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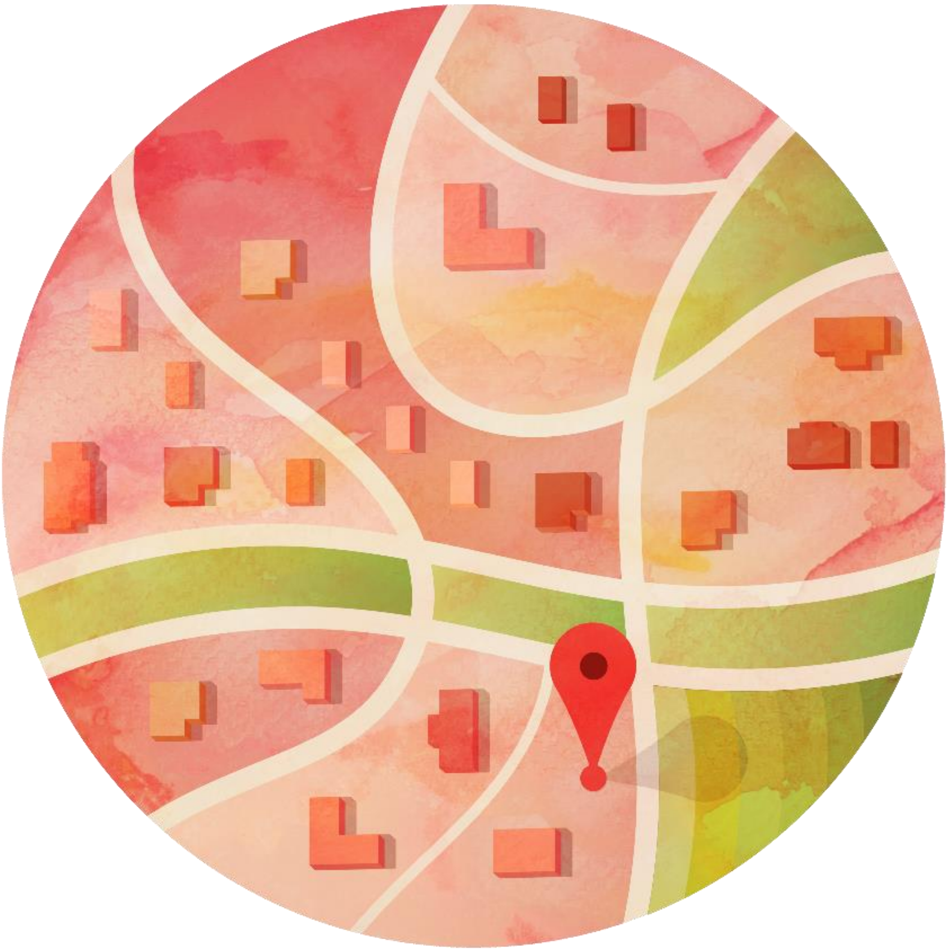

Quarterly Financial Reporting Brief

October 2018

The third quarter of 2018 has seen surveys on lease accounting, insurance accounting and segment disclosures together with continuing momentum on both integrated reporting and sustainability reporting. At the Irish/UK level we have seen publication of a new corporate governance code and observations on financial reporting priorities in the current year.

Deloitte has published reports on surveys it has carried out on priorities and concerns with the implementation of IFRS 16 in 2019 and IFRS 9 this year.

The European Financial Reporting and Advisory Group (EFRAG) has established the European Corporate Reporting Lab. The EFRAG focus on IFRS 9 continues with publication of a Discussion Paper on 'Equity Instruments – Impairment and Recycling', while an equivalent of IFRS 9 has been brought into public sector accounting.

Segment disclosures are also in the spotlight with a report by the CFA institute based on a survey of investors and analysts.

A new Integrated Reporting Academic Database has been launched and a new document on technology advances and its impact on IR published.

A new UK Corporate Governance Code has been introduced by the Financial Reporting Council (FRC). The FRC has also published revised guidance on the Strategic Report.

The FRC Lab has launched a new project on the disclosure of climate change and workforce information.

The Pensions Research Accountants Group (PRAG) has published a revised Pensions SORP to bring the current guidance in line with the latest version of FRS 102.

Chartered Accountants Ireland (CAI) has published a Technical Release intended as a signpost to assist with the preparation and filing of statutory financial statements of small and micro companies under the Companies (Accounting) Act 2017.

The Companies (Statutory Audits) Act 2018 amends current law in relation to audit exemption and some other matters.

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

Ireland & UK – New Developments

UK Corporate Governance Code

The FRC has published the 2018 UK Corporate Governance Code which designed to put the relationships between companies, shareholders and stakeholders at the heart of long-term sustainable growth in the UK economy. This Code places emphasis on businesses building trust by forging strong relationships with key stakeholders. It calls for companies to establish a corporate culture that is aligned with the company purpose and business strategy, promotes integrity and values diversity.

