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Quarterly Financial Reporting Brief

July 2019

The second quarter of 2019 has seen international accounting developments in relation to business combinations, insurance and the annual improvements project. Focus continued on climate-related disclosures and integrated reporting. Guidance and related materials have also been published in a number of areas including half-year reporting, revenue, dividends and improved financial reporting for smaller listed companies. Changes have been made to FRS 102. Europe wide legislation has been brought in for digital reporting of inline XBRL financial statements in 2020.

The International Accounting Standards Boards (IASB) has published an exposure draft (ED) on IFRS 3: Business Combinations with reference to the Conceptual Framework, and an ED on IFRS 17: Insurance together with a proposed ED on the Annual Improvements project.

A new publication by the CFA Institute provides valuable comment and guidance on IFRS 16: Leases, which is being implemented in 2019.

The European Financial Reporting Advisory Group (EFRAG) has published its 2018 Annual Review, commenting on IFRS 9, IFRS 17 and other key areas.

Major areas outside of core financial reporting have seen significant development including Climate-related Financial Disclosure and Integrated Reporting. Deloitte in conjunction with the Institute of Chartered Accountants in England and Wales (ICAEW) has launched a dedicated climate change website.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published three Information Notes – half-yearly reports, disaggregated revenue and dividends proposed. It has also published it's annual report 2018.

The UK Financial Reporting Council (FRC) has published amendments to FRS 2 and has published a practical guide for audit committees of smaller listed and AIM quoted companies on improving financial reporting. It has also published a consultation document on investment reporting.

The ICAEW has published 'Financial Reporting – Who Does What'.

The UK Investment Association has published a call to companies to improve the transparency of their approach to paying dividends, and emphasising the need for companies to articulate a dividend policy.

The Charities SORP Committee Corporate Governance Review Panel has published its final report on the future development of charity reporting and accounting.

The European Commission has published a Regulation for XBRL digital filing from 1 January 2020.

New directors remuneration regulations have been approved in the UK which will come into effect for financial years beginning on or after 10th June 2019.

A consultation paper has been published on the effectiveness of independent board evaluation in the UK.

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

International Accounting and Related Developments

Proposed amendments to IFRS 3: Business Combinations

The IASB has published an exposure draft 'Reference to the Conceptual Framework (Proposed amendments to IFRS 3)' with three proposed amendments:

- update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*;
- add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 (Provisions & Contingencies) or IFRIC 21 (Levies), an acquirer should apply those standards to identify the liabilities it has assumed in a business combination; and
- add to IFRS 3 an explicit statement that an acquirer should not recognise contingent assets acquired in a business combination.

IFRS 17 - proposed amendments

The IASB has published an exposure draft 'Amendments to IFRS 17' to address concerns and implementation challenges that were identified after IFRS 17 'Insurance Contracts' was published in 2017.

Subsequent discussions led to proposed amendments, with the main areas being::

- Deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022
- Additional optional scope exclusion for loan contracts that transfer significant insurance risk and related transition requirements to enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9
- Additional scope exclusion for credit card contracts that provide insurance coverage
- Amendments regarding allocation, recognition, assessment of the recoverability, and disclosure regarding insurance acquisition cash flows relating to expected contract renewals
- Amendments regarding the contractual service margin (CSM) allocation relating to investment components
- Extension of the risk mitigation option to include reinsurance contracts held
- Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held
- Simplified presentation of insurance contracts in the statement of financial position
- Additional transition relief for business combinations
- Additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach

The exposure draft also contains several smaller proposed amendments. Comments are requested by 25 September 2019.

European insurers that apply IFRSs are invited to complete a questionnaire on foot of EFRAG considering the interaction of IFRS 9 *Financial Instruments* with IFRS 17, specifically in the area of hedge accounting.

IASB annual improvements project (cycle 2018-2020)

The IASB has published an ED which proposes amendments in relation to

- IFRS 1: First-time Adoption – Subsidiary as a first-time adopter
- IFRS 9: Financial Instruments – Fees in the 10% test for derecognition
- IFRS 16: Leases – Lease incentives
- IAS 41: Agriculture – Taxation in fair value measurements

Leasing – top considerations for investors

The CFA Institute, a global association of investment professionals, has published 'Leases: What Investors Need to Know About the New Standard' – IFRS 16 is required to be implemented for accounting periods beginning on or after 1 January 2019.

