met and they have reiterated their commitment to convergence in high quality accounting and reporting standards and committed to continuing their efforts regarding consistency in the application of accounting standards in practice.

IPSAS – Developments

The Governance Review Group of the International Public Sector Accounting Standards Board (IPSASB), formerly the Public Sector Committee of the International Federation of Accountants, has published its final recommendations on the future governance of the IPSASB, concluding that it should continue to operate under the auspices of IFAC, while also recommending that a new Public Interest Committee should be established to serve the public interest.

The IPSASB has recently published five standards on accounting for interests in other entities, based on the IASB's 'package of five', with a number of amendments to tailor them for the public sector.

Non-Financial and Diversity Information

The Global Reporting Initiative (GRI) has published 'Making Headway in Europe', a new linkage document that shows how companies can use GRI's G4 Guidelines to comply with the European Directive on disclosure of non-financial and diversity information by large public-interest companies with more than 500 employees, which is due to be legislated for in Ireland in 2016. The GRI has been active in other respects during the period with two new publications – (1) Linking GRI and CDP – how are GRI's G4 Guidelines and CDP's 2015 climate change questions aligned, and (2) Defining materiality – what matters to reporters and investors.

The GRI and the Fundación ONCE, the leading organisation of the European network for corporate social responsibility and disability, have jointly published 'Disability in Sustainability Reporting', a guide to help organisations communicate their commitment to respecting and promoting the rights of people with disabilities.

UN Guiding Principles

The first comprehensive guidance for companies to report on human rights issues in line with the United Nations Guiding Principles on Business and Human Rights has been launched. The framework provides guidance and questions on how to provide relevant and meaningful information about their human rights policies, processes and performance.

A4S Sustainability Grades

The Accounting for Sustainability Project (A4S) has published four guides to help the finance and accounting community address the issues of integrating sustainability into their business processes and decisions. The Guides are (1) Natural and social capital accounting, (2) Enhancing investor engagement, (3) Managing future uncertainty, and (4) CAPEX and investment appraisal.

HCM Reporting

The Chartered Institute of Professional Development (CIPD) has published a research report that explores investors' views on the value and availability of human capital management (HCM) reporting, the main barriers to better HCM practice and whether consistent reporting on agreed core HCM information would be useful as a means of improving the quality of reporting in this area.

CSR Disclosure

The Institute for Responsible Investment has compiled an overview of recent requirements by governments and stock exchanges related to corporate social responsibility (CSR) disclosure. The overview offers information for 44 jurisdictions over the past thirty years.

Ireland and UK - Developments

Interim Reporting

The FRC has published FRS 104, which is relevant for entities that apply UK and Irish GAAP and prepare interim financial reports. FRS 104 is based on IAS 34 interim reporting and is effective for interim periods beginning on or after1 January 2015 with earlier application permitted. The Reporting Statement 'Preliminary Announcements' is withdrawn with the FRC to evaluate whether it should develop new guidance on certain aspects of preliminary announcements.

Pension Obligations

The FRC has amended FRS 102 to clarify an aspect of accounting for defined benefit pension plans. The amendment enables sponsoring employers reporting under 'old' GAAP to continue with current practice in accounting for defined benefit pension plans, specifically:

» No additional liability to be recognised for a 'schedule of contributions' that has been agreed in order to address a plan deficit when the deficit itself has already been recognised.

» The effect of not recognising an irrecoverable surplus in a defined benefit plan is shown in other comprehensive income, rather than in profit or loss.

The amendments have the same effective date as FRS 102, accounting periods beginning on or after 1 January 2015.

Amendments to GAAP

Following publication of the legislation to implement in the UK the EU Accounting Directive, the FRC has issued its proposals to amend accounting standards. The proposals will benefit 1.5 million UK 'micro-entities' by simplifying their reporting requirements and there will also be change for companies that fall within the 'small' size threshold in the Companies Act, with improved accounting for financial instruments and guidance supporting the legislative changes. Listed groups will benefit from greater flexibility and efficiency in reporting formats. The proposals are intended to be effective for accounting periods beginning on or after 1 January 2016, with earlier application permitted for 1 January 2015. The proposals are open for comment until 5 April 2015.

