Quarterly Financial Reporting Brief

January 2018

2017 came to a close with financial reporting developments in many areas including FRS 102, IFRS 9 and in such areas as climate change disclosures and integrated reporting. Corporate governance and board representation were also under the spotlight.

The Financial Reporting Council (FRC) has published its Annual Review of Corporate Reporting and has reported on a number of thematic reviews, together with its plans for further reviews in 2018/19. The FRC's Financial Reporting Lab has published reports on a range of financial reporting matters, including dividend disclosure and audit committee reporting.

The FRC has published proposals for a new UK Corporate Governance Code, and certain related areas. There have also been some reports on Board diversity and gender balance.

The International Accounting Standards Board (IASB) has published amendments to IFRS 9 Financial Instruments and has published a further Annual Improvements standard.

Discussions continue with the IASB regarding the 'Principles of Disclosure' and whether it is acceptable to use non-IFRS information.

The Institute of Chartered Accountants in England and Wales (ICAEW) published 'Brexit implications for financial reporting'.

The European Securities and Markets Authority (ESMA) has announced its priority issues for review of companies' 2017 financial statements, and has also published its 21st Enforcement Decisions report.

The International Integrated Reporting Council (IIRC) has published a report on the results of a study it has carried out on implementation of IR. Guidance and recommendations have been published on climate change disclosure.

Chartered Accountants Ireland (CAI) has published a Technical Alert on new company filing requirements under the Companies (Accounting) Act 2017.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published the results of two desk-top surveys based on its review of listed companies' financial statements.

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

Ireland and UK – New Developments

FRS 102

The FRC has completed its triennial review of FRS 102 and the following are the principal amendments which will generally be effective for periods beginning on or after January 2019:

- Confirm the simplification of the measurement of directors' loans to small entities.
- Require fewer intangible assets to be separated from goodwill in a business combination
- Permit investment property rented to another group entity to be measured by reference to cost, rather than fair value
- Expand the circumstances in which a financial instrument may be measured at amortised cost, rather than fair value
- Simplify the definition of a financial institution
- Provide relief from recognising tax payable, under UK law, when a trading subsidiary expects to make the distribution of a gift aid payment to its charitable parent
- Incorporate the new small entities and micro-entities requirements, FRS 105, in the Republic of Ireland.

FRC Annual Report

The FRC has published its Annual Review of Corporate Reporting, expressing the overall view that the standard of corporate reporting remains 'generally good', especially by the larger listed companies. It comments that findings in respect of the financial statements are broadly consistent with last year with room for improvement in the clarity and completeness of explanations companies provide in relation to such matters as risks and uncertainties and judgemental areas. A total of 203 interim and annual reports were reviewed with the most significant findings including those in relation to judgements and estimates, accounting policy disclosures, pensions and business combinations. The FRC highlights the key importance of the Strategic Report and comments on a number of aspects including reports where it appeared that not all key aspects of performance had been considered and cases where descriptions were vague or not specific enough to inform proper assessment. The FRC also comments on the need to communicate how a company generates and preserves value – sustainability reporting.

FRC Thematic Reviews

The FRC has published the results of three thematic reviews that it expects entities to take consideration of in order to improve the quality of their corporate reporting and 'raise the bar on their disclosures'. These are in respect of (a) Judgements and Estimates, (b) Pension Disclosures, and (c) Alternative Performance Measures.

In 2018/19 the FRC will supplement routine monitoring work by undertaking thematic reviews focussed on the following areas:

- Targeted aspects of smaller listed and AIM quoted company reports
- The effect of new IFRSs on financial instruments and revenue on companies' 2018 interim accounts
- The expected effect of the new IFRS for lease accounting
- The effects of Brexit on companies' risk disclosures.

Financial Reporting Lab

The FRC's Financial Reporting Lab has been active in the following areas:

Dividends – the Lab has published its second report into disclosure of dividend policy and practice by companies. The report is based on an implementation study of the findings of the Lab's first report on the topic, with the Lab encouraged by continuing improvements in the area including disclosures on the specific level of distributable reserves.

Risk and Viability Reporting – the report seeks to understand the views of companies and investors participating in the project on the key attributes of principal risk and viability reporting, their value and use.

Digital corporate reporting – a new report concludes that XBRL is an important technology on the path to digitalisation of company reporting. The Lab urges regulators, companies, investors and technology providers to work together to realise fully the potential of XBRL.

Audit Committee Reporting – a new report from the Lab encourages audit committees, companies, investors and auditors to collaborate on best practice on audit related issues, and looks at external reporting by audit committees. The report highlights that investors particularly look to the audit committee to give them confidence in the appointment of the external auditor to monitor the auditor's independence and objectivity and promote audit quality.

Performance metrics – the Lab is calling for participants for its new project on the reporting of performance metrics, which will explore how companies measure their performance against their strategic objectives, taking into consideration both financial and non-financial metrics.

UK Corporate Governance Code

The FRC has today published a new style UK Corporate Governance Code for consultation together with revised guidance on Board effectiveness and some questions on the future of the Stewardship Code. This is a substantial rewrite and simplification/ reduction of preceding Codes with a focus on principles which emphasise the value of good corporate governance to long-term success. The revised Code proposes a number a new provisions in a number of areas, including the following:

- Alignment of company purpose, strategy, values and corporate culture
- Responsibilities of the Board to the workforce and other stakeholders
- Demonstrating independent and objective judgement from the chair
- Alignment of the remuneration and workforce policies to the long-term success of the company and its values.

The consultation period ends on 28 February 2018, and it is proposed that the updated Code will be applicable to all companies with a premium listing of equity shares for periods commencing on or after 1 January 2019.