The CFA Institute's Guide aims to help investors understand the changes. It outlines what it considers to be top ten considerations for investors as they evaluate the impact of the changes introduced by the new standard. As the most significant changes and the greatest comparability challenges arise from lessee accounting, the report focuses on lessee accounting.

EFRAG annual review 2018

EFRAG has published its 2018 annual review, which features a) EFRAG's continued work on IFRS 17 *Insurance Contracts* including case studies and user outreach culminating in the IASB's re-deliberations of IFRS 17; b) EFRAG's work on the EC requests relating to the potential effect on long-term investment of IFRS 9's requirements on accounting for equity instruments; and c) EFRAG's position on the IASB project Financial Instruments with Characteristics of Equity with inputs resulting from a wide outreach programme as well as an early stage analysis.

Integrated reporting

The United Nations Conference on Trade and Development (UNCTAD) and the IIRC have signed an updated Memorandum of Understanding (MoU) to reaffirm their commitment to integrating the United Nation's Sustainable Development Goals (SDGs) into the corporate reporting cycle.

The IIRC has published a set of answers to some of the most frequently asked questions on Integrated Reporting.

The answers to frequently asked questions cover:

- Integrated Reporting
- The <IR> Framework
- Integrated reporting and other report forms
- Value creation
- Materiality
- The capitals
- Risks and opportunities
- Competitive landscape and market positioning

Climate – related financial disclosures

The Sustainability Accounting Standards Board (SASB) and the Climate Disclosure Standards Board (CDSB) have jointly released the *TCFD Implementation Guide* intended to help companies to more effectively take the TCFD recommendations from principles to practice. The CDSB has also published *Roadmap for Adopting the TCFD Recommendations*

The Task Force on Climate-related Financial Disclosures (TCFD) in its efforts to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders has published a second status report providing an overview of the extent to which companies in their 2018 reports included information aligned with the core TCFD recommendations published in June 2017. Some of the main findings are:

- More clarity is needed on the potential financial impact of climate-related issues on companies.
- Of companies using scenarios, the majority do not disclose information on the resilience of their strategies.
- Mainstreaming climate-related issues requires the involvement of multiple functions.

The EC has published new guidelines on reporting climate-related information supplementing its non-binding guidelines on non-financial reporting published in July 2017. The new guidelines:

- accompany and are consistent with the EU Non-Financial Reporting Directive
- supplement the general guidelines on non-financial reporting published in July 2017,
- are based on proposals from Technical Expert Group (TEG) on Sustainable Finance published in January 2019;

Deloitte, in collaboration with ICAEW, has launched a dedicated climate change website and video learning programme, including considerations for financial statements and tangible measurement here.

Micro-entities accounting option

The European Federation of Accountants and Auditors for SMEs (EFAA) has published the results of a survey on the acceptance of the micro-entities accounting option in Europe, which was introduced to ease the administrative burden on very small companies. The key findings presented in the survey report include:

- The level of awareness of the existence of the micro-entities option varies significantly from country to country;
- A clear majority of accountants recommended their eligible clients take up the micro-entities option, to achieve greater privacy and reduced disclosures.

Ireland and UK – New Developments

IAASA Information Notes

Half- yearly reports

IAASA has published an Information Note '*Some Key Areas of Focus for 2019 Half-Yearly Reports*'. The purpose is to remind preparers and other parties of some key areas of focus where IAASA have noted instances of apparent non-compliance with financial reporting standards in the past and thereby contribute to the preparation of high quality half-yearly financial reports by companies, particularly in relation to the new financial reporting standards introduced in 2018 and 2019.

Disaggregated revenue

IAASA has published an Information Note *'Requirement to disclose disaggregated revenue'* reminding companies of the requirement in IFRS 15 to disclose the disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors. Those disclosures must provide sufficient information to enable users to understand the relationship between the disaggregated revenue and the revenue information that is disclosed for each operating segment.

Dividends proposed

IAASA has published an Information Note '*Requirement to disclose dividends proposed* reminding companies of the requirement to provide two separate disclosures regarding proposed dividends: firstly, the total amount of dividends proposed or declared before the financial statements were approved by the directors but which had not been recognised as a distribution in those financial statements and, secondly, the related dividend per share.

