

Quarterly Financial Reporting Brief

The publication of the new Leasing standard is the financial reporting highlight of the first quarter of 2016. Non-financial reporting has been the focus of increased attention and the annual corporate reporting process was also subject to comment.

The International Accounting Standards Board (IASB) has published IFRS 16 Leases, introducing a common accounting approach for lessees for the majority of leases. The IASB has also published amendments to the cash flow standard, IAS 7, and to the income taxes standard, IAS12.

Non-financial reporting has been the subject of a consultation request from the European Union for views on guidance following the EU Directive with comment from a number of sources.

The momentum of both integrated reporting and sustainability reporting continues with a range of publications providing additional oversight and guidance.

The Financial Reporting Council (FRC) has written to both audit committee chairmen and shareholders to provide guidance and suggestions on how to maximise the process of communication with stakeholders during the reporting season.

The FRC has published reports in relation to both corporate governance and extended auditors' reports. It has also published some amendments to FRS 102.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published some financial reporting decisions and a summary of its 2015 enforcement activity.

The European Securities and Markets Authority (ESMA) has published its 2015 activity report.

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



INTERNATIONAL ACCOUNTING AND RELATED DEVELOPMENTS

New Leasing Standard

The IASB has published IFRS 16 'Leases' which is effective for periods beginning on or after 1 January 2019 with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The new standard brings most leases on lessees' balance sheets under a single model, eliminating the distinction between finance and operating leases. Lessor accounting has remained substantially unchanged but with some additional disclosures.

Read more [here](#).

Amendments to Cash Flow Statement

The IASB has published amendments to IAS 7 'Statement of Cash Flows' to provide clarity of information to users about an entity's financing activities, with the following to be disclosed as appropriate – (a) changes from financing cash flows, (b) changes arising from obtaining or losing control of subsidiaries, or similar, (c) the effect of changes in foreign exchange rates, (d) changes in fair values, and other changes. The amendments are effective for annual periods beginning on or after 1 January 2017.

Income Taxes - Amendments

The IASB has published amendments to IAS 12 'Income Taxes'. The IASB had previously concluded that the diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principles in IAS 12. The amendments consist of some clarifying paragraphs and an illustrative example. The amendments are effective for annual periods beginning on or after 1 January 2017.

Financial Instruments

The European Financial Reporting Advisory Group (EFRAG) has indicated that Endorsement of IFRS 9 'Financial Instruments' may now be expected in the second half of 2016. FEE has prepared a short briefing paper with responses to some of the questions raised by members of the EC.

The European Banking Authority is launching an impact assessment of IFRS 9 on a sample of approximately 50 institutions across the European Union, with a focus on its impact on regulatory own funds and other prudential requirements.

Reporting Developments

The EC has launched a public consultation to collect views from stakeholders on non-binding guidance with regard to the methodology for reporting of non-financial information by large public interest entities (PIEs), those with more than 500 employees, across all sectors. The Directive on disclosure of non-financial and diversity information by large companies is due to be transposed by member states into national law by 6 December 2016. The requirements will be applicable to annual reporting for years beginning on or after 1 January 2017.

Entities within scope will be required to include in their narrative reporting a non-financial statement containing information relating to, as a minimum: -

- » Environmental matters
- » Social and employee matters
- » Respect for human rights
- » Anti-corruption and bribery matters

The Federation of European Accountant (FEE) has issued a position paper highlighting the requirements of the Directive, discussing the key issues around implementing the requirements and providing some 'real-world' examples of how the requirements can be met.

With regard to financial reporting, EFRAG together with the Institute of Chartered Accountants in Scotland has issued a research report 'professional investors and the decision usefulness of financial reporting' which examines a wide range of aspects of financial reporting.

Integrated Reporting and Sustainability

The International Integrated Reporting Council (IIRC) has made available a number of new publications on integrated reporting: -

- » Creating Value: Integrated Reporting and Investor Benefits – Highlights the value of integrated reporting for investors
- » Materiality in Integrated Reporting – Explains materiality and materiality-related disclosures in the context of integrated reporting
- » Reporting on Outcomes: An Information Paper – Aims to assist preparers in improving their understanding of what the term 'outcomes' means and how to communicate them
- » Applying the integrated reporting concepts of 'outcomes' and relationship capital in the banking industry
- » The economic consequences associated with integrated report quality.

The Global Reporting Initiative (GRI) has released 'The Next Era of Corporate Disclosure: Digital, Responsible, Interactive', a digital publication that maps out the future of sustainability reporting and disclosure. The GRI believe that the future will involve new formats with organisations moving from annual reports to sustainability data exchange, while focusing on major challenges such as climate change and human rights.

Public Accounting Standards

The International Public Standards Accounting Standards Board (IPSASB) has released for comment an ED of IPSAS 61 'Amendments to Financial Reporting under the Cash Basis of Accounting' with its primary objective being to work as a stepping stone to the adoption of the accrual basis of accounting. IPSASB has also released for comment an ED on public sector combinations, with classification as either amalgamations or acquisitions, taking into account whether one entity has control of the other.



