



Quarterly Financial Reporting Brief

October 2017

The third quarter of 2017 has seen progress in relation to presentation of and disclosure in financial statements and comment on major standards including those on financial instruments and fair value. There has also been progress on UK and Irish standards and developments in relation to corporate governance and audit committees.

The International Accounting Standards Board (IASB) has published a practice statement on materiality and has also published proposed changes to its standard on accounting policies and related matters, primarily to clarify the distinction between accounting policies and accounting estimates. The IASB has also initiated the post-implementation review of its standard on fair value.

There have been substantial developments in relation to guidance and commentary on IFRS 9: Financial Instruments, with reports from the European Systemic Risk Board, the

European Banking Authority, the European Financial Reporting Advisory Group (EFRAG) and others.

The European Commission's High Level Expert Group has published its first report on creating a financial system that supports sustainable investment.

The Financial Reporting Council (FRC) has made amendments to FRS 101 and has published statements on certain minor amendments to FRS 102 together with a deferral of amendments to correspond with new IFRS standards and feedback on its discussion paper on cash flow statements.

The FRC has published an invitation to comment on exploring the role of audit committee reporting, and has also indicated plans to conduct a review of the UK Corporate Governance Code.

The FRC has also published documents in relation to non-financial reporting.

The Irish Accounting and Auditing

Supervisory Authority (IAASA) has published its annual Observations document in time for the 2017 reporting season. It has also published the results of desk top surveys of (a) selected Irish companies regarding disclosures on implementation of the new standards on financial instruments, revenue and leases, and (b) alternative performance measures.

The European Securities and Markets Authority (ESMA) has called on improvements to be made on the enforcement of financial reporting requirements in relation to such matters as the case selection process and the depth of inquiries.

The Central Bank has issued a revised Minimum Competency Code and new Regulations on the matter.

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

Ireland and UK – New Developments

Standards Update

The FRC has announced a deferral of changes to FRS 102 to reflect the changes made to IASB standards on financial instruments, revenue, leases and insurance, with further evidence-gathering and analysis to be undertaken. No target effective date for any changes to FRS 102 or FRS 103 has been set and any detailed proposals will be consulted on in due course.

The FRC has published draft proposals to amend FRS 102 which respond to the significant differences in accounting treatment arising in practice, in relation to the accounting for gift aid payments made by a subsidiary to its charitable parent. FRED 68 discusses a number of aspects of the accounting for the expected gift aid payment, which has particular relevance under UK tax law.

The FRC has issued amendments to FRS 101 which updates the Reduced Disclosure Framework. It provides certain disclosure exemptions in relation to IFRS 16: Leases.

The FRC has published a feedback statement summarising respondents' comments to its Discussion Paper: Improving the Statement of Cash Flows under IFRS, with responses mainly supporting the comments made in the DP.

Non-Financial Information

The FRC has published its consultation on amendments to its Guidance on the Strategic Report. The FRC is encouraging companies to provide better information on how companies have fulfilled their duty to improve accountability to shareholders and other stakeholders, with enhanced disclosures on the environment, employees, social matters, respect for human rights, anti-corruption and other anti-bribery matters. The guidance also encourages all companies to disclose information on how board members have considered broader stakeholders when taking decisions to promote the long term success of the company.

The FRC has published a factsheet on non-financial reporting that provides an overview of the EU Directive on non-financial and diversity information. The regulations apply to financial years beginning on or after 1 January 2017.

Accountancy Europe has launched two publications: (1) a follow-up report on the 2015 paper that put forward the idea of 'CORE & MORE' and (2) a call for action to enhance the coordination of non-financial information initiatives and frameworks.

Key Topics - 2017

IAASA has published its annual Observations document highlighting those key topics that management, directors and

Audit Committees should consider when preparing, approving and auditing 2017 financial statements.

Some key areas for consideration are:

- disclosing the impact of new Accounting Standards issued but not yet effective;
- presenting alternative performance measures ('APMs') in a transparent and consistent fashion;
- the measurement and disclosure of fair values; and
- the accounting treatment of uncertain tax positions.

