Quarterly Financial Reporting Brief
October 2016

In the third quarter the long-awaited Companies Accounting Bill has been published. The results of surveys by IAASA on defined benefit pension schemes and intangible assets were also published. Financial instruments continued to be in focus at an international level.

The Companies Accounting Bill was published in August. It is based on the EU Accounting Directive 2013 and it is expected it will be legislated for in the coming months. A primary objective is to reduce administrative burdens, particularly on SMEs.

Internationally, financial instruments accounting continued to be in focus particularly with regard to expected credit losses and the interaction between IFRS 9 and the proposed new insurance accounting standard. The nineteenth batch of enforcement decisions was published by the European Securities and Markets Authority (ESMA). ESMA has also issued a public statement on the implementation of IFRS 15, and the results of a study on goodwill.

Amendments to FRS 101 and FRS 102 have been proposed by the Financial Reporting Council (FRC) mainly on foot of changes to IFRS.

Reports have been published by (a) the Institute of Chartered Accounts in Scotland on professional judgement, and (b) the Institute of Chartered Accountants in England and Wales on thinking beyond standards. The EC's Accounting Regulatory Committee (ARC) has published what are termed as 'non-papers' on the meaning of the European public good criteria and the true and fair view.

The Irish Accounting and Auditing Supervisory Authority (IAASA) has published the findings of its studies on defined benefit pension schemes and intangible assets, based on their review of the financial statements of all the companies listed on the Irish Stock Exchange.

New Market Abuse Regulations have become effective with stringent conditions relating to insider information.

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

Ireland and UK – New Developments

Companies Accounting Bill

The long-awaited Companies Accounting Bill has been published which when enacted and brought into legislation will transpose the EU Accounting Directive 2013. Some of the more significant features of the Bill are in relation to:-

- The reduction of administrative burdens with regard to preparation of financial statements for enterprises, in particular SMEs.
- The Bill sets new size criteria for companies to qualify as "small", "medium" or "large" and introduces a new "micro" category of company.
- More companies will be required to prepare group financial statements as the exemption on grounds of size will only apply to small and micro companies, who may still elect to prepare group financial statements if they wish.
- The proposed legislation will require a much broader scope of corporate structures to file financial statements than is the case at present.
- It proposes the introduction of mandatory requirements for large companies, large groups and 'public interest entities' that are active in the mining and extractive industries or the logging of primary forests to prepare and file annual reports on payments made to governments.

It is not clear when the Bill will be enacted although it is considered likely that this will be in late 2016 or early 2017.

More information on salient features is available here.

Standards – Proposals and Amendments

Developments have taken place as follows:

- FRS 101 – limited amendments to predominantly provide exemptions from many of the disclosure requirements of IFRS 15 'Revenue from Contracts with Customers', and, in a new FRED 65, the FRC proposes that the requirement to notify shareholders before applying the disclosure exemptions in FRS 101 be no longer required.
- FRS 102 – the triennial review is under way with a consultation document issued proposing limited amendments to be effective from 1 January 2019 to align with recent minor changes in IFRS in such areas as the control model, the fair value hierarchy and the separation of contracts for revenue recognition purposes. In addition, more significant amendments are proposed for implementation in 2022 with regard to the expected loss model and lease accounting.

IAASA - Desk Top Surveys

IAASA has published the results of two desk-top surveys in the following areas:-

- Defined benefit pension scheme (DB Scheme) assumptions
- Recognition of intangible assets and scale of acquisition activity

The surveys cover the 2015/16 financial statements of the twenty eight entities listed on the Irish stock exchange.

Directors and audit committees are reminded that:-

- 'Variations in actuarial assumptions can have a material impact on issuers' DB obligations and, warrant continued close assessment
- Careful consideration needs to be given to the key judgements applied in the recognition and measurement of the fair value of intangible assets, together with related disclosures.

Corporate Culture

The FRC has published the results of a study - 'Corporate Culture and the Role of Boards'- exploring the relationship between corporate culture and long-term business success. Key findings of the study relate to:-

- Recognising the value of culture
- Demonstrating leadership
- Being open and accountable
- Assessing, measuring and engaging
- Aligning values and incentives
- Exercising stewardship

The FRC will reflect on the information gathered and any feedback to inform the guidance on board effectiveness.

Professional Judgment Framework

The Institute of Chartered Accountants in Scotland has recently published a new edition of 'A professional judgement framework for financial reporting decision making'. It offers practical guidance for decision makers involved in narrative and financial reporting. The framework identifies core principles and provides a structured process to guide decision makers through how to make, assess and document significant judgements. It targets significant judgements in areas including accounting treatment, materiality and disclosures. It is designed to fit within the context provided by applicable accounting standards. The guide replaces the 2012 edition of the framework, it includes a new framework for audit committee members and further guidance on ethical decision making.

Thinking Beyond Standards

The Financial Reporting Faculty of the Institute of Chartered Accountants in England and Wales has published a paper on 'Incentives and Institutions in Accounting: - Thinking Beyond Standards'. The overall intention of the report is to improve understanding of how accounting works, emphasising that it is not simply the mechanical application of a recipe book written by standard setters, but to a significant degree the product of the surrounding institutions and incentives that affect individual companies and their management. The study finds that as the incentives and institutions that influence accounting outcomes vary among firms and among jurisdictions the goal of international financial reporting should be increased comparability rather than complete comparability. Improving the quality of financial reporting would therefore not only require thinking about the technical requirements that govern it, but also the incentives of those who prepare accounts and the surrounding institutions including auditing, corporate governance, enforcement, the legal system and the educational system.

