Deloitte.

Quarterly Financial Reporting Brief

January 2017

The final quarter of 2016 saw the endorsement by the EU of International Standards on financial instruments and revenue, together with a number of other developments regarding International Standards. The accounting regulators were active with various reports and corporate governance was also a focus of attention.

The European Union (EU) has endorsed both IFRS 9 'Financial Instruments' and IFRS 15 'Revenue' for use in Europe.

The International Accounting Standards Board (IASB) has decided that the effective date of IFRS 17 – Insurance Contracts will be for annual periods beginning on or after 1 January 2021. The IASB has also made changes in relation to both foreign currency and investment property and published Annual Improvements 2014 – 2016.

The quarter was a period during which the Accounting Regulators, the European Securities and Markets Authority (ESMA), The Financial Reporting Council (FRC) and the Irish Auditing and Accounting Supervisory Authority (IAASA) expressed their views on corporate reporting and the scope for enhancement with both annual reports and other documents being published. Various studies were reported on by them during the period in such areas as tax disclosures and alternative performance measures (FRC) and fair value measurement and share-based payment (IAASA). The FRC has also published reports on business model reporting and dividend disclosures, together with a discussion paper on the statement of cash flows.

Under the Global Reporting Initiative (GRI), the GRI Standards have been released.

Corporate governance has been the subject of a Green Paper in the UK and there have also been reports on ethnic and gender diversity.

New regulations have introduced requirements for Irish companies on the holding and recording of adequate, accurate and current information on beneficial ownership.

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

Ireland and UK – New Developments

IFRS 9 – Financial Instruments

The EU has published a Commission Regulation endorsing the adoption of IFRS 9 with an effective date of annual periods beginning on or after 1 January 2018, with earlier application permitted.

The European Securities and Markets Authority (ESMA) has published a public statement aimed at promoting the consistent application of IFRS 9, including transparency of implementation and effects of IFRS 9 with good practices for disclosures, particularly aimed at financial institutions.

The European Banking Authority (EBA) has published a report based on the results of its impact assessment of IFRS 9, looking at a sample of approximately 50 institutions across the EU. Concerns expressed include (a) the potential scale of impairment requirements and the relativity with regulatory capital, (b) the potential lagging behind of particularly smaller banks with regard to their preparedness for implementation, and (c) the limited involvement of key stakeholders in some cases.

IFRS 15 – Revenue

The EU has published a Commission Regulation endorsing IFRS 15 'Revenue from Contracts with Customers', specifying how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The EU effective date is for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 17 – Insurance Contracts

The IASB has decided that the effective date will be for annual reporting periods beginning on or after 1 January 2021. The standard can be applied early but an entity cannot do so unless and until it has applied both IFRS 9 and IFRS 15.

IAS 40 – Transfers of Investment Property

The IASB has amended IAS 40 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use, and the property ceases to meet the definition of an investment property. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted.

Annual Improvements

The IASB has issued 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which contains amendments to three IFRSs, being (1) IFRS 1 - deleted certain short-term exemptions no longer required, (2) IFRS 12 – further clarified the scope of the standard, (3) IAS 28 – clarification on fair value measurement of investments in associates or joint ventures. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018 with IFRS 12 effective for 2017.

New Interpretation on Foreign Currency

The IASB has published IFRIC 22 'Foreign Currency Transactions and Advance Consideration' to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The consensus reached includes that if there are multiple payments or receipts in advance, a date of transaction is established for each. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. It makes provision for either retrospective application or to apply it prospectively.

Sustainability Standards

Under the Global Reporting Initiative (GRI), the GRI Standards have been released which were developed by the Global Sustainability Standards Board (GSSB). The GRI Standards are a set of 36 modular standards that facilitate corporate reporting on topics such as greenhouse gas emissions, energy and water usage, and labour practices.

IFAC has published a report 'The 2030 Agenda for Sustainable Development: A snapshot of the Accounting Profession's Contribution' that highlights the importance of the goals to business and the profession and considers how accounting contributes to a number of specific goals.

Enforcement Priorities

ESMA has announced the priority issues that the assessment of listed companies' 2016 financial statements will focus on, with the following key topics considered especially relevant:

- Presentation of financial performance
- Financial instruments: distinction between equity instruments and financial liabilities
- Disclosures of the impact of the new standards on the financial statements.

New Accounting Standards

With new standards on revenue, financial instruments and leases moving forward towards implementation, the International Organisation of Security Commissions (IOSCO) has published a statement asking companies to disclose the likely effects, on a full, accurate and timely basis.

International Accounting and Related Developments

Quality of Corporate Reporting

The FRC has published its Annual Review of Corporate Reporting 2015/16. The report opens by setting out what the FRC consider to be the nine characteristics of good corporate reporting. It then summarises the overall findings of its review of the quality of financial reporting, with the conclusion being that the standard of reporting is generally good but that companies have room for improvement in some areas. The FRC considers it fundamental that there is acknowledgement of when things have gone not so well and the potential erosion of investor trust caused by inappropriate use of APMs. The FRC notes significant findings in relation to a number of aspects of financial statements including - accounting policies, judgements and estimates, tax reporting and dividend disclosures.

The FRC has subsequently sent a letter to Audit Committee Chairs and Finance Directors setting out the FRC's perspective on aspects of annual reports that companies should aim to improve in the coming 2016 reporting season, highlighting a wide range of areas for both the strategic report and the financial statements.

