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Quarterly Financial Reporting Brief

April 2018

The first quarter of 2018 has seen updated UK/Irish standards published and a change in accounting standard setter. The charities sector has also been the subject of attention. There has been additional focus in such areas as financial instruments, pensions, and insurance, and a continuing dynamic in relation to sustainability and integrated reporting. A revised conceptual framework has also been published. The reach of corporate governance reporting is being extended.

The Financial Reporting Council (FRC) has published updated versions of the accounting standards reflecting amendments arising from the triennial review. The FRC has also published renewed guidance on the accounting and reporting framework for the construction sector. The Financial Reporting Lab is continuing its project on Digital Reporting.

The Irish Accounting and Auditing Supervisory Authority (IAASA) has published a snapshot of its activities undertaken in 2017 and a more recent summary of decisions.

The International Accounting Standards Board (IASB) has published amendments to the standard on retirement benefits. The IASB has undertaken a number of initiatives on the insurance standard, IFRS 17. A revised conceptual framework has also been published. IFRS 15 and 1FRS 18 both became effective for accounting periods beginning on or after 1 January 2018.

The European Commission (EC) has published a consultation document 'Fitness Check on the EU Framework for Public Reporting by Companies' and has unveiled its strategy for a financial system that supports the EU's climate and sustainable development agenda.

The European Financial Reporting Advisory Group (EFRAG) has published a discussion paper on the impairment and recycling of equity instruments. EFRAG has also published a series of three background papers on IFRS 17.

The European Securities and Markets Authority (ESMA) has published its report on the activities of the European accounting enforcers in 2017.

The London Stock Exchange will require AIM companies to report on corporate governance requirements from September 2018, with the AIM rules updated.

This Brief comments on financial reporting and legal/ regulatory developments during the first quarter of 2018.

Ireland & UK – New Developments

Accounting Standards – Update

The FRC has published March 2018 editions of all UK and Ireland accounting standards. These editions reflect the triennial review amendments issued in December 2017. A synopsis of the main changes was provided in the January edition.

The FRC has issued a revised Foreword to Accounting Standards reflecting changes to legislation that prescribe the FRC as the accounting standard setter for the Republic of Ireland, previously the standards were promulgated in Ireland by Chartered Accountants Ireland.

Charities SORP

The Statement of Recommended Practice: Accounting and Reporting by Charites (SORP) has been updated due to the amendments and clarifications set out in 'Amendments to FRS 102 – Triennial Review 2017'. The amendments have been split into three categories:

Module 3: Accounting Policies – clarifying the requirement to provide comparative information;

Module 10: Balance Sheet – removes the undue cost or effort exemption for depreciating assets comprising of two or more major components which have substantially different useful economic lives;

Module 13: Events After the End of the Reporting Period - clarifying when payments by subsidiaries to their charitable parents that qualify for gift aid are adjusting events occurring after the end of the reporting period.

Those amendments which are considered to be more significant and likely to have an impact on the accounts of charities are set out in Section 4. These include:

- Investment Property – allow measurement at cost or fair value, with disclosure of the basis of fair value;
- Stock – remove the requirement to disclose the amount of stock recognised as an expense;
- Cash Flows – a reconciliation of net debt to be included as a note;
- Merger Accounting – expand the definition of a group reconstruction to incorporate the transfer of a business in certain circumstances.

The UK Charity Commission has published the results of a review into the reasons why financial statements for 80 charities in 2017 received a modified audit opinion, including:

- 48 – where there was a lack of evidence to support figures within the financial statements;
- 31 – who demonstrated material non-compliance with the SORP;
- 1 – an adverse opinion as auditor concluded that charity was not a going concern.

Construction Sector

In light of a high profile collapse at the beginning of the year, the FRC has published renewed guidance on the accounting and reporting framework for the construction and business support services sectors. The guidance will also be relevant to other companies.

A core message of the guidance is that the annual report must provide sufficient, clear and relevant information segmented between business lines where necessary. Users must be able to:

- Understand the company's performance, financial position and prospects;
- Assess its going concern status; and
- Assess its longer term viability.

Digital Reporting

The Financial Reporting Lab launched the Digital Future project in 2016, an initiative to investigate the impact of technology on corporate reporting communications in the investment community. As part of the project, the Lab has already:

- Released a framework of characteristics that are important for a system of digital reporting;
- Released a 'deep dive' report on how XBRL fits into corporate reporting;
- Explored the possibilities of Blockchain in the corporate reporting process, which will be reported on shortly.

The Lab is now calling for listed companies, investors/analysts, technology experts and those with interest in the potential uses of Artificial Intelligence in the production and consumption of corporate reporting to participate in the next phase of the Digital Future project.

IAASA – Snapshot of Activities

IAASA has published a summary of its financial reporting enforcement activities undertaken during 2017. In 2017, IAASA:

- Examined the annual and half-yearly financial statements of 34 companies;
- Raised 101 separate matters with those companies, as a result of which 13 companies have provided 53 undertakings to improve their financial reporting in future years. IAASA published a number of thematic examination reports and financial reporting decisions during the year. The most common matters raised with issuers in 2017 were – alternative performance measures; fair value measurement; presentation of financial statements; accounting policies, changes in accounting estimates and errors – new IFRSs; income tax; financial instruments – disclosures.

IAASA has a policy of publishing selected financial reporting decisions, and has recently published an update on this dealing with four different entities in the areas of (a) IAS 8: separately disclosed items, (b) IAS 12: accounting for uncertain tax positions, (c) IFRS 13: fair value measurements – observable inputs, (d) IAS 12: tax reconciliation, and (e) IAS 33: earnings per share.

