Deloitte.

Quarterly Financial Reporting Brief

July 2017

The second quarter of 2017 was very active on a number of fronts including the new International insurance accounting standard and developments also on a number of other international standards; nearer home, IAASA has issued further direction on financial reporting while guidance has issued on distributable profits and there is some additional scope granted in FRS 102 on directors' loans; new legislation has issued on accounting and there has also been guidance issued on company law requirements for audit committees.

The International Accounting Standards Board (IASB) has published IFRS 17 'Insurance Contracts', to be implemented in 2021 with early adoption possible. It has also published Exposure Drafts (EDs) on IFRS 9 'Financial Instruments' and IAS 16 'Property, Plant and Equipment', a Request for Information (RFI) on a post-implementation review of IFRS 13 'Fair Value Measurement', and an Interpretation IFRS 23 'Uncertainty Over Income Tax Treatment'. It has also been giving the Conceptual Framework some further consideration.

At an International or European level, a number of other developments and publications have taken place during the quarter, including annual reports by both the European Securities and Markets Authority (ESMA) and the European Financial Reporting Advisory Group (EFRAG). The Financial Stability Board (FSB) is consulting on post-implementation of G20 financial regulatory reforms and has also published a thematic peer review of corporate governance in financial institutions worldwide.

The Basle Committee on Banking Supervision (BCBS) has published papers on both problem assets and lease accounting. The European Banking Authority (EBA) has finalised its guidelines on credit institutions' credit risk management practices, while the European Central Bank (ECB) has made a statement on IFRS 9 transition. The European Commission (EC) has adopted guidelines on the disclosure of non-financial information.

The Irish Accounting and Auditing Supervisory Authority (IAASA) has published some further guidance and comments based on its financial reporting reviews during the current year. Guidance has also been issued jointly by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Institute of Chartered Accountants in Scotland (ICAS) on distributable profits.

The Financial Reporting Council (FRC) has made amendments to FRS 102 on directors' loans, while the FRC Lab has published a framework on digital reporting.

The Companies (Accounting) Act 2017 has been published with changes to law in a number of areas. Guidance has been published for audit committees on Irish company law requirements.

This Brief comments on financial reporting and legal/regulatory developments during the second quarter of 2017.

International Accounting and Related Developments

Insurance Contracts

The IASB has published a new standard, IFRS 17 'Insurance Contracts'. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. IFRS 17 supersedes IFRS 4 and aims to achieve the goal of consistent, principle-based accounting for insurance contracts. The US FASB abandoned its convergence work with the IASB in 2014 and decided to focus its efforts on making targeted amendments to the existing insurance accounting model. IFRS 17 is effective for periods beginning on or after 1 January 2021, with earlier adoption permitted if both IFRS 15 and IFRS 9 have also been applied.

IFRS 9 – Developments

The IASB has published an exposure draft (ED) 'prepayment features with negative compensation (proposed amendments to IFRS 9)'. The ED proposes to address concerns about how IFRS 9 classifies particular pre-payable financial assets. The matter being particularly addressed is where the lender could be forced to accept a prepayment amount that is substantially less than unpaid amounts of principal and interest because this would constitute a payment to the borrower by the lender and not a compensation from the borrower to the lender. The Interpretations committee was convinced that using amortised cost measurement could provide useful information. It is proposed that the effective date of the amendments will be 1 January 2018 consistent with the main standard.

The EBA has finalised its guidelines on credit institutions' credit risk management practices and accounting for expected credit losses with the objective of the guidelines to be in line with the BCBS guidance. It is not intended to prevent credit institutions from meeting the impairment requirements of IFRS 9.

The ECB has written a letter to the European Parliament regarding the impact of IFRS 9 on capital ratios. The ECB comments on transitional arrangements in credit institutions.

IASB 16 – Proceeds Before Intended Use

The IASB has published an ED 'Property, Plant and Equipment — Proceeds before Intended Use (Proposed amendments to IAS 16)' on proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Comments are requested by 19 October 2017.