FRC makes amendments to FRS 102

The FRC has made amendments to introduce new requirements to Section 28 of FRS 102 requiring that the impact of transition from defined contribution accounting to defined benefit accounting be presented in other comprehensive income. The amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

FRC guide - smaller listed companies

The Financial Reporting Council (FRC) has published 'Smaller Listed and AIM Quoted Companies — A Practical Guide for Audit Committees on Improving Financial Reporting'. This offers practical, cost-effective suggestions on how smaller quoted companies can improve the quality of their financial reporting its suggests questions for audit committees to ask themselves and those associated with the financial reporting process that are designed to encourage the smaller quoted companies to reflect on current practices and consider areas for improvement.

Financial Reporting – Who Does What?

The ICAEW has published 'Financial Reporting: Who Does What?' highlighting who does what in financial reporting and unpacking the complex relationships between boards, auditors, shareholders – their duties and responsibilities as well as the regulatory regime within which they operate.

The paper notes that good financial information underpins the capital markets but the institutional framework intended to promote confidence in corporate reporting can in fact compromise quality, because of piecemeal, reactive and ad hoc development over many decades.

Consultation – SIRs

The FRC has published a consultation paper proposing new Standards for Investment Reporting.

The SIRs set requirements and provide guidance for Reporting Accountants (RAs) carrying out reporting engagements on UK investment circulars. These engagements include private reporting, for example on working capital statements, as well as public reporting engagements on published financial information.

Investment Association - Dividends

The UK Investment Association (IA) is calling on companies in the UK to improve the transparency of their approach to paying dividends and is investigating a concern that an increasing number of companies are not seeking shareholder approval for dividend distributions at their AGMs.

Findings of the research indicate that:

- 22% of listed companies paying ordinary dividends did not seek an annual shareholder vote on those distributions, most prevalent within the largest 20 companies on FTSE;
- Over half of Investment Companies put forward a resolution on a 'dividend policy' typically detailing the format that dividend distributions would take throughout the year but not seeking approval for the total dividend amount; and
- A shareholder vote is one mechanism by which transparency and accountability to shareholders can be exercised – the majority of companies do employ this.

IA recommends that all listed companies, including those that put a dividend resolution to shareholders, should as a minimum, articulate a 'distribution policy'.

The IA has indicated that it will develop best practice guidance on a 'distribution policy' in Autumn 2019. It will also make recommendations to the Government as to whether a shareholder vote on the distribution policy and/or yearly distributions should be mandatory.

Charities SORP - governance review

The Charities SORP Committee Governance Review Panel in the UK has published its final report on the future development of charity reporting and accounting.

The report makes several key recommendations on the future development of the Charities Statement of Recommended Practice (SORP), including:

- the SORP must be refocused to better address the needs of key users of charity reports and accounts. Simpler reporting requirements for smaller charities are proposed, with them identified as the majority of users of the SORP;
- the charity sector and regulators should collaborate to identify and codify best practice in non-statutory financial reporting; and
- the SORP-making body, supported by the FRC, should ensure that the redesigned SORP development process takes effect and sufficient resources should be made available to implement the recommendations.

Planned actions are expected to be published in autumn 2019.

Legal and Regulatory Developments

ESEF

The European Commission has published a regulation requiring all listed companies across the European Union to submit their annual financial statements digitally as Online XBRL documents from 1 January 2020 on.
The move will also facilitate the availability of key financial information in all EU official languages. In support of these new rules, the European Securities and Markets Authority (ESMA) has prepared an ESEF Reporting Manual and ESEF taxonomy files, which will be updated on an annual basis.

Directors' Remuneration Regulations

The UK Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 ("theW Regulations") have been approved, which will come into effect in respect of financial years beginning on or after 10th June 2019.

The UK government has published a set of answers to frequently asked questions on the Regulations, including explaining the scope of the Regulations and the timing of application.

Board Evaluation

ICSA: The Governance Institute has published a consultation on the effectiveness of independent board evaluation in UK listed companies. This is in response to a BEIS consultation to seek views on whether there is a need for a code of practice for the providers of board evaluation services. This would be accompanied by voluntary principles to be applied by listed companies when engaging external reviewers to undertake board evaluations and guidance for listed companies on disclosure of conduct and outcomes of their board evaluation here.

IAASA Annual Report 2018

IAASA has published its Annual Report 2018, with the Chief Executive's review and Chairperson's Statement providing perspectives on the key issues and challenges facing the Authority and the accounting and auditing profession. IAASA has also published its Annual Audit Programme & Activity Report 2018. This Report, mandated by the EU, provides further detail of IAASA's activities in relation to its oversight of statutory audit in Ireland.

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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