Ireland is required to implement the EU Accounting Directive this year.

Accounting Policies

The Financial Reporting Lab has published a case study conducted among some of William Hill PLC's investors and analysts. The study highlights the company's experimentation with accounting disclosure, with the stakeholders liking clear identification of significant accounting policies and effective disclosure to help understanding of the company's business and performance. This is the first of a series of case studies being run by the Lab to support the FRC's clear and concise reporting initiative.

UK Corporate Governance Code

The FRC has reported that compliance with the UK Code has improved, with levels of compliance increasing and reporting being more informative and transparent. During 2015 the FRC will assess how effective boards are in establishing company culture and practices, and embedding good behaviour, and will consider whether there is a need for enhanced efforts to promote best practice.

There has been an increase in signatories to the Stewardship Code during 2014 with signs of better engagement with large companies by investment managers. However, more needs to be done to ensure asset owners and managers follow through on their commitment to the principles set out in the Code.

Auditor Reporting Requirements

Based on a recent survey, the FRC has released its report 'Extended Auditors Reports' which primarily concerns the audit reports of listed entities. The FRC confirms that auditors appear to have not only met the new requirements but in many cases have gone further and reported more widely than required. The FRC comments that the requirements for auditors to describe in their report their assessment of the risks of material misstatement, materiality and the scope of the audit are beginning to make a process that had previously been described as a 'black box' by investors significantly more transparent. The survey does suggest areas where further changes might be made including increasing entity-specific risk reporting and making a clear linkage between the discussions of risks and materiality in the report and the description of how these influence the scope of the audit.

Alternative Performance Measures

IAASA has published the results of a thematic examination of selected Irish issuers' use of Alternative Performance Measures – KPIs. This is a follow up to a similar IAASA publication in November 2012. Some of the more significant findings of the 2015 review are (1) differing presentations of apparently similar APMs are used by different issuers, and (2) there is a tendency for issuers to 'flatter' their results by the exclusion of certain items from performance measures. IAASA encourages issuers to redouble their efforts to meet users' needs.

Amendment to Transparency Regulations

The amended Transparency Regulations have been signed into law. The Regulations permit IAASA to make public in such manner as IAASA considers appropriate details of:

- An administration measure taken as a result of an examination of information by IAASA for the purpose of considering whether such information is in accordance with the relevant reporting framework.
- An action taken by an issuer or a director in response to an administration measure taken as a result of an examination.

Collective Investment Vehicles

The Minister for Finance has signed an order to commence the Irish Collective Asset-management Vehicles Act 2015 in its entirety, which will create a new form of vehicle whose purpose is to minimise administrative complexity and costs. The introduction of the Act will further enhance Ireland's competitive advantage in the area, with additional flexibility for Fund promoters.

Central Bank Developments

Significant regulations and reports have been published by the Central Bank during the period, including:

- Client assets/investor money – two sets of regulations have been published which strengthen the safeguards around client assets and investor firms to ensure investment firms and service providers have stronger systems and controls in place.
- Enforcement priorities 2015 – based on the enforcement strategy and focused on deterring breaches of requirements, securing compliance and promoting the behaviours and high standards expected from regulated entities.
- Themed inspections 2015 – these supplement the day-to-day supervisory activities under the Central Bank's risk-based supervisory framework (PRISM) and include, inter alia, (1) cyber security/operational risk, (2) Integrity of regulatory returns, (3) treatment of pricing errors for the correction of Fund NAVs, (4) depository oversight, and (5) suspicious transaction reports.
- Anti-money laundering – a review report has included observations regarding (1) incomplete risk assessments that do not effectively consider the inherent money-laundering/terrorist financing risks relevant to the bank, (2) risk assessments are very high level and lack thorough analysis of key risks, and (3) failure to include appropriate reviews in annual monitoring and internal audit programmes.

A new EU Money Laundering Directive has recently been agreed and recognises the need to strengthen regulation in the face of changing technology.

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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