IFRS 13 – Post –Implementation Review

The IASB has issued a request for information (RFI) seeking comments from stakeholders to identify whether IFRS 13 'fair value measurement' provides information that is useful to users of financial statements. Work to date has identified at least four areas where improvements may be made: -

- Disclosures about fair value measurements
- Prioritising level 1 inputs
- Application of the concept of highest and best use
- Application of judgment in specific areas

IFRIC 23 - Uncertainties in Income Taxes

The IASB has published IFRIC 23 'Uncertainty over Income Tax Treatment'. It addresses recognition and measurement requirements of IFRS 12 'Income Taxes' in the area. Considerations include (1) whether tax treatments should be considered collectively, (2) assumptions for taxation authorities examinations, (3) determination of taxable profit (tax loss), tax losses, unused tax losses, unused tax credits and tax rates, (4) effect of changes in circumstances. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019 with certain transition reliefs available.

Conceptual Framework – Tentative Decisions

The IASB has made available a summary of tentative decisions on the Conceptual Framework for Financial Reporting. This followed completion of deliberations of the ED in March 2017.

Disclosure of non-Financial Information

The European Commission has adopted non-binding guidelines on disclosure of non-financial and diversity information by large companies and groups addressing environmental, social and governance (ESG) matters based on the EU Directive on such disclosures which entered into force in 2014.

ESMA – Accounting Enforcement

ESMA has published a report which provides an overview of the activities of ESMA and the accounting enforcers in the EEA during 2016. European enforcers examined the interim and/or annual financial statements of more than 1,200 issuers, an average examination rate of 21%. The main issues identified continued to be in the areas of financial statements presentation, impairment of non-financial assets and accounting for financial instruments.

EFRAG – 2016 Report

EFRAG has published its 2016 annual report. This publication includes reports from senior EFRAG officers and also features contributions on providing thought leadership, improving financial reporting standards, delivering endorsement advice, as well as governance and transparency.

BCBS Guidance

BCBS has published final guidance on the prudential treatment of problem assets in the form of definitions of non-performing exposures and forbearance, in order to foster consistency in supervisory reporting to promote harmonisation of measurement processes.

It has also released frequently asked questions on IFRS 16 'Leases'.

Standard-Setting in 21st Century

Accounting Europe (formerly FEE) has published a paper that takes a look at how standard-setting for financial reporting and auditing is organised now, and what could be improved to keep this process relevant for the needs of the 21st century. The paper argues that technology and globalisation of business and the accountancy profession have changed what stakeholders expect of standard-setting, especially around the complexity and the speed of standard-setting.

G20 Financial Regulatory Reforms

The FSB has published for consultation the elements of a proposed framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms. The FSB has co-ordinated the development of the reforms and reported annually. The proposed new framework is intended to guide analysis of whether the core financial returns are achieving their intended outcomes and to help to identify any material unintended consequences that may have to be addressed.

FSB – Developments

The FSB has published a thematic peer review regarding corporate governance in financial institutions worldwide. This is the output of a programme of peer reviews started in 2010 which looked at the way FSB member jurisdictions have implemented the G20/Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance for publicly listed, regulated financial institutions. These Principles cover areas including governance frameworks, disclosure and transparency, and responsibilities of the board.

The Task Force on climate – related financial disclosures set up by the FSB to develop voluntary, consistent climate-related financial risk disclosures has published its final recommendations for effective disclosure of such risks.

IPSASB - Developments

The International Public Sector Accounting Standards Board (IPSASB) released for comment 'Financial Reporting for Heritage Items in the Public Sector'. It proposes that:

- Heritage items' special characteristics do not prevent them from being assets for the purposes of financial reporting;
- Heritage items should be recognised in the statement of financial position if they meet the recognition criteria in the conceptual framework; and
- In many cases, it will be possible to assign a monetary value to heritage assets.

The paper also discusses initial and subsequent measurements of heritage assets, whether presentation of such assets could involve recognition of liabilities and general presentation of information.

The IPSASB has also issued a podcast and a questions and answers document on the application of materiality to preparing financial statements.

