

## Quarterly Financial Reporting Brief

Continuing progress in significant areas such as the commencement of the Companies Act 2014 with effect from 1 June 2015, with some exceptions, the moving forward endorsement of IFRS 9 Financial Instruments within the EU, some additional proposed amendments to FRS 102, and a wide range of other developments.



The Companies Act 2014 was commenced with effect from 1 June 2015, with some exceptions. The endorsement of IFRS 9 Financial Instruments by the EU has taken a major step forward. There are some additional proposed amendments to FRS 102.

The Commencement Order for the Companies Act 2014 was signed into law with effect from 1 June 2015, with six requirements deferred including those in relation to a directors' compliance statement and audit committees.

The European Financial Reporting Advisory Group (EFRAG) has published draft endorsement advice stating that IFRS 9 meets EU requirements and is conducive to the European public good. The European Commission (EC) has published a summary of the responses it received to its 'Green Paper' regarding the creation of a single market for capital in Europe.

The International Accounting Standards Board (IASB) has published Exposure Drafts (EDs) containing proposals on (a) the conceptual framework, and (b) pensions accounting together with its comments on the post-implementation review of IFRS 3 'Business Combinations' and amendments to the IFRS for SMEs.

The Financial Reporting Council has published an ED proposing amendments to FRS 102 in relation to share options. The FRC has also published (a) a Discussion Paper (DP) on reporting the quality of reporting by smaller quoted companies, (b) a practice aid to assist audit committees in evaluating the quality of the external audit process, and (c) a report 'Digital Present' on investors' views on digital reporting.

The Irish Revenue has amended its legislation on transition to new accounting requirements to deal with the three new standards to be implemented in 2015.

The Central Bank has published (a) a consultation paper on corporate governance requirements for investment firms, (b) a report in relation to compliance by Credit Unions in Ireland with anti-money laundering requirements and other similar requirements.

This Brief comments on financial reporting and legal regulatory developments during the second quarter of 2015.



EFRAG has published a draft endorsement advice stating that IFRS 9 meets the qualitative characteristics of relevance, reliability, comparability and understandability, leads to prudent accounting and therefore is not contrary to the true and fair principle. EFRAG has also concluded that IFRS 9 is conducive to the European public good, except that EFRAG believes that a deferral of the effective date of IFRS 9 for insurers until the future insurance contracts standard is effective would be conducive to the European public good. The Standard will now move forward through the next stages of the EU endorsement process.

The Federation of European Accountants (FEE) has responded to the draft endorsement advice in agreement except that it considers EFRAG should request the EC to ask the IASB to defer the effective date of application of IFRS 9 for institutions with significant insurance activities.

### IFRS 9 – Transition

The IFRS Transition Resource Group for Impairment of Financial Instruments (IFRS 9), established to provide support for stakeholders on implementation issues, has held its first meeting. Topics discussed at the meeting include (a) expected credit losses – measurement date, (b) loan commitments – scope, (c) the maximum period to consider when measuring expected credit losses, and a number of others.

### IFRS for SMEs

The IASB has published amendments, arising from its first comprehensive review of the Standard which was issued in 2009. They affect 21 of the 35 sections, with most of the changes being minor.

The most significant changes are:

- » Permitting SMEs to revalue property, plant and equipment; and
- » Aligning the main recognition and measurement requirements for deferred tax with IFRS.

Most amendments clarify existing requirements or add supporting guidance rather than change the underlying requirements.

### EC Green Paper

In February 2015 the EC launched a public consultation as part of its project to boost growth in the EU with the creation of a single market for capital and break down the barriers that are blocking cross-border investments in the EU and preventing businesses from getting access to finance. The value in developing a common EU level accounting standard and the options available are being considered. The IFRS Foundation noted in its response that the use of a single set of financial reporting requirements is important to the successful achievement of a Capital Markets Union and that the benefits of IFRS in the EU still held true for companies, regardless of size, listed on alternative trading venues.



### IFRS doption in EU

The IC E have published a report setting out some practical insights and recommendations which have been published in a report that places the adoption of IFRS in a global context, with the lessons being

- the benefits of IFRS outweigh the cost
- companies listed on regulated markets should be required to use IFRS
- local variants of IFRS should be kept to a minimum
- sometimes complexity is unavoidable
- ational standard-setters and regional groupings are important
- strong national enforcement is critical
- endorsement underpins legitimacy

### Conceptual Framework

The IASB has published a comprehensive ED containing proposals for topical areas where it considers a revision and amendment of the existing Conceptual Framework necessary, including (a) definitions of an asset and liability, (b) guidance on measurement and de-recognition, and (c) to set a framework for presentation and disclosure. Comments are due by 26 October 2015.

### IFRS 3 – Post Implementation Review

The IASB has completed its post-implementation review of IFRS 3 ‘Business Combinations’ and while there is general support for IFRS 3 and its related standards, some areas generated mixed results including – (a) subsequent accounting for goodwill, (b) separate recognition of intangible assets, (c) measurement of non-controlling interests, and (d) subsequent accounting for contingent consideration. The IASB has added two research projects to its agenda that will focus on accounting for goodwill and related matters.

The dialogue continues with regard to accounting for goodwill with some support growing for the amortisation and impairment approach.

### Amendments to Pension Accounting

The IASB has published an ED of proposed amendments to IAS 19 ‘Employee Benefits’ and IFRIC 14 which address two issues submitted to the IFRS Interpretations Committee, with comments due by 19 October 2015, being:-

- » the calculation of current service cost and net interest when an entity measures the net defined benefit liability (asset) when a plan amendment, curtailment or settlement occurs; and
- » whether a trustee’s power to augment benefits or to wind up a plan affects the employer’s unconditional right to a refund and thus restricts recognition of an asset.

The ED proposes that the amendments could be applied retrospectively and that early application should be permitted, but does not propose an effective date.

## IRELAND AND UK - DEVELOPMENTS

### Amendments to FRS 102

The FRC has published an ED which proposes clarifying and simplifying the accounting for share and share option awards where a cash settlement alternative exists. Existing accounting practices should generally be able to continue. The amendments are proposed to be effective for accounting periods beginning on or after 1 January 2015.

### Smaller Quoted Companies – Quality of Reporting

The FRC has published a DP, following the launch of a programme in 2014 to help smaller quoted companies to improve the quality of their corporate reports. The FRC will address the issues identified in a number of ways including more focused training, practical guidance to Audit Committees and Boards, and involvement in the Financial Reporting Lab.

### Audit Committees – Audit Quality

The FRC has issued a practice aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process, following on from requirements under the Corporate Governance Code. The aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company's business model and strategy and the business risks it faces.

### Use of Digital Reporting

The FRC has published 'Digital Present', its report on investors' views on digital communication used by companies in their corporate reporting. The Lab found that the annual report and its contents are considered of paramount importance to investors. PDF with its 'search' capabilities is the investors' preferred format offering a range of ways to blend the best of paper and digital formats, but that companies could make better use of on-screen presentation capabilities.

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