Board Participation

Two reports have been published in the U.K which address the issue of Board participation:

Hampton Alexander Review – an independent business-led review supported by Government, which has its objective of increasing the number of women in leadership positions of FTSE 350 companies. Its target is to have 33% women on FTSE 350 Boards and FSE 100 leadership teams.

Parker Review – highlights as a general matter that the boardrooms of the U.K's leading public companies do not reflect the ethnic diversity of either the U.K or the stakeholders that they seek to engage and represent. The Review recommends (1) increase in ethnic diversity of Boards, (2) develop candidates for the pipeline and plan for succession, and (3) enhance transparency and disclosure.

Brexit

The ICAEW has published 'Brexit: Implications for Financial Reporting'. The report addresses some of the key financial reporting issues the U.K will face, and offers a number of recommendations in response to some of the principal questions, which include:

- What will Brexit mean for U.K financial reporting?
- Should the scope of the current regulatory framework be revisited?
- How can the U.K continue to be a major player in global standard setting?
- What are the options available regarding the endorsement and adoption process of the new standards?

International Accounting and Related Developments

IFRS 9 Amendments

The IASB has published 'Prepayment Features with Negative Compensation' and 'Modifications of Financial Liabilities' to address the concerns about how IFRS 9 classifies particular prepayable financial assets, and also to clarify an aspect of accounting for financial liabilities.

The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019, with early application permitted.

IASB – Annual Improvements

The IASB has issued 'Annual Improvements to IFRS Standards 2015-17' which makes narrow scope amendments to four IFRS Standards. The amendments made are in the areas of:

IFRS 3: Business Combinations – remeasurements of jointly held interests

IFRS 11: Joint Arrangements – remeasurements of jointly held interests

IAS 12: Income Taxes – income tax consequences of dividends

IAS 23: Borrowing Costs – treatment of borrowings for development

The amendments are effective from 1 January 2019, with early application permitted.

ESMA – Developments

ESMA has announced the priority issues that the assessment of listed companies 2017 financial statements will focus on, which include:

- Disclosure of the expected impact of the implementation of major new standards
- Specific issues relating to IFRS 3: Business Combinations and IAS 7: Cash Flows

It also emphasises (a) the importance of measurement and disclosure of non-performing loans by credit institutions, (b) the ongoing relevance of the fair presentation of financial performance, (c) disclosure of the impact of Brexit, and (d) the requirements of the amended Accounting Directive to disclose non-financial and diversity information.

ESMA has published its 21st Enforcement Decisions Report which deals with decisions made on 12 different topics within the standards.

ESMA has added six new questions/ answers to its 'Guidelines on Alternative Performance Measures' which initially published in June 2015 and which became effective in July 2016. These add further guidance in such areas as reconciliations and to add clarity on defining certain aspects of the Measures.

ESMA has published the final regulatory standards on the 'European Single Electronic Format' together with some guidance. From January 2020 issuers listed on regulated markets must submit their annual financial reports in line with ESEF

Principles of Disclosure

Comments received to the IASB discussion paper show that standard setters are split on the question of whether a general disclosure standard should prohibit an entity from including 'non-IFRS information' or information that is inconsistent with IFRS in its financial statements. In holding the middle ground, some standard setters see that the standards, for example IAS 1, already require entities 'to provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance'.

The IFRS Foundation has issued 'Better Communication in Financial Reporting – Making Decisions More Meaningful', which has six company case studies from various industries describing their process to achieve improved disclosures.

Climate Change Disclosure

The World Business Council for Sustainable Development (WBCSD) released the CEO Guide to climate-related financial disclosures. The new guide, written in partnership with the CEOs of 25 WBCSD member-companies, sets out clear actions that CEOs can take to align their organisations with the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD). The Climate Disclosure Standards Board (CDSB) is working with the TCFD to develop a knowledge hub to better support companies interested in implementing the TCFD recommendations.

Integrated Reporting

The IIRC has published the results of its consultation on implementation conducted earlier this year. They indicate that the IIR Framework stands up well to the challenges of implementation but they also highlight several opportunities to provide guidance and examples and take other actions to help report preparers and other stakeholders. On foot of this, the IIRC has published a new report, 'Creating Value – Benefits to Investors'. Business leaders in the U.S have formed an integrated working group in a bid to make integrated reporting mainstream.

Public Sector

The IPSASB has proposed amendments to ensure that the existing requirements of its current cash basis standard are better aligned with the equivalent accrual IPSAS under IFRS, unless there is a specific reason for deviating and has proposed to revise certain requirements and recast them as encouragements. The IPSAS on consolidated financial statements, the disclosure of information about external and other assistance, and information about payments made by third parties are now voluntary and not mandatory. The new IPSAS take effect on 1 January 2019.

Legal and Regulatory Developments

IAASA - Desktop Surveys

IAASA has published the results of two desktop surveys of Irish listed companies dealing with the following topics:

- Impairment – the survey identified instances of incomplete information, boilerplate disclosure and inappropriate aggregated disclosures. Good examples were also found, including more disaggregated disclosure than the minimum level required and quantitative disclosure of changes to key assumptions
- Operating segments – the survey identified instances where there was an absence of disclosure of judgements made in applying the operating segment aggregation criteria together with the absence of reconciliations and lack of information on transactions between segments.

Companies Filing Requirements

A Technical Alert has been issued by CAI regarding the changes in the filing requirements for certain companies arising from the Companies (Accounting) Ac 2017, which include unlimited companies, external companies with branches and subsidiaries with Section 357 guarantees.

Definitions of PIEs

Accountancy Europe has conducted a second survey on the definitions of Public Interest Entities, which have significant impact on the accounting and audit requirements for companies active in the European market. The findings demonstrate that the audit reform has resulted in more harmonisation of those entities that meet the definition of PIEs, with an overall decrease in the number.

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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