Disclosure of New Standards

IAASA has published the results of a desktop survey it has undertaken into the disclosures provided by selected Irish companies of the impact of the new accounting standards which are due to be adopted in the next two years. Some of the main findings were: -

- Financial Instruments
Banks expect higher impairment provisions and more volatile impairment charges. However, banks did not quantify the possible impact of IFRS 9 on impairment provisions, prudential ratios, regulatory capital or key performance measures in their 2016 financial statements.
- Revenue
Most companies that will be impacted by IFRS 15 did not highlight important differences to current policies and many more provided little or no disclosure.
- Leases
Disclosures made by companies lacked sufficient detail on the key changes to accounting for leases; the disclosures were incomplete or companies were silent on the key changes arising from IFRS 16.

Alternative Performance Measures

IAASA has published its report on the results of a survey undertaken on alternative performance measures that Irish companies included in their 2016/17 annual accounts. One of the main objectives of the survey was to assess the extent of compliance by listed companies with the ESMA Guidelines.

IAASA's survey found that 126 different APMs were used by companies in their 2016/17 annual accounts. The survey found instances of good practice by companies in their use of APMs. Conversely, other instances were detected where the level of compliance with the ESMA APM Guidelines was below par. For example, some companies using APMs failed to include any definition of the APM, did not reconcile it to the equivalent amounts in the annual accounts and did not give prior year

comparative amounts. Other companies did not explain why they used the APM in question. All these are obligations on companies using APMs under the Guidelines.

ESMA has added further to the 'Guidelines on Alternative Performance Measures (APMs)' for listed issuers that became effective in July 2016.

Corporate Governance

The FRC has welcomed the UK Government's response to its green paper on corporate governance reform and will use the feedback to help inform the development of its consultation on a fundamental review of the UK Corporate Governance Code later this year. It is recognised that there is a need to develop a set of corporate governance principles to enhance confidence that large private companies act in the public interest.

Audit Committees

The FRC has invited companies, investors and audit firms to explore the role of audit committee reporting in promoting audit quality, and will explore how investors' confidence in audit is enhanced by and supported through:

- External reporting by audit committees in the annual report in accordance with the UK Corporate Governance Code
- Auditors' reports to audit committees, including how they can better support audit committee reporting.

The Phase 1 project report will be published in time for consideration for December 2017 year ends.

International Accounting and Related Developments

Materiality

The IASB has issued Practice Statement (PS) 2 'Making Materiality Judgements' as part of the IASB's Disclosure Initiative. The objective is to assist management in presenting financial information about an entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The PS notes that the need for materiality judgements is pervasive in the preparation of financial statements, and offers a four stage process to assist with determination and disclosure. The principles of the PS are available for immediate guidance.

The IASB is proposing consequential changes to IAS 1 and IAS 8. Three new or revised aspects of the definition of materiality are of particular note:

- Obscuring – the IASB's concern is that obscuring material information with information that can be omitted is as significant as omission or misstatement, and wishes to guard against that;
- Could reasonably be expected to influence – the additional words are to achieve more clarity than the words "could influence" in the current definition; and
- Primary users – to narrow the focus of who are the users to be mainly considered when deciding what information to disclose.

Accounting Policies and Estimates

The IASB has proposed changes to IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' to clarify the distinction between accounting policies and accounting estimates. Changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. The IASB proposes to:

- Clarify the existing definition of accounting policies;
- Add a definition of accounting estimates, which makes clear that accounting policies are objectives while accounting estimates are the inputs used in achieving the objectives; and
- Add guidance regarding selecting an estimation technique or valuation technique.

Financial Instruments – IFRS 9

IFRS 9, which is due for implementation with effect for accounting periods beginning on or after 1 January 2018 has been the subject of much attention including: -

- The European Systemic Risk Board (ESRB) has published a report on the financial stability implications of IFRS 9,

requested by the European Parliament; The report focuses on (a) fair value accounting for the measurement of financial assets, and (b) the new expected credit loss model.

