

Quarterly Financial Reporting Brief

The third quarter of 2015 has seen further developments in relation to both IFRS 9: Financial Instruments and IFRS 15: Revenue. Additions to Irish/UK standards have been published aimed at smaller entities, with the withdrawal of the FRSSE. Further guidance has been published on the Companies Act 2014 and new equivalent measures introduced for Credit Institutions and Insurance Undertakings.



The International Accounting Standards Board (IASB) has published an exposure draft with further clarifications of IFRS 15 'Revenue from Contracts with Customers' and has confirmed a revised implementation date for the standard of 1 January 2018. The IASB has also proposed deferring implementation to 2021 of IFRS 9 for insurers.

The European Financial Reporting Advisory Group (EFRAG) has been very active with (1) endorsement advice on IFRS 9 'Financial Instruments', (2) impact of upcoming leases standard on financial covenants, (3) bulletin on conceptual framework, (4) paper regarding cash flow statement for financial institutions, (5) accounting implications of low/negative interest rates.

The Financial Reporting Council (FRC) has published new and amended accounting standards which simplify financial reporting for the smaller entities, including micro entities. These changes are largely in response to the implementation in the UK of the new EU Accounting Directive, with equivalent measures due to be legislated for in Ireland. The FRC's Financial Reporting Lab has launched a project on business model reporting.

The ODCE has published revised guidance on the Companies Act 2014, with new equivalent accounting regulations introduced for both Credit Institutions and Insurance Undertakings. IAASA has published its 2014 Annual Report. The Central Bank has published final regulations for credit unions.

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

INTERNATIONAL ACCOUNTING AND RELATED DEVELOPMENTS

IFRS 15 Revenue

The IASB has published an ED with proposed clarifications of IFRS 15 'Revenue from Contracts with Customers', with the comment period ending on 28 October 2015. The ED addresses topics identified by the Joint Revenue Transition Resource Group, as follows: -

- » Identifying performance obligations - The IASB is proposing to amend the illustrative examples in IFRS 15 to clarify the meaning of 'distinct' in the context of distinct promised goods or services.
- » Principal versus agent considerations - IFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. The ED aims to clarify how to assess control with amended guidance and examples.
- » Licensing- To clarify when an entity's activities significantly affect the intellectual property, the IASB is proposing to amend and extend the application guidance, with some examples, on the basis of how to determine whether the licence is transferred at a point in time or over time.

The IASB is proposing two additional practical expedients on transition to IFRS 15.

The IASB has published 'Effective Date of IFRS 15' deferring the effective date of IFRS 15 to accounting periods beginning on or after 1 January 2018, with retrospective application permitted.

IFRS 9- Financial Instruments

EFRAG has finalised the long-awaited endorsement advice on IFRS 9 'Financial Instruments', stating that IFRS 9 is conducive to the European public good, except that the impact on the insurance industry of applying IFRS 9 before the finalisation of the forthcoming insurance contracts standard needs to be considered and managed.

All entities, other than those carrying out insurance activities, are required to implement IFRS 9 with effect for accounting periods beginning on or after 1 January 2018.

The IASB has decided to propose deferring implementation of IFRS 9 for insurers until 2021. The deferral of IFRS 9 for insurers will expire in 2020 if the IASB issues the new insurance contracts standard with an effective date of 2020. An exposure draft proposing both the overlay approach and the deferral approach will be published later in 2015, with a final standard in 2016.

The IFRS Transition Resource Group for impairment of financial instruments held its second meeting to discuss implementation issues. These are commented on in our global publication, [IFRS in Focus](#).



Financial Covenants

EFRAG, together with a number of national standard setters, invites companies to participate in a public survey on impact of the forthcoming new Leases IFRS on financial covenants in loan agreements, with the objective of: -

- » Assessing the possible impact of the new Leases IFRS on lenders business practices.
- » Increasing the awareness of the effects of the new IFRS on financial covenants.
- » Achieving a better understanding of the extent to which covenants are based on amounts reported in accordance with IFRS.

Conceptual Framework

EFRAG has published a document for public consultation on the proposed new conceptual framework for financial reporting. EFRAG cites a lack of guidance on certain controversial issues, with EFRAG welcoming the greater emphasis on stewardship and the re-introduction of prudence as a fundamental concept.

EFRAG has also published a bulletin exploring what additional guidance should be included when reporting profit or loss and other comprehensive income (OCI). The bulletin includes discussions on various business models, how income and expenses are reported in profit or loss and OCI based on the business model and potential effects to current IFRS if EFRAG's suggestions were to be applied.

EFRAG has extended the comment period on the IASB's Exposure Draft to 18 November 2015.

Cash Flow Statements

EFRAG has issued a paper, one of its 'Short Discussion Series', that discusses the usefulness of the statement of cash flows for financial institutions and possible alternatives. The paper discusses alternatives relating to (1) information on liquidity, (2) information on changes in assets and liabilities, (3) specific assets relevant to insurers, (4) creating narrower scope amendments. Comments are due by 31 March 2016.

IFRS 10: Consolidated Financial Statements – Amendments

EFRAG has issued a draft letter commenting on amendments proposed by the IASB to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. The amendments propose deferring the effective date until the research project on the equity method has been concluded.