Ireland and UK – New Developments

IAASA – Current Year Topics

A number of financial reporting examinations are either underway or have been completed this year. Some common themes have been identified, including:

- The classification of and disclosures surrounding liabilities and provisions relating to uncertain tax positions;
- Disclosures of the impact of an impending change in accounting policy when a company has yet to implement a new IFRS standard;
- The extent to which companies have met the requirements of the ESMA Guidelines on Alternative Performance Measures;
- The measurement of fair values;
- Determining discount rates used in measuring pension liabilities; and
- Reporting financial performance, including the use of APMs or KPIs and the quality of disclosures.

The IAASA Annual Report for 2016 has also been published.

Distributable Profits

The Institute of Chartered Accountants in England and Wales (ICAEW) and the Institute of Chartered Accountants of Scotland (ICAS) have jointly issued updated guidance, in the form of TECH 02/17BL), to assist companies in determining whether profits made are realised and can be paid out as dividends. Substantive changes have been made to the guidance on accounting for intragroup off-market loans, the guidance on retirement benefit schemes and clarity has been provided on the application to long-term insurance businesses as a result of Solvency II. Other changes are in the nature of updating references to the revised standards, removing obsolete material that had become outdated in TECH 02/10 and providing further clarity in certain areas. It should be borne in mind that the guidance, while clearly valuable, is based on UK law which may differ in some respects to Irish law.

Directors Loans

Amendments to FRS 102, which are intended to simplify it and make it more cost effective, include permitting small entities to initially measure a loan from a director at transaction price. The director is required to be a natural person and shareholder in the small entity (or a close member of the family of that person). FRS 102 currently requires such loans to be initially measured at present value, with the discount rate being a market rate of interest for a similar instrument. This amendment is effective immediately with retrospective application available. As it is an interim measure, this amendment will be deleted as part of the finalisation of FRED 67, the proposed amendments to FRS 102.

Digital Reporting

The FRC's Financial Reporting Lab has published a report which sets out a framework for future digital reporting. This is the first in a series of reports on the Lab's Digital Future project. The framework consists of twelve characteristics that are fundamental to any system of future digital reporting. In the next phase of the project, the Lab will assess the extent to which technologies such as virtual reality, augmented reality, blockchain, XBRL and others fit the framework. The Lab will host tech-focused round tables during the course of 2017.

Corporate Reporting

The Institute of Chartered Accountants in England and Wales (ICAEW) has released a report 'What next for corporate reporting; time to decide?'. The paper argues that it is time to decide on how best to use IT to satisfy increasing demands for information. This should support meeting the increasing demands for a range of information to be provided in corporate reports, while on the other hand traditional reports are becoming too long. The ICAEW believes that there needs to be further research into the implications of digitalisation and that key policy decisions on the issues would need to be taken if real progress is to be made in advancing the quality of corporate reporting.

Reporting Frequency

The CFA Institute has published 'Impact of reporting frequency on UK public companies'. The study looks at the effects on UK corporate investments and capital markets of moving to required quarterly reporting in 2007 and then dropping the requirements in 2014. The frequency of reports had no material impact on levels of corporate investment, however mandatory quarterly reporting was associated with an increase in analyst coverage and an improvement in accuracy of analysts' earnings forecasts.

Financial Reporting Sanctions

The FRC has announced an independent review of the sanctions imposed under its enforcement procedures. The FRC has called for comments and responses and the review panel will analyse the responses received and providing a report summarising comments received.

Legal and Regulatory Developments

Companies (Accounting) Act 2017

The Act has been passed into law with some specific provisions in relation to accounting periods of companies. Matters which are changing include size criteria, the introduction of a micro-company regime, filing of financial statements, abridged financial statements and unlimited companies.

Companies (Amendment) Act 2017

The Act has been signed into law and extends the provisions of the Companies Act 2014 to 31 December 2030 regarding certain existing companies, which are SEC registrants, to prepare and file their financial statements in Ireland using US GAAP, but the facility will not be available for new companies.

Company Law – Audit Committees

Chartered Accountants Ireland and the Consultative Committee of Accountancy Bodies – Ireland have published Technical Release 02/2017: Irish Company Law Requirements: Audit Committees, primarily coming from the Companies Act 2014 and the Audit Regulations (S.I.No.312) 2016. There are separate sections for both public interest entities and for large companies.

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