International Accounting and Related Developments

Financial Instruments and Insurance

The IASB has published 'Applying IFRS 9 Financial Instruments' with IFRS 4 'Insurance Contracts' to address concerns about the different effective dates of IFRS 9 and the new insurance contracts standard, which is expected in the first half of 2017 as IFRS 17. The IASB has acknowledged concerns expressed about the different effective dates of IFRS 9 and IFRS 17. It is providing two options for entities that issue insurance contracts within the scope of IFRS 4 – the 'overlay' approach and the 'deferral' approach which would provide an optional temporary exemption for entities predominantly issuing insurance contracts from applying IFRS 9. The effective date and disclosures for the two options differ and are set out in the proposed amendments.

Expected Credit Losses

The European Banking Authority (EBA) has launched a consultation on draft guidelines on accounting for expected credit losses and credit institutions risk management practices. The EBA expects the expected loss model under IFRS 9 to address some prudential concerns and contribute to financial stability. The guidelines have the objective of assisting with the consistent application of IFRS 9 across credit institutions and the comparability of credit institutions' financial statements.

Enforcement Decisions

The European Securities and Markets Authority (ESMA) has published its nineteenth extract from its confidential database of enforcement decisions taken by European national enforcers. This batch deals with decisions in relation to thirteen standards and three interpretations, examples of which are:-

IFRS 11: Joint Arrangements – classification of a separate vehicle as a joint operation based on 'other facts and circumstances'

IAS 21: 'Foreign Currency' - selection of the appropriate exchange rate when multiple exchange rates are available.

IFRS 13: Fair Value Measurement – identification of unobservable inputs

IFRS 15 Considerations

ESMA has issued a public statement on the implementation of IFRS 15 in order to highlight the need for consistent and high-quality implementation of IFRS 15 and the need for transparency on its impact to users of financial statements. ESMA urges issuers to carefully assess their circumstances when implementing IFRS 15, particularly in complex areas such as long-term contracts and multiple – element arrangements. ESMA expects that information should become more clear on an entity-specific basis, both qualitative and quantitative, and that the impact of initial application of IFRS 15 will be known or reasonably estimable. ESMA comments on a number of other considerations regarding IFRS 15.

Goodwill and Goodwill Impairment

In connection with the post-implementation review of IFRS 3, EFRAG conducted a study to find out when goodwill was recognised and whether there was a bubble of goodwill building up. The study found that from 2005 to 2014 the total amount of goodwill recognised increased from €935 million to €1,341 million, an increase of 43%, with a small number of companies accounting for a large share. The ratio of goodwill to total assets has remained fairly stable at approximately 3.7% with the ratio to net assets decreasing but still significant in 2014 at 29%. Absolute and relative levels of goodwill and impairment losses vary significantly across industries, with the most significant concentration in the telecommunications and financial services industries. Impairment losses represented 2.7% of the opening balance of goodwill.

Integrated Reporting Developments

The International Integrated Reporting Council (IIRC) together with the International Association for Accounting Education and Research (IAAER) and the Association of Chartered Certified Accountants (ACCA) have published two jointly commissioned research reports on integrated reporting. The two reports are:-

- Meeting users' information needs – the use and usefulness of integrated reporting: explores how providers of financial capital perceive integrated reporting and its potential for providing decision-useful information through interviews with senior capital market participants and other significant report users.
- Factors affecting preparers' and auditors' judgements about materiality and conciseness in integrated reporting: explores the issues of materiality and conciseness in integrated reporting from the perspectives of corporate report preparers, company auditors and users of reports.

The Role of Data and Technology

The CFA Institute, a global association of investment professionals, has published 'Data and Technology: Transforming the Financial Information Landscape'. The study examines the current financial reporting process, assesses the inefficiencies in the system and determines the way that data, data analytics, and technology could potentially improve or even transform that process. The study concludes that the use of data and technology can result in a more effective and efficient overall financial reporting process in which users at every level receive more transparent, better quality information on a timely basis.

IPSASB Developments

The International Public Sector Accounting Standards Board (IPSASB) has published IPSAS 39 'Employee Benefits', to replace IPSAS 25, and 'Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26). IPSAS 25 is based on IAS19 'Employee Benefits' and amendments include removal of the 'corridor approach' and introduction of a net interest approach to defined benefit plans. The amendments to impairment bring property, plant, equipment and intangible assets within the scope of the standards.

IPSASB has released a consultation paper seeking feedback on some preliminary views on accounting for three public sector financial instruments which are not addressed by either IFRS or IPSAS, as follows:-

- Special drawing rights
- Currency in circulation
- Monetary gold

The current position may lead to inconsistent reporting between entities and users may not have the information needed for accountability and decision-making purposes.

European Public Good

The European Commission 's Accounting Regulatory Committee (ARC) has had two 'non-papers' presented that address the meaning of the European public good criterion and the true and fair view, and their relevance to the endorsement process. It is generally concluded that it is reasonable to assume that the true and fair principle is the overarching principle, including that in exceptional circumstances other general principles must be departed from in order to give a true and fair view.

Legal and Regulatory Developments

Market Abuse Regulations

The Market Abuse Regulations (MAR) have become effective across all EU member states to issuers of financial instruments (e.g. equities or bonds) on regulated markets. Issuers must disclose insider information and distribute it throughout Europe, which must then also be available to view on the issuer's website for five years. In addition, the information must be sent to the national financial authority (e.g. the Financial Conduct Authority in the UK and the Central Bank in Ireland). Issuers and everyone activing on their behalf (e.g. law firms) are obligated to draw up insider lists. The lists must include every person who has temporary or permanent access to insider information. There has also been a significant tightening of sanctions and penalties for market manipulation or attempts at same.

Contact Us

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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