Thematic Review of Tax Disclosures

The FRC has published the results of its thematic review of tax disclosures. Key messages include that the better reports show strengths including:

- The strategic report provides more detail on material tax matters likely to be important to investors including major tax issues, uncertainties, tax risks facing the companies' reassessment of prior year estimates and tax impacts of acquisitions; and
- Companies articulate better how they account for tax uncertainties by explaining the basics for recognition and measurement, with reports commenting on variances in the effective tax rate on the prior year, key factors influencing the effective tax rate and the expected future rate.

Thematic Review of APMs

The FRC has published the results of its thematic review into companies' use of Alternative Performance Measures (APMs) in their narrative reporting. The FRC expects that 2016 financial statements will include:

- Adequate explanations for the use of APMs and any changes made in the use of APMs
- Adequate explanations of why items have been excluded from adjusted measures of profit
- Discussion of the IFRS results themselves and the adjustments made to those results to arrive at the adjusted profit.

Business Model Reporting

The FRC's Financial Reporting Lab has published a report on business model reporting which provides valuable insight for companies on the type of information that they should be including in their business model disclosures, and also incorporates best practice examples. The report highlights how investors need more detail on the business model than what is currently provided by the majority of companies, and that a lack of good business model disclosure can raise concerns over the quality of company management.

Statement of Cash Flows

The FRC has published a discussion paper (DP) on improving the statement of cash flows, and its five sections focus on the following:

- The usefulness of information about cash flows
- The classification of cash flows
- Cash equivalents and the management of liquid resources
- Reconciliation of operating activities
- Direct or indirect method.

The DP includes 11 specific questions relating to these sections and invites any other comments on issues relating to possible improvements.

Disclosure of Dividends

The Financial Reporting Lab has published a report 'Disclosure of dividends – policy and practice' as to how companies have responded to investor calls for improved disclosure, and includes examples of good practice and areas for further improvement. Findings in the report include:

- Good dividend policy disclosures should provide an understanding of the board's considerations in setting the policy, the rationale for the approach selected and sufficient detail to understand how the policy will operate;
- Good dividend practice disclosures should provide the key judgements and constraints considered, the availability of dividend resources (cash and distributable profits) to pay dividends and clear linkage from the disclosed policy to the application of the policy in the period.

IAASA – Observations Document

The annual document highlights key topics to be considered which include:

- Uncertainties facing entities brought on by low or negative interest rates, low commodity prices, volatility in exchange rates, Brexit and sluggish EU economic growth offset by an improving domestic economy
- The measurement of fair values and determining discount rates
- Reporting financial performance, including the use of APMs and the quality of disclosures.

IAASA has also published the results of two desk top surveys being:

- IFRS 13: Fair Value Measurement – with the key messages being:
    - o to provide more entry- specific disclosure with improved clarity on fair value judgements and assumptions
    - o to provide more disclosure as to how material liabilities are fair valued
    - o to provide fair value disclosures by class of assets and liabilities.
- Equity-settled share-based payment disclosures – which provides some analysis of the nature of the share-based payment schemes surveyed and expresses the need for Boards and Audit Committees of issuers to continue to carefully assess and consider the disclosure requirements of IFRS 2 and ensure that all relevant information is disclosed in the financial statements.

Legal and Regulatory Developments

Corporate Governance

The UK Department for Business, Energy and Industrial Strategy (BEIS) has issued a Green Paper seeking views on how to improve the UK corporate governance framework and, secondly, reforming executive remuneration. The Green Paper asks for views on (a) executive pay, (b) strengthening the employer and customer voice, and (c) corporate governance in large private businesses. Other developments in the UK include:

- An independent review (Hampton-Alexander Review) calls for FTSE 100 companies to have at least 33% of their executive pipeline positions filled by females by the end of 2020
- A separate report considers the entire diversity of UK Boards and the report calls for changes in boardroom composition and highlights clear business reasons for increasing ethnic diversity on UK boards.

At a European level, the CFA Institute has published 'Corporate Governance Policy in The European Union: Through an Investor's Lens' calling for more to be done in Europe to simplify mechanisms to enhance corporate accountability and realise maximum value from reforms that have already been undertaken in such areas as promoting board diversity, environmental reporting or good corporate citizenship.

Beneficial Ownership

The Department of Finance has introduced regulations, in accordance with the Anti-Money Laundering Directive, on creating a central register on beneficial ownership which applies to all Irish incorporated entities and requires them to hold adequate, accurate and current information on their beneficial ownership.

Minimum Competency Code

The Central Bank has published a Consultation Paper- 'Review of Competency Code 2011'. The proposals build on the current platform and include a range of key new enhancements in such areas as qualifications and experience and specific requirements in relation to design of new financial products and particular classes of financial services entity. The closing date for views to be expressed is 15 February.

European Single Electronic Format

The European Transparency Directive requires that issuers listed on regulated markets in the EU must prepare their annual reports in a European Single Electronic Format (ESEF) from 1 January 2020. Feedback from ESMA concludes that 'Inline XBRL' is the most suitable technology for issuers to report such electronic format.

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.

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 2533
E: jmccarroll@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

Galway
Deloitte & Touche
Galway Financial Services Centre
Moneenageisha Road
Galway
T: +353 91 706000
F: +353 91 706099

Belfast
Deloitte
19 Bedford Street Belfast,
BT2 7EJ
Northern Ireland
T: +44 (0)28 9032 2861
F: +44 (0)28 9023 4786

www.deloitte.com/ie

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

At Deloitte, we make an impact that matters for our clients, our people, our profession, and in the wider society by delivering the solutions and insights they need to address their most complex business challenges. As one of the largest global professional services and consulting networks, with over 220,000 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has over 2,000 people providing audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. Our people have the leadership capabilities, experience, and insight to collaborate with clients so they can move forward with confidence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.