Quarterly Financial Reporting Brief

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

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 European Securities and Markets Authority (ESMA) has published its Annual Report 2014 and it’s strategy for 2016-2020 focusing on key objectives. ESMA has also published its final guidelines on alternative performance measures for listed issuers.

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 improving 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.
Companies Act 2014
The Companies Act 2014 (Commencement) Order 2015 has been signed and the Order provides that the Act commences on 1 June 2015 with deferral of implementation of the Act’s requirements in the following six areas:

- requirement for certain companies to set up audit committees or explain why not;
- requirement for certain companies to include a directors’ compliance statement in the directors’ report;
- requirement to include gains on exercise of share options in directors’ remuneration;
- requirement to include amounts paid to connected persons in directors’ remuneration;
- requirement to include names in the directors’ report of all people who were directors at any time during the financial period; and
- requirement to include statement on relevant audit information in the directors’ report.

The requirements in each of these six areas are effective for accounting periods beginning on or after 1 June 2015.

New Irish GAAP – Tax Transition
The Irish Revenue has amended the definition of ‘Relevant Accounting Standards’ in Schedule 17A Taxes Consolidation Act 1997 to extend its transitional arrangements to companies changing to the new Irish standards – FRS 101, FRS 102 and FRS 103 – primarily dealing with circumstances in which double counts or omissions of income or expense can arise.

ESMA Annual Report 2014
ESMA has published its 2014 Annual Report which describes key accomplishments in the areas of (a) financial reporting and convergence of IFRS enforcement activities (b) review of accounting practices related to business combinations, and (c) contribution to the development of IFRS. ESMA has published its strategy for 2016 – 2020 which will focus on the key objectives of investor protection, orderly markets and financial stability.

ESMA – Alternative Performance Measures
ESMA has published its final guidelines on Alternative Performance Measures (APMs) for listed issuers. The guidelines apply to issuers with securities traded on regulated markets, and persons responsible for drawing up a prospectus. They are effective for documents issued on or after the effective date of 3 July 2016. Some of the main points of the new guidelines are:

- Issuers should define the APM used, its components and its basis of calculation;
- Issuers should disclose the definitions of all APMs used in a clear and readable way;
- APMs should be reconciled to the most relevant amount in the primary financial statements, separately explaining each reconciling item; and
- Issuers should explain the use of APMs in order to allow users to understand their relevance and reliability.

IAASA – Financial Reporting Enforcement
IAASA has published its proposed Policy Paper on Publication of Financial Reporting Enforcement Activities. Regulations amended earlier this year allow for greater transparency by IAASA in terms of publication of its financial reporting enforcement activities, particularly where infringements of the relevant reporting framework have been identified. ESMA requires IAASA to report periodically to the public on its enforcement activities at national level. In particular, IAASA is required to report periodically on its policies adopted and decisions taken in individual cases including accounting and disclosure matters.

Investment Firms – Corporate Governance
The Central Bank has published a consultation paper on corporate governance requirements for investment firms. The consultation paper sets out the proposed requirements firms will be required to comply with, including – (a) minimum board size, (b) the composition of the board, (c) the roles of the Chairman and the CEO, (d) the frequency of board meetings, (e) the role and composition of the risk committee and the audit committee.

Credit Unions – Anti-Money Laundering
The Central Bank has published a report of its observations in relation to compliance by credit unions in Ireland in relation to Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) and Financial Sanctions (FS). The report, based on a sample of credit unions, identifies widespread deficiencies including (a) failure to conduct adequate assessments, (b) inadequate AML/CFT policies, procedures and systems in place, (c) failure to ensure the provision of appropriate training, and (d) inconsistent and/or undocumented approaches for the reporting of suspicious transactions.

ODCE Annual Report 2014
The ODCE has published its Annual Report commenting on the delivery of a number of tangible outputs, making specific reference to dealing with such areas as (a) directors’ loan issues to the value of c. €66m., (b) securing the disqualification of 6 individuals from being company directors, and (c) the restriction of 177 company directors and their disqualification on foot of liquidators’ applications made to the High Court.

Evaluation of IAS Regulation
The European Commission has published a report on the evaluation of the IAS Regulation with key findings showing that IFRSs were successful in creating a common accounting language for capital markets and improved the transparency and comparability of financial information. However, the report also identifies room for improvement in areas which include that the collaboration in the endorsement process could be enhanced to improve timeliness and to allow for a more holistic consideration of standards with other aspects of EU law.
INTERNATIONAL ACCOUNTING AND RELATED DEVELOPMENTS

EFRAG – IFRS 9
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.

Differing views have already been expressed as to the deferral of the effective date of IFRS9 for insurers by ESMA and the Federation of European Accountants (FEE).

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;
- 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 gaining 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 platforms.

IFRS Adoption in EU
The ICAEW has published a report setting out some practical insights and recommendations which highlights 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;
- National standard-setters and regional groupings are important;
- strong national enforcement is critical; and
- endorsement underpins legitimacy.

Conceptual Framework
The IASB has published a comprehensive ED containing proposals for topical areas where it considers revision and amendment of the existing Conceptual Framework is necessary, including (a) definitions of an asset and a 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. Companies could make better use of on-screen presentation capabilities.

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.

For more details on the above please contact your client service partner or our financial reporting service contacts:

John McCarroll
Partner
T: +353 1 417 3829
E: ciobrien@deloitte.ie

Brendan Sheridan
Director
T: +353 1 417 2357
E: bsheridan@deloitte.ie

Oliver Holt
Director
T: +353 1 417 5731
E: oliverholt@deloitte.ie

Dublin
Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
Deloitte & Touche
No.6 Lapp’s Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte & Touche
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 438310

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