- The European Banking Authority (EBA) has published a report on the second impact assessment of IFRS 9; Qualitatively, there is concern that smaller banks are still lagging behind in their preparation. Quantitatively, the main impact is an estimated increase of impairment provisions which is on average likely to be 13%;
- The Accounting Firms' Global Public Policy Committee (GPPC) has issued a paper titled 'The auditors response to the risks of material misstatement posed by estimates of expected credit losses under IFRS9' which is addressed to the audit committees of banks and financial institutions to assist those charged with governance to effectively evaluate the quality of the audit response to risks of material misstatement;
- The European Financial Reporting Advisory Group (EFRAG) has prepared an online questionnaire to collect evidence about the significance of entities' existing investments in equity instruments and the possible effects of IFRS 9;
- The Institute of Chartered Accountants in England and Wales (ICAEW) has published a briefing paper for analysts and other market participants on IFRS 9; and
- The International Public Sector Accounting Standards Board (IPSASB) has published an exposure draft of a new standard to improve public sector reporting on financial instruments, which is based on IFRS 9.

Fair Value – IFRS 13

The IASB initiated the public consultation phase of the post-implementation review of IFRS 13 by publishing a request for information on the effects of implementing the Standard. EFRAG has developed a general questionnaire and a questionnaire specifically designed for users that European constituents can use to share their practical experiences.

The European Securities and Markets Authority (ESMA) has issued a report 'Review of Fair Value Measurement in the IFRS Financial Statements'. The review focused on four key topics which included (1) fair value disclosures, (2) unit of account, (3) level of market activity and fair value, and (4) valuation adjustments for derivatives – the report noted that compliance and

comparability in the application of IFRS 13 could improve.

Insurance – IFRS 17

The IASB has issued "The Essentials – Busting Insurance Jargon" to provide aid to investors when translating existing terminology and metrics into the language of IFRS 17, with focus on:-

- New metrics for evaluating the performance of insurers
- Premiums vs insurance revenue
- Contractual service margin
- Disclosures and ratios

Integrated Reporting

The International Federation of Accountants (IFAC) and the International Integrated Reporting Council (IIRC) have jointly published a report "Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting". It highlights how SMEs and their accountants can benefit from integrated thinking and reporting, going beyond the financial elements of an organisation to other key areas of value creation, encouraging organisations to think broadly about performance and strategy and improve communication to stakeholders.

A new approach that supports businesses looking to contribute to the achievement of the Sustainable Development Goals (SDGs) as part of their value creation process has been published by the IIRC and Institute of Chartered Accountants in Scotland.

Sustainable Finance

The High-Level Expert Group (HLEG) on Sustainable Finance, established by the European Commission, has published its first report setting out concrete steps to create a financial system that supports sustainable investment. Special significance is placed on the integration of information for investors and integrated reporting.

Legal and Regulatory Developments

Non-Financial and Diversity Information

New regulations have transposed into Irish legislation the provisions of EU Directives as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

Enforcement Requirements

ESMA has published the results of a review of the supervision of enforcement of IFRS financial information according to the ESMA Guidelines in the EU Member States. The report identifies that further improvements are needed in relation to: -

- How issuers are selected for examination of their financial information;
- The depth of inquiries going beyond correcting disclosure; and
- Review of the financial and human resources allocated to the enforcement of financial information.

It has also published the 21st extract from its database of European regulatory decisions on accounting enforcement.

Companies (Amendment) Act 2017

The act was commenced on 1 July, with its primary purpose being to amend certain provisions of the Companies Act 2014. These include provisions in relation to the use of US GAAP in certain circumstances being extended from 2020 to 2030.

EC update on EU audit reform

The FRC contributed to the first report on the EU market for Public Interest Entity (PIE) audit, which has now been published. The report provides a baseline for monitoring the impact of new statutory audit regulation throughout the EU. The report was submitted to the European Central Bank, European Systemic Risk Board and European Parliament, and assesses:

- market concentration levels
- risks to audit quality and measures to mitigate them
- performance of audit committees.

ODCE Annual Report

The 2016 Annual report of the Office of Corporate Enforcement (ODCE) has been published commenting, inter alia, on restrictions on directors, submission of investigation files to the relevant authorities and other similar matters in the furtherance of compliance with Irish company law and other laws and regulations.

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](http://UKAccountingPlus.com).

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