There is a renewed focus on the application of the Principles – the FRC wishes to see clear, meaningful reporting. Investors and advisors must assess explanations carefully and not take a tick-box approach. The main changes include:

- *Workforce and stakeholders:* There is a new Provision to enable greater board engagement with the workforce to understand their views
- *Culture:* Boards are asked to create a culture which aligns company values with strategy and to assess how they preserve value over the long-term
- *Succession and diversity:* To ensure that the boards have the right mix of skills and experience, constructive challenge and to promote diversity, the new Code emphasises the need to refresh boards and undertake succession planning
- *Remuneration:* To address public concern over executive remuneration, the new Code emphasises that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration. Importantly, formulaic calculations of performance-related pay should be rejected.

IAASA – Observations Document

IAASA, Ireland's accounting enforcer, has published its IAASA annual Observations document highlighting those key topics that management, directors and audit committees should consider when preparing and approving 2018 financial statements.

These include:

- the impact of new financial reporting standards;
- significant judgments and sources of estimation uncertainty;
- accounting treatment applied in respect of complex customer and supplier arrangements; and
- the presentation of alternative performance measures ('APMs').

Revised Guidance on the Strategic Report

The FRC has published revised Guidance on the Strategic Report, which encourages companies to consider wider stakeholders and broader matters that impact performance over the longer term.

The FRC believes that the integration of non-financial information into the strategic report is a key part of telling a company's story. The revised guidance places a greater focus on the directors' duty to promote the success of the company.

Lab project: Climate and Workforce Reporting

The FRC Lab is inviting investors and companies to participate in a new project on the disclosure of climate change and workforce information. This project will consider how the recommendations identified in the Lab's previous reports on business model reporting, risk and viability and performance metrics apply to companies' reporting on climate change and their workforce.

The project may be expected to include:

- exploring how companies understand, measure and report on climate change and workforce issues
- examining how investors use this information in their decision-making process
- identifying where best practice reporting of material information overlaps with relevant frameworks under which companies may develop their reporting
- discussing which areas of reporting are most challenging for companies
- considering the extent to which lessons can be learned from emerging international reporting practice
- highlighting best practice in company reporting.

SORP for Pension Accounting

A revised Pensions SORP (Statement of Recommended Practice) 2018 has been published to bring the current guidance in line with the latest version of FRS 102.

Since the 2015 SORP was published, the FRC has made a number of amendments to FRS 102. There have also been changes to relevant pension legislation, mainly the withdrawal of detailed investment disclosure requirements. The update to the SORP is limited to the changes required to be consistent with the current version of FRS 102 and current relevant pension legislation.

International Accounting and Related Developments

Global IFRS 16 Lease Accounting Survey

Deloitte has carried out a Global IFRS 16 readiness survey, which highlights the challenges and complexities facing organisations when implementing IFRS 16 across the world, which is mandatory with effect for accounting periods beginning on or after 1 January 2019, but with early adoption available.

Key findings of the survey are:

- 67% of all organisations have not yet started or are on the impact assessment phase
- 86% of organisations are not considering early adoption
- 74% of respondents do not currently have dedicated software systems for contracts
- 61% of respondents are considering externally developed leasing systems
- 38% of IFRS 16 respondents are considering the modified retrospective approach

Global IFRS Insurance Survey

Deloitte has issued, 'Global IFRS Insurance Survey 2018: 2021 countdown underway - Insurers prepare for IFRS 17 implementation' , which aims to provide a comprehensive view of insurers' reactions to the requirement in IFRS 17, as well as their perceptions on the scale and complexity of this major financial reporting change, and the timelines surrounding system implementation necessary to achieve compliance.

Key findings are:

- Just enough time to get ready
- Upgrading technology is necessary to capture the new data and perform the calculations required for compliance
- Significant implementation costs have been budgeted with 35 percent of insurers surveyed expecting to spend more than EUR 50m
- Insurers are expecting to see benefits outweigh costs
- Actuarial, accounting and collaboration skills will be in high demand with a need to drive tighter integration between finance, actuarial, and other departments.

Segment Disclosures – IFRS 8 Survey

The CFA Institute has published 'Segment Disclosures: Investor Perspectives' based on a survey of investment managers and analysts.

The survey results show that 75% of investors rate segment disclosures as very important to their analysis, but that only 13.4% are satisfied with the segment disclosures as currently provided. The survey therefore concludes that the implication for standard-setters is that there is substantial work to be done to meet segment disclosure investor needs.

The following additional results are also provided in the report:

- 68% of respondents agreed or strongly agreed that competitive harm is overstated as a reason not to improve segment disclosures
- 87% of respondents agreed or strongly agreed that technological improvements should, but have not, substantially improved segment disclosures
- 72% of respondents agreed that Regulators do not seem to enforce segment disclosure requirements effectively
- 62% of respondents indicated that the public discussion of results was not necessarily consistent with segment results
- 75% of respondents agreed that non-GAAP measures are not, but should be, reconciled to segment results
- 78% of respondents noted that segment disclosures are not always presented clearly and reconciled to the basic financial statements
- 82% stated that presentation by product/service or by region made comparative analysis more difficult.

