Quarterly Financial Reporting Brief

October 2019

The third quarter of 2019 saw developments in relation to International Standards on financial instruments, taxation and accounting policy disclosure, while in Ireland/UK there are also amendments proposed to accounting standards. BREXIT was high on the agenda while IAASA published its annual Observations as a guideline for financial reporting in the coming reporting season. Sustainability and the Green Agenda were also topics of continuing focus

The International Accounting Standards Board (IASB) has published amendments to the standards on Financial Instruments regarding the potential effects the IBOR reform could have on financial reporting. The IASB has also published exposure drafts of amendments proposed to (a) deferred tax related to assets and liabilities arising from a single transaction, and (b) disclosure of material accounting policies.

Sustainability reporting has seen substantial new developments by a number of major bodies including the Sustainability Accounting Standards Board (SASB), the Climate Disclosure Standards Board (CDSB) and the Corporate Reporting Dialogue (CRD).

The European Financial Reporting Lab, a body formed by the European Financial Reporting Advisory Group (EFRAG) has published a consultation document to start planning for its next three financial reporting projects on (a) social matters and human rights, (b) non-financial risks and opportunities and linkage to business model, and (c) materiality assessment process and outcomes for ESG matters.

The International Valuation Standards Council (IVSC) has issued an updated version of the suite of International Valuation Standards (IVSs) as they become effective in 2020.

The UK Financial Reporting Council (FRC) has:

- published amendments to FRS 101 (IFRS 17 - insurance contracts) and FRS 102 (IBOR reform) based on IFRS developments
- published a letter to Audit Committee Chairs and Finance Directors setting out some of the actions companies should consider in advance of the UK's exit from the European Union
- published, through its Reporting Lab, a new report which considers disclosures on the sources and uses of cash, and how companies can answer investor questions
- issued a joint statement with other financial regulators to respond to the UK Government's announcement of its Green Finance Strategy

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published its annual Observations Paper for those involved with 2019 financial reporting. IAASA has also published an Information Note highlighting deficiencies in companies' disclosures regarding liquidity risk.

Legal and regulatory developments include the European Securities and Markets Authority (ESMA) 23rd Enforcement Decisions Report, update of the ESMA European Single Electronic Format (ESEF) Reporting Manual, the publication of an IFRS 9 roadmap by the European Banking Authority and updated guidance on directors remuneration reporting.

This Brief comments on financial reporting and legal/regulatory developments during the third quarter of 2019.

International Accounting and Related Developments

IBOR reform project

Recent market developments have brought into question the long-term viability of Interbank offered rates (IBORs), such as LIBOR, EURIBOR and TIBOR. The IASB has published 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. Hedge accounting and disclosures around additional uncertainties are particular focus areas. The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. A second phase of developments is awaited.

Deferred Tax

The IASB has published an exposure draft 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)' that aims at clarifying how entities account for deferred tax on leases and decommissioning obligations.

The main change proposed in the ED is an exception from the initial recognition exemption provided in IAS 12. Accordingly, the initial recognition exemption would not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of deferred tax assets and liabilities of the same amount. Comments on the proposed changes are requested by 14 November 2019.

ESMA has issued a public statement to help promote consistent application of IAS 12, 'Income Taxes', with a focus on accounting for potential deferred tax assets and evidence to support their carrying amount.

Accounting Policy Disclosure

The IASB has published an exposure draft 'Disclosure of Accounting Policies (Proposed amendments to IAS 1 and IFRS Practice Statement 2)' with proposed amendments to require an entity to disclose its material accounting policies instead of its significant accounting policies, with direction on how to identify a material accounting policy The Board has also developed additional guidance to be included in the Materiality Practice Statement for entities to use when applying the four-step materiality process to accounting policy disclosure.

European Lab consults on future projects

EFRAG has published a consultation document to start planning for the next projects of the European Corporate Reporting Lab, with three topics on the agenda:

- Reporting of social matters and human rights
- Reporting of non-financial risks and opportunities, and linkage to the business model
- Reporting on the materiality assessment process and outcomes for Environment, Social and Governance (ESG) matters

CRD - Transparency and Accountability

The CRD has published a position paper noting that the world's leading financial and non-financial corporate reporting frameworks have the same common foundations, based on the key objectives of transparency and accountability, with seven key principles - materiality, completeness, accuracy, balance, clarity, comparability and reliability. Transparency needs accountability in order to drive effective behaviour or performance: disclosing in itself is not enough if those holding to account do not have the power to influence the behaviour or performance.

Sustainability standards and frameworks

The CRD announced a two-year project focused on aligning the standards and frame-works of its members. A report 'Driving Alignment in Climate related Reporting' maps the better alignment project participants' standards and frameworks against the seven principles for effective disclosure, the 11 recommended disclosures and 50 illustrative example metrics detailed in the recommendations published by the Task Force on Climate related Financial Disclosure (TCFD) in June 2017. It also documents the commonalities and differences between the participants within the parameters of the TCFD recommendations' example metrics.

The Sustainability Accounting Standards Board (SASB) and the Climate Disclosure Standards Board (CDSB) have jointly released the TCFD Good Practice Handbook, a complement to the TCFD Implementation Guide, released in May 2019. The handbook provides real-world examples of TCFD. The CDSB has also launched a climate-related financial disclosure eLearning platform designed to help organisations fill the knowledge gap and enhance their disclosures of climate related information.

IVSC Developments

The IVSC has issued an updated version of the suite of International Valuation Standards (IVSs) titled IVS 2020 as they become effective on 31 January 2020.