Current Interest Rate Environment

EFRAG is considering the accounting implications of low or negative interest rates. As the Eurozone has recently experienced negative interest rates with the result that the present value of assets or liabilities is higher than the future inflow or outflow of cash, EFRAG is considering a proactive project on accounting issues with special focus on financial instruments. EFRAG still needs to determine the scope of the project.

LEGAL AND REGULATORY DEVELOPMENTS

Companies Act 2014

The ODCE has revised ten of its 'Quick Guides' to company law, updated to reflect the Companies Act 2014, covering a range of topics including the duties of a company, the directors of a company and the secretary of the company.

Credit Institutions & Insurance Undertakings

The European Union (Credit Institutions: Financial Statements) Regulations 2015 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015 have been published. These regulations provide for a similar structure to Part 6 of the Companies Act 2014, and the relevant schedules thereto, to be adopted in respect of the accounting requirements for both credit institutions and insurance undertakings.

IAASA Annual Report 2014

IAASA has published its Annual Report 2014 which outlines the work carried out, which includes:

- » Increased on-site supervision of the prescribed accounting bodies.
- » Examinations of financial statements during which IAASA engaged on a number of significant financial reporting matters and secured undertakings for improvements from 11 issuers.
- » Publications to inform the public and advocate for improved financial reporting.

IAASA has also published its final Policy Paper on Publication of Financial Reporting Enforcement Findings.

ICAV Act

The Irish Collective Asset Management Vehicle Act (ICAV Act) was signed into law in March 2015. An ICAV is a new form of collective investment vehicle which provides a corporate structure that is designed specifically for investment funds and which is not subject to many of the rules and requirements applicable to other forms of company.

Chartered Accountants Ireland has published a Technical Alert (01/2015) on Independent Accountants Reports to support a company's application to the Central Bank to be registered as an ICAV.

Credit Union Regulations

The Central Bank of Ireland has published final regulations for credit unions which it is proposed will commence on 31 December 2015. These regulations, combined with the 2012 Act and prudential and governance requirements already in place, are considered to provide an appropriate regulatory framework for the credit union sector.

ESMA Enforcement Decisions

ESMA has published further extracts from its confidential database of enforcement decisions taken by the European National Enforcers. This 17th batch deals with decisions in relation to IAS 1, IAS 11, IAS 27, IAS 28, IAS 36, IAS 39, IFRS 3, IFRS 6, IFRS 10, IFRS 13 and IFRIC 19. The broad range of matters covered include, for example, extinguishing of debt, impairment charges, presentation of financial statements and accounting for claims on construction contracts.

ESMA – EU Transparency Directive

ESMA has taken further steps to implement the Directive with one of the requirements being that issuers listed on regulated markets must prepare their annual financial reports in a European Single Electronic Format (ESEF) from 1 January 2020. ESMA has now launched a public consultation on regulatory technical standards relating to the ESEF, with a closing date of 24 December 2015. ESMA is also currently working on a European Electronic Access Point (EEAP) with the objective being to provide an easy search and access tool for end-users looking for regulated information such as annual reports.

G20/OECD – Revised Principles of Corporate Governance

A revised set of OECD Principles has been published. The Principles provide recommendations for national policymakers on shareholder rights, executive remuneration, financial disclosure, the behaviours of institutional investors and how stock markets should function. The principles provide guidance and are non-binding, with the intention of providing a robust but flexible reference for policy makers and market participants to develop their own frameworks for corporate governance.



IRELAND AND UK - DEVELOPMENTS

Small Entities – New Standards

The FRC has published a suite of changes that update and, in many cases, simplify UK and Ireland accounting standards. Amongst the changes are new requirements for micro-entities and small entities, and the withdrawal of the Financial Reporting Standard for Smaller Entities (FRSSE).

The changes are largely in response to the implementation in the UK of the new EU Accounting Directive, and include: -

- » a new standard, FRS 105 : The Financial Reporting Standard applicable to the Micro-Entities Regime
- » new section 1A of FRS 102 for Small Entities, and
- » other changes necessary for continued compliance with Company Law

Regulations have separately been introduced in the UK, in line with the EU Accounting Directive, to prohibit upward revaluations of goodwill where its value had been previously impaired in a company's accounts.

The main changes are effective for accounting periods beginning on or after 1 January 2016, with early application permitted for 2015.

Equivalent measures have yet to be introduced in Ireland to implement the EU Accounting Directive.

The FRC has issued revised editions of FRS 100, FRS 101 and FRS 102, incorporating the changes referred to above together with other amendments:

FRS 100 - the withdrawal of FRS 27 'Life Assurance' as set out in FRS 103, and consequential amendments to FRS 102 included in FRS 104 'Interim Financial Reporting'.

FRS 101 - amendments arising primarily from the 2014/15 IFRS cycle.

FRS 102 - amendments arising in such areas as hedge accounting examples, pension obligations and interim financial reporting.

There are also some minor typographical and other amendments.

Business Model Reporting

The Financial Reporting Lab has launched a new project on Business Model reporting. It is envisaged that this project will assist companies to understand what information the investment community values in business model reporting and a number of areas are being considered including: -

- » Definition of business model
- » Preparation of business model disclosures
- » Investor use of business model reporting
- » Attributes that characterise good business model reporting

This project is the first of a series of projects examining best practice reporting, with other areas to be considered including principal risks and uncertainties and the viability statement.

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 418310

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