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Audit, July 2016

Quarterly Financial Reporting Brief

The second quarter has seen developments in relation to share-based payments, impairment, revenue and sustainability reporting together with further guidance on non-GAAP financial measures. There are new regulations for auditors and audit committees and going concern has also been in focus.

Developments at a global level include:

» Amendments by the International Accounting Standards Board (IASB) to IFRS 2 "Share-based Payment"

» Amendments by the IASB to IFRS 15 "Revenue from Contracts with Customers"

» Developments in relation to accounting for financial instruments

» Guidance on non-GAAP financial measures by the International Organisation of Securities Commissions (IOSCO)

» Drafts of reporting standards on sustainability from the Global Reporting Initiative (GRI)

The Financial Reporting Council (FRC) has published guidance on going concern accounting for directors of companies that are not required to apply the UK Corporate Governance Code. The FRC has also made certain amendments to financial reporting and a new research project on digital reporting has been launched.

New legislation has been brought in to Irish law to give effect to the EU Audit Regulation and Directive.

The Brief comments on financial reporting and legal/ regulatory developments during the second quarter of 2016.

Leading business advisers

International Accounting and Related Developments

Share-based payments

The IASB has published amendments to IFRS 2 "Share-based Payment" that clarify the classification and measurement of share-based payment transactions.

The amendments address several issues raised including:

» The accounting for cash-settled transactions that include a performance condition

» The classification of transactions with net settlement features

» The accounting for modifications of transactions from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after 1 January 2018 and are to be applied prospectively, with earlier application permitted. Retrospective application is allowed if it is possible without the benefit of hindsight.

Financial Instruments

The Accounting Regulatory Committee (ARC) has voted in favour of endorsing IFRS 9 "Financial Instruments" for use in the European Union. Final endorsement is currently expected in the fourth quarter of 2016.

The Global Public Policy Committee of the six largest international accounting networks has issued a report titled "The Implementation of IFRS 9 Impairment Requirements by Banks". The paper aims to promote the implementation of accounting for expected credit losses to a high standard. The paper is structured in two parts to reflect the two key groups within a bank that will be instrumental in ensuring high-quality implementation of IFRS 9:

» Those charged with governance who will oversee implementation; and

» Those finance, risk management, IT and other executives who are charged with implementing the new requirements.

The US FASB has issued an Accounting Standards Update, "Financial Instruments - Credit Losses", which amends the Board's guidance on the impairment of financial instruments.

The FASB's new credit impairment approach differs from that under IFRSs. Although both impairment models are based on expected credit losses, the FASB's impairment model would require entities to recognise current expected credit losses for all assets, not just those for which there has been a significant increase in credit risk since initial recognition.

Revenue

The International Accounting Standards Board (IASB) has published final clarifications to IFRS 15 "Revenue from Contracts with Customers". The amendments to IFRS 15 address three of the five topics identified identifying performance obligations, principal versus agent considerations and licensing and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018 (same effective date as IFRS 15 itself). Earlier application is permitted.

Business Acquisitions

The IASB has published "Definition of a Business and Accounting for Previously Held Interests (proposed amendments to IFRS 3 and IFRS 11)". This arises from difficulties entities have when determining whether they have acquired a business or a group of assets, with the accounting requirements for goodwill, acquisition costs and deferred tax being different for both. The proposed amendments also address issues around whether in transactions involving previously held interests such interests should be remeasured. Comments on the ED are requested by 31 October 2016.

Non-GAAP Financial Measures

The International Organisation of Securities Commissions (IOSCO) has finalised its guidance setting out its expectations for issuers with respect to the presentation of "non-GAAP financial measures". The IOSCO Guidance sets out IOSCO expectations which include that sufficient information should accompany the measures to aid in their understanding and that measures should be presented transparently and with sufficient disclosure to enable an understanding of how they are calculated.

The statement provides specific expectations in the following broad categories:
» Defining the non-GAAP financial measure
» Unbiased purpose
» Prominence of GAAP measures versus non-GAAP financial measures
» Reconciliation to comparable GAAP measures
» Presentation of non-GAAP measure consistently over time
» Recurring items
» Access to associated information

The FRC has developed and published a set of responses to frequently asked questions on the ESMA Guidelines which have recently been published.

Sustainability

The Global Reporting Initiative (GRI) released exposure drafts (EDs) of an initial set of six GRI standards including three that will be applicable to all organisations, as follows:
» The Foundation Standard, including the reporting principles
» The General Disclosures Standard, covering organisational profile, governance, stakeholder engagement, reporting practice, strategy and analysis
» The Management Approach Standard, including the disclosure on management approach

Subsequently the GRI has released ED's of a second set of thirty standards. The second set of exposure drafts comprise thirty topic specific draft standards, each covering a separate topic such as anti-corruption, emissions, biodiversity and child labour.