International Accounting and Related Developments

IAS 19 – Pension Accounting

The IASB has published 'Plan Amendments, Curtailments or Settlement/Availability of a Refund Plan (Proposed amendments to IAS 19 and IFRIC 14)'. The amendments are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement;
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

Adoption is for years beginning on or after 1 January 2019, with early application permitted.

IFRS 17 – Insurance Contracts

The IASB has released a summary of the materials and other support available to assist with planning for implementation of IFRS 17. The IASB has also published a one-page summary of the accounting model in IFRS 17. The Transition Resource Group (TRG), set up to seek feedback and clarification on various issues, has held its first meeting.

EFRAG has published a series of three background papers on IFRS 17 to provide simplified information on controversial areas of IFRS 17, including (a) aggregation, (b) release of the contracted service margin, and (c) transition requirements.

Financial Instruments

EFRAG has published a discussion paper 'Equity Instruments – Impairment and Recycling' to gather constituents' views on recycling and impairment of equity instruments designated at fair value through other comprehensive income, to develop its technical advice to the EC. EFRAG has already reported on certain quantitative aspects.

Conceptual Framework

The IASB has published its revised 'Conceptual Framework for Financial Reporting'. Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. The new framework does not constitute a substantial revision, but instead is focused on topics that were not yet covered or that showed obvious shortcomings that needed to be dealt with.

Accounting Policy Changes

To facilitate voluntary changes in accounting policy that result from a decision, and related explanatory material, published by the IFRS Interpretations Committee, the IASB intends to change the thresholds in IAS 8. The proposals are based on carrying out a cost/benefit assessment to determine whether the potential change is of value.

Sustainable Finance

The EC has unveiled its strategy for a financial system that supports the EU's climate and sustainable development agenda. Features of the strategy are:

- Establishing a common language for sustainable finance, to define what is sustainable and identify areas where sustainable investment can make the biggest impact;
- Creating EU labels for 'green' financial products on the basis of this EU classification system;
- Incorporating sustainability in prudential requirements;
- Enhancing transparency in corporate reporting, including further alignment with the recommendations of the Task Force on Climate related Disclosures (TFCD).

The recommendations are based on the findings and recommendations of the High-Level Expert Group (HLEG) on sustainable finance established by the EC.

Accountancy Europe has published a position paper that notes that the financial system has a critical role to play in the sustainability process. The position paper notes:

- Corporate reporting to accommodate long-term horizons;
- Disclosure requirements to address investors' needs;
- Accountancy frameworks to be in line with long-term investments.

The position paper warns against the EU imposing onerous requirements regarding sustainable finance on the adoption of new standards.

Integrated Reporting

The IIRC has released the results of a survey of global executives that seeks to understand trends and challenges in measuring, disclosing and understanding the value that companies create, with 96% supporting bringing financial and non-financial information together. The IIRC has published the findings of the survey in 'Purpose Beyond Profit: The Value of Value – Board Level Insights'.

EU Fitness Check

The EC has published a consultation document, 'Fitness Check on the EU Framework for Public Reporting by Companies'. The purpose of the check will be to assess whether the public reporting obligations, including both financial and non-financial, for EU companies are meeting their objectives (effectiveness, relevance and EU added value). The EC will consider matters including:

- Digital Reporting, and the level of harmonisation in cross-border groups;
- Whether ESG Reporting by companies is fit for purpose;
- Whether to encourage experimentation with integrated reporting.

The EC has drawn up an action plan to implement the strategy, including:

- Fitness check of EU legislation
- Revision of guidelines on non-financial information;
- Creation of a European Corporate Reporting Lab, as part of EFRAG;
- Request EFRAG to assess impact or new or revised IFRS on sustainable investments.

The Climate Disclosure Standards Board (CDSB) has published 'Unchartered Waters: How can companies use financial accounting standards to deliver on the TFCD's recommendations'.

The IASB has expressed concern at the current project being undertaken that it seems to aim for introducing 'carve-ins' when endorsing IFRSs for use in the European Union. It refers to previous reports which concluded that introducing 'carve-ins' to create EU-adapted IFRSs risked encouraging the creation of regional, rather than global standards, which would have significant potential challenges regarding cost of capital and private lobbying.

ESMA Report

ESMA has published its report on the activities of accounting enforcers and their findings within the EU in 2017. European enforcers examined the financial statements of about 1,100 issuers, representing an average examination rate of 19% of all IFRS issuers with securities listed on regulated markets in the EU. These examinations resulted in 328 actions taken to address material departures, with the main deficiencies identified in the areas of financial statement presentation, impairment of non-financial assets, and accounting for financial instruments.

Legal and Regulatory Developments

AIM – Corporate Governance

The London Stock Exchange has announced that all AIM companies will need to report on their application of a recognised corporate governance code with effect from 28 September 2018. The AIM Rules have been updated to include:

- Details of a recognised corporate governance code that the board of directors of the company has decided to apply;
- How the AIM company compares with that code and;
- Where it departs from its chosen corporate governance code, an explanation of the reasons for doing so.

The information should be revised annually and the website should record the date when last reviewed.

Anti-Money Laundering

CAI has published anti-money laundering (AML) guidance for all entities providing audit, accountancy, tax advisory, and other similar services in the UK. The guidance has been updated by the changes in UK law which transposed the 4th EU AML Directive in the UK. Equivalent Irish legislation is due to follow.

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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