Impairment and recycling of equity instruments

EFRAG has published a summary of responses to its discussion paper 'Equity Instruments — Impairment and Recycling', in relation to questions raised by the European Commission related to the accounting for equity instruments which are carried at fair value through other comprehensive income (FVOCI).

The summary of responses describe the main messages and key themes identified from the 53 comment letters received on the DP, and include:

- The desire to wait for the IASB's post-implementation review of IFRS 9 before suggesting changes and/or that changes should be agreed with the IASB and not introduced at the European level
- The reintroduction of recycling would improve the depiction of financial performance of long-term investors
- Recycling should be accompanied by an impairment model
- The preferred impairment model would be similar to IAS 39.

Public Sector Accounting Standard: 'Financial Instruments'

IPSAS 41 replaces *IPSAS 29 Financial Instruments: Recognition and Measurement,* and introduces:

- Simplified classification and measurement requirements for financial assets
- A flexible hedge accounting model
- IPSAS 41 includes public sector-specific guidance and illustrative examples on: (1) financial guarantees issued through non-exchange transactions; (2) concessionary loans; (3) equity instruments arising from non-exchange transactions; and (4) fair value measurement
- A forward-looking impairment model

Integrated Reporting

The IIRC has launched a new <IR> Academic Database. The database highlights potential positive benefits of adopting integrated reporting (<IR>) and emerging best practice based on academic studies.

Research included in the database concludes that integrated reporting leads to increased stock liquidity, better performance, higher market valuation and a longer-term investor base for the businesses that adopt it.

A new document has been prepared by the participants in the <IR> Technology Initiative which looks at how technology can enhance the way businesses analyse, use and communicate IR data.

Sustainability Reporting

A number of initiatives have taken place, with some of the more notable ones being:

- Sixteen leading banks have convened to release new methodologies that aim to help the banking industry to understand and manage the physical risks and opportunities of climate change in their loan portfolios, and have published 'Navigating a New Climate'.
- The World Business Council for Sustainable Development (WBCSD) has released Climate-related financial disclosure by oil and gas companies: implementing the recommendations of the Task Force on Climate-related Disclosures (TFCD).
- The UK Department for Business, Energy and Industrial Strategy (BEIS) has published a response to its consultation on a streamlined and more effective energy and carbon reporting framework (SECR) for the UK. The companies will have to provide the information in their annual reports in line with the TFCD recommendations.

European Corporate Reporting Lab

The European Corporate Reporting Lab has been established with an objective to stimulate innovations in the field of corporate reporting in Europe by identifying and sharing good practices.

The European Corporate Reporting Lab will initially focus on non-financial reporting, including sustainability reporting. Preliminary projects may include climate-related disclosures in line with the TFCD recommendations. Other topics may be environmental accounting and, in the medium term, integrated reporting, digitalisation and innovations in various other aspects of corporate reporting.

Legal and Regulatory Developments

Companies (Accounting) Act 2014 – Small and micro companies

The Companies (Accounting) Act 2017 ('CA 2017') made a range of amendments to the accounting and filing requirements of the Companies Act 2014. CAI has published a Technical Release (TR) to assist with the preparation of statutory financial statements of *small and micro companies*. CA 2017 has *reduced the number of disclosure requirements for small and micro companies* compared with larger companies.

The TR discusses these disclosures and also highlights some key aspects of the revised legal requirements regarding *directors' reports and abridged financial statements* applying to small and micro companies.

Companies (Statutory Audits) Act 2018

The primary objective of the legislation is to regulate the profession of the statutory auditor and the conduct of statutory audits. The essential elements of EU rules on statutory audits were introduced into Irish law by S.I.312 in 2016 and this Act brings those rules into primary legislation.

The Companies (Statutory Audits) Act 2018 amends current law to allow for the loss of audit exemption for the 2 successive years after the late filing of the annual return rather than the retrospective loss which will remove the necessity to file documents for an historical audit.

In addition, the reference to "public auditor" is removed from a number of Acts, with the term "statutory auditor" being inserted in its place.

Corporate Governance

With effect from 28 September 2018, an AIM company will need to disclose details of the recognised corporate governance code that it has adopted, how the company complies with this code and where it departed from it, an explanation of the reasons for doing so.

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.

For more details on the above please contact your client service partner or our financial reporting service contacts:

John McCarroll
Partner
T: +353 1 417 2533
E: jmccarroll@deloitte.ie

Brendan Sheridan
Director
T: +353 1 417 2357
E: bsheridan@deloitte.ie

Oliver Holt
Director
T: +353 1 417 5731
E: oliverholt@deloitte.ie

Dublin
Deloitte
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
Deloitte
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

Galway
Deloitte
Galway Financial Services Centre
Moneenageisha Road
Galway
T: +353 91 706000
F: +353 91 706099

Belfast
Deloitte
19 Bedford Street Belfast,
BT2 7EJ
Northern Ireland
T: +44 (0)28 9032 2861
F: +44 (0)28 9023 4786

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