The Task Force on Climate-Related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB) to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders has published its first report. The report identifies seven principles that are critical for an effective disclosure regime and that will underlie the TCFD's recommendations to be developed in the second phase for enhancing disclosures and providing an enduring framework.

Public Sector

The International Public Sector Accounting Standards Board (IPSASB) has published "The Applicability of IPSASs" and a revised "Preface to International Public Sector Accounting Standards" which, inter alia, provide the characteristics of public sector entities for which IPSASs are designed. IPSASB has also published "improvements to IPSAS 2015" which sets out amendments and improvements to the Standards, many of which arise from the new chapters of the IASB Conceptual Framework and selected IASB annual improvements and narrow scope amendments.

The Federation of European Accountants (FEE) has prepared a short briefing paper highlighting the key benefits of adopting accrual accounting and its contribution to governments' financial decision-making process.

Ireland and UK - New Developments

Going Concern Guidance

Guidance has been issued by the FRC for directors of companies that do not apply the UK Corporate Governance Code, bringing together the requirements of company law and the various standards and guidance as they relate to the going concern basis of accounting.

The Guidance is to assist with the assessment of:
» The going concern basis of accounting, material uncertainties, solvency and liquidity risk
» The periods of assessment, and
» The relevant disclosure requirements.

The Guidance:
» Encourages directors to take a broader view, over the longer term, of the risks and uncertainties that go beyond the specific requirements in accounting standards
» Acknowledges that companies will have risk management and control processes in place that will underpin the assessment
» Uses the term "going concern" only in the context of referring to the going concern basis of accounting for the preparation of financial statements.

The Guidance highlights key focus areas for directors to consider when making their assessments of the appropriateness of the going concern basis of accounting and the solvency and liquidity risks facing the company.

Quality of Reporting

The FRC has published an update to its Discussion Paper (ED) "Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies" which summarises the feedback received on its proposals published in 2015. Respondents:
» Urged the FRC to avoid imposing additional regulatory burdens on smaller quoted companies
» Agreed that IFRS should continue to be used by small and large quoted companies alike
» Welcomed the proposal to issue annual reminder letters highlighting key areas of focus for investors
» Encouraged the development of practical guidance for audit committees, and
» Strongly supported the proposal to explore ways to provide more focused and practical support for preparers through training and CPD regimes.

Amendments to Standards

The FRC has made amendments to accounting standards as follows:
» FRS 102: In relation to the classification of social housing loans, as to whether they are "basic" or "other", and their consequent measurement at either cost or fair value
» FRS 103: Insurance Contracts - the limited amendments are to update it for changes in the regulatory framework following the introduction of Solvency II
» FRS 105: amended to allow LLPs and qualifying partnerships that meet the size and scope criteria to adopt the standard, with retrospective effect for accounting periods beginning on or after

Long Term Investment

The Institute of Chartered Accountants in England and Wales (ICAEW) has published "Long-Term Investment and Accounting Overcoming Short-Term Bias". The report looks at the evidence on whether financial reporting encourages short-termism and asks whether it would be possible for financial reporting to provide better information on long-term performance, with a focus on five main areas:
» Use of fair values
» No information on long-term performance
» Excessive frequency of reporting
» Writing off of spending on long-term assets, and
» No information on long-run effects on the natural world or on society as a whole

The paper concludes that current evidence does not suggest that current financial reporting practices impedes long-term investment, except possibly in relation to the frequency of reporting.

Legal and Regulatory Developments

Audit Regulation Change

A new Statutory Instrument (S.I. 312) has been brought into Irish law to give effect to the EU Audit Regulation and Directive with IAASA being appointed the single competent authority with oversight and, in some areas, operational responsibility for key regulatory functions. Certain tasks will be delegated to the Recognised Accountancy Bodies (RABs).

IAASA will be responsible for adopting the standards on professional ethics, internal quality control of auditing firms and auditing to be applied in Ireland. IAASA will now be directly responsible for the inspection of the audits of Public Interest Entities (PIEs), such as banks, insurance companies and entities listed on EU regulated stock exchanges.

The new measures include changes to the regulatory regimes for auditors, particularly for the audit of PIEs including those in relation to rotation and non-audit services and also introduces changes for audit committees. The new regime provides for the imposition of considerable sanctions by IAASA.

Equivalent changes have been made in the UK with the FRC being the single competent authority. Updates are being made to the UK Corporate Governance Code and the associated Guidance on Audit Committees.

Profile of Profession

IAASA has published its Profile of the Profession which contains statistical data regarding the nine Prescribed Accountancy Bodies (PABs) within IAASA's supervisory remit in Ireland for 2015. The Profile presents an overview of the PAB's memberships, student numbers and profiles, as well as the nature and scale of their regulatory and monitoring activities.

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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