IRELAND AND UK - NEW DEVELOPMENTS

FRC Shareholders Letter

Ahead of the 2016 shareholder meeting session regarding the annual reports of listed companies, the FRC highlighted some recent changes in reporting and encouraged investors to engage with companies on what information they believe is relevant and to challenge where reporting appears to fall short of expectations.

Examples included in the FRC briefing letter are: -

- » Seek explanation if certain key risks are not included e.g. cyber-risk, climate-change related risks
- » Seek greater clarity on dividend policy and disclosures
- » Enquire where there is a lack of consistency between the extended audit report and the remainder of the annual report
- » Challenge companies where it is not apparent that adequate explanation is provided where there is non-compliance with corporate governance requirements

Guidance on Volatility and Uncertainty

The FRC has written to the Chairpersons of Audit Committees to provide some pointers for the 2016 corporate reporting season. This is now in train against a backdrop of increased uncertainty and volatility, for example, asset prices have been volatile, oil prices have moved further, in certain jurisdictions interest rates have fallen.

The FRC has been asked how such matters should be dealt with in the annual report and accounts, highlighting the importance of disclosure in the following areas: -

- » The strategic report (or similar narrative reporting in Ireland) provides an opportunity to show the most current view of prospects
- » Disclosure of directors' judgements as to principal risks and uncertainties, with perhaps more disclosure on sensitivities
- » Disclosure of material post balance sheet events, including the nature and estimated financial effect
- » Potential impact of any such events on the going concern basis of accounting

New Accounting Standards

In 2015 the EU Accounting Directive was transposed into UK law, following which the FRC issued amendments to FRS 102, particularly the inclusion of Section 1A, and FRS 105 'The Financial Reporting Standard Applicable to the Micro Entities Regime', with both effective for accounting periods beginning on or after 1 January 2016. The equivalent legislation has not yet been enacted in Ireland and neither Section 1A nor FRS 105 can be adopted by Irish companies until then.

The FRC is inviting comments from stakeholders on their experiences implementing the new accounting standards, particularly FRS 102. This may include views on the benefits of the new standards, as well as suggestions for improvements or areas where implementation was challenging. Comments received by 31 October 2016 will be taken into account. Implementation of the findings of the triennial review has been deferred to 2019 or later.

FRS102 – Fair Value

The FRC has issued 'Amendments to FRS 102 – Fair Value Hierarchy Disclosures', which simplify the preparation of disclosures about financial instruments for financial institutions and retirement benefit plans which are effective for accounting periods beginning on or after 1 January 2017 with early application permitted.

Quality of Corporate Governance

The overall quality of corporate governance remains high according to the FRC report 'Developments in Corporate Governance and Stewardship'. The report indicates improvement in the quality of explanations by companies, demonstrating a more thoughtful approach. There has been a slight fall in strict compliance as companies await clarity in certain areas with the implementation in law of the EU Audit Regulation. With regard to engagement and dialogue between companies and investors, there are signs of improvement but there are inconsistencies.

Improvements in Auditors Reports

An FRC survey of extended auditors' reports shows that investors welcome the information included in extended auditors' reports, and particularly for smaller listed companies where there tends to be less independent information available. Reports which have earned greatest praise from investors tend to be well structured, signposting key information and often making innovative use of graphics, diagrams and colour.

Non-Financial Disclosures

The legislation to bring into Irish law the EC Directive on non-financial disclosure has yet to be enacted. Developments in the UK give some indication of the likely impact of the Directives requirements in 2017.

The Department of Business, Innovation and Skills (BIS) has published a consultation request for comment on the UK implementation of the EU Directive on disclosure of non-financial and diversity information. The Directive introduces European wide disclosure requirements for environmental, social, employee, human rights, anti-corruption and bribery matters, and Board diversity. Many of these requirements are aligned with existing UK requirements for the Strategic Report, but BIS identify a number of differences, for example: -

- » how the ESG factors influence an undertaking's development,
- » performance and financial position
- » closer linking of the principal risks disclosed to the company's operations
- » diversity policy - age, gender, educational/professional backgrounds, together with its objectives and how it has been implemented.

BIS is seeking input from its consultation on (a) scope, (b) member state options, (c) possible repeal of existing narrative reporting requirements, and (d) costs and benefits.



LEGAL AND REGULATORY DEVELOPMENTS

IAASA

During the first quarter of 2016, IAASA has:

- »published another batch of selected financial reporting decisions covering both instances where IAASA concurred and did not concur with financial reporting treatment adopted by issuers
- »published summary information of its financial reporting enforcement activities undertaken during 2015
- »introduced regulations setting professional indemnity cover requirements for liquidators.

ESMA – Enforcement Activities

The European Securities and Markets Authority (ESMA) has published its 2015 report on the activities of ESMA and the accounting enforcers in the EEA when examining compliance of financial information provided by issuers listed on regulated markets. Overall, enforcement actions have been taken against one quarter of the issuers included in the sample of 189.

Credit Unions

The Credit Union Act 1997 (Regulatory Requirements) Regulations came into force for Credit Unions on 1 January 2016. The Regulations cover a number of areas including reserves, liquidity, lending, investments, savings and borrowings building on existing governance and prudential requirements in these areas.



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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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