The 2020 edition of IVS will replace IVS 2017 and consists of five general standards and six asset standards. The general standards offer guidance for all valuation assignments including terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting. The asset standards include requirements related to a number of specific types of assets.

The IVSC has published the first article in a series looking into whether principles underlying business valuations are compatible with the concept of goodwill amortisation. The series aims at encouraging public discussion by exploring certain fundamental questions in the area.

Ireland and UK – New Developments

FRS 101 and FRS 102

The FRC has concluded its annual review of FRS 101 for 2018/19 and issued Amendments to FRS 101 – 2018/19 cycle, which amends the definition of a qualifying entity so that insurers cannot apply FRS 101 from the effective date of IFRS 17 *Insurance Contracts*. Unlike accounts that apply IFRS in full, those prepared in accordance with FRS 101 must comply with detailed accounting requirements set out in company law. Some of these requirements conflict with the requirements of IFRS 17. This amendment to FRS 101 was necessary to ensure continued compliance with company law that applies to non-IAS accounts.

In addition, the FRC has issued FRED 72 Draft amendments to FRS 102 – Interest rate benchmark reform, to respond to a current financial reporting issue. FRED 72 proposes amendments to specific hedge accounting requirements of FRS 102 to provide relief that will avoid unnecessary discontinuation of hedge accounting as interest rate benchmarks are being reformed. FRED 72 is based on similar proposals issued by the IASB, and has a proposed effective date of 1 January 2020, with early application permitted.

IAASA observations 2019

IAASA has published its annual Observations paper highlighting some key areas that warrant close scrutiny by those involved with 2019 financial statements, including:

- the impact of new accounting standards – governing revenue measurement and recognition, lease financing and bad debt provisioning;
- identification and disclosure of the significant judgements made in preparing financial statements and the sources of estimation uncertainty inherent in those financial statements;
- the presentation of key performance indicators (KPIs) or alternative performance measures (APMs); and
- disclosures of the maturity analysis (or ageing profile) of financial liabilities which can indicate the risk that a company will have difficulties in paying its financial liabilities.

Liquidity Risk Analyses

IAASA has published an Information Note highlighting deficiencies in companies' disclosures regarding liquidity risk, to remind management and those charged with governance of the requirements in accounting standards to disclose high quality liquidity risk analysis in annual and half-yearly accounts.

Liquidity risk tables and the related liquidity risk disclosures (i.e. liquidity risk analysis) is a key metric for users of companies' accounts. Liquidity risk analysis is essential information that enables users of the accounts to understand the timing of cash flows and changes therein associated with financial liabilities.

BREXIT

The FRC has published a letter to Audit Committee Chairs and Finance Directors setting out some of the actions companies should consider in advance of the UK's exit.

The FRC is encouraging companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may be a consequence of the UK's exit from the EU, and which may apply when companies report. Where there are particular challenges posed, the FRC expects these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or re-measuring certain items in the balance sheet. The FRC expects that many companies will want to consider a wide range of reasonably possible outcomes when performing sensitivity analysis on their cash flow projections and which should be disclosed and explained. Similar considerations apply to Irish companies

Cash Disclosures

A new report from the Financial Reporting Lab of the FRC considers disclosures on the sources and uses of cash. The report considers how companies can answer investors' questions about how a company generates cash and how it intends to use that cash. It provides practical guidance on how companies can give more information and context around its cash disclosures, beyond those in the cash flow statement including business model disclosures, capital allocation frameworks, reverse factoring arrangements and many others. It also includes several practical examples.

Green Finance Strategy

The UK Government has announced its Green Finance Strategy which recognises the role of the financial sector in delivering global and domestic climate and environmental objectives. In response, the Financial Reporting Council (FRC) has issued a joint statement with other financial regulators, including the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) welcoming the strategy.

The FRC has stated that the Boards of UK companies have a responsibility to consider their impact on the environment and the likely consequences of any business decisions in the long-term. They should therefore address, and where relevant report on, the effects of climate change (both direct and indirect).

Legal and Regulatory Developments

ESMA - 23rd Enforcement Decisions Report

ESMA has published further extracts from its confidential database of enforcement decisions taken by European national enforcers. This batch deals with decisions in relation to IFRS 10/IAS 7, IAS 7, IFRS 10/IFRS 12/IFRS 13/IAS 1, IFRS 9, IAS 40, IFRS 2, and IAS 34/IAS 36.

IAASA has also recently published a number of financial reporting decisions made regarding accounting treatments applied by different entities to address certain matters which were identified in the course of examinations by IAASA.

ESEF Reporting Manual

ESMA has published an update of its European Single Electronic Format (ESEF) Financial Reporting Manual to expand existing guidance and update the guidance included in the original publication. The manual is aimed at all market participants involved in the implementation of the requirements set out in the ESEF Regulation, and in particular in the first-time preparation of IFRS consolidated financial statements in Inline XBRL.

EBA publishes IFRS 9 Roadmap

The European Banking Authority (EBA) has published a IFRS 9 roadmap providing a comprehensive overview of planned monitoring activities on IFRS 9 implementation. The EBA has also launched an IFRS 9 benchmarking exercise on a sample of institutions aimed at analysing the different modelling practices followed by institutions and how IFRS 9 implementation impacts the amount of expected credit losses in terms of own funds and regulatory ratios.

Directors' Remuneration

Updated guidance has been published in the UK by the GC100 and Investors Group to assist companies to apply legal and regulatory changes in the area, including avoiding or managing conflicts of interest in relation to determination, review and implementation of the remuneration policy and extension of coverage to those considered to be CEO or deputy CEO even where they are not appointed as directors. While not directly applicable to Irish companies, similar principles may apply.

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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