Quarterly Financial Reporting Brief

January 2020

In the final quarter of the year, financial reporting supervisors set out their priorities for 2019 reporting. A new international standard on presentation and disclosures has been proposed, while financial instruments continued in focus. Climate change and sustainability remain priority issues. Thematic reviews have been reported on with more planned for the coming year, with developments in corporate reporting under review. A revised stewardship code is coming into force in 2020. Audit inspection plans have also been in focus.

The European Securities and Markets Authority (ESMA) has published common enforcement priorities in 2019, while in the UK the Financial Reporting Council (FRC) has published its annual review of corporate reporting and has outlined its key considerations for reporting in 2019 in a letter to Finance Directors and Audit Committee Chairs. ESMA has also published a report on its assessment of compliance with the Guidelines on Alternative Performance Measures.

The International Accounting Standards Board (IASB) has published its proposals for a new standard on presentation and disclosure, to replace IAS 1, while the IFRS Council has published a Guide to selecting and applying accounting policies. IFRS 9 Financial Instruments continues in focus.

Accountancy Europe has published a paper calling for a global solution to inter-connected standard setting.

The proliferation of publications on climate change and sustainability has continued, emanating from a wide range of organisations. The call for greater transparency and full disclosure has grown louder.

In addition to its annual review of corporate reporting, the FRC has also published thematic reviews in respect of leasing, financial instruments, revenue and impairment together with its plan for further reviews in 2020. Looking to the future, the FRC together with its Lab has engaged in a number of surveys and reviews into the future of corporate reporting. The FRC has also published a revised Stewardship Code effective in 2020. Finally, amendments have been made and proposed to FRS 101 and FRS 102.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published its work programme for 2020-2022, with a focus on publication of inspection results.

The Central Bank has published a new guide on sanctions imposed under the Administrative Sanctions Procedure.

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

International Accounting and Related Developments

ESMA Enforcement Priorities

ESMA has announced its common enforcement priorities related to 2019 IFRS financial statements which include:

- specific issues related to the application of IFRS 16 Leases;
- follow-up of specific issues related to the application of IFRS 9 Financial Instruments for credit institutions and IFRS 15 Revenue from Contracts with Customers for corporate issuers; and
- specific issues related to application of IAS 12 Income Taxes (including application of IFRIC 23 Uncertainty over Income Tax Treatments).
- Other matters include:
  - ➢ Implications of transition from one interest rate benchmark to another
  - ➢ Non-financial disclosures with a focus on environmental reporting
  - ➢ ESMA Guidelines on Alternative Performance Measures
  - ➢ Brexit

IASB proposes new standard on general presentation and disclosures

The IASB has published the exposure draft of a new standard 'General Presentation and Disclosures' that is intended to replace IAS 1. Comments are requested by 30 June 2020. The Board has decided to focus on four main areas:

1. Introduction of defined subtotals and categories in the statement of profit or loss
2. Introduction of requirements to improve aggregation and disaggregation
3. Introduction of Management Performance Measures (MPMs) and accompanying disclosures in financial statements
4. Introduction of targeted improvements to the statement of cash flows

IFRS Foundation: Guide on accounting policies

The IFRS Foundation has issued, 'Guide to Selecting and Applying Accounting Policies — IAS 8'. The steps considered to make up the process for selecting and applying accounting policies are:

- Consider whether an IFRS Standard specifically applies to the transaction, other event or condition
- Consider whether IFRS Standards deal with similar and related issues
- Refer to and consider the applicability of the Conceptual Framework for Financial Reporting

This guide explains how to apply the three-step process to developing accounting policies by using material and examples that have been discussed by the IASB or IFRS Interpretations Committee.

IFRS 9 expected credit loss disclosures

In 2017, the UK FRC, Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) set up the Taskforce on Disclosures about Expected Credit Losses ('the DECL Taskforce'). Their second report adds guidance and illustrative examples that show how the recommendations in the first report on disclosures can be presented in a way that enhances comparability between banks. The focus is on the types and extent of credit risk exposure a bank has and how that risk has evolved; the forward-looking information about macro-economic conditions used in estimating ECL; and the sensitivity of ECL provisions to different macro-economic conditions.

Climate Change – Disclosure

The International Federation of Accountants (IFAC) has published a 'Points of view' document calling on action from various stakeholders with respect to climate change highlighting that they should all embrace climate action and be part of the solution.

The IFAC indicates that professional accountancy organisations have a key role to play in influencing climate-change mitigation and adaption as advocates for the profession and providers of accounting training and support. It calls on professional accountancy organisations to commit to keeping accountants informed of how they can support their organisations' and clients' efforts to respond to climate risk.

A new report from the FRC Lab reveals that companies are falling short of investors' expectations for clearer reporting on climate-related issues. The report outlines what investors want to understand, questions companies should ask themselves, recommended disclosures, and a range of examples of the developing practice of climate-related reporting.

The FCA plans to issue a consultation paper in 2020 which will propose new disclosure requirements for certain issuers aligned with the TCFD's recommendations on a 'comply or explain' basis and clarify existing disclosure obligations relating to climate change risks.

Sustainability and Integrated Reporting

Recent developments include:

- The World Business Council for Sustainable Development (WBCSD)– has published 'Reporting Matters' to navigate new issues through the lens of materiality, judgement and visual language.
- The WBCSD and the Institute of Chartered Accountants in England and Wales (ICAEW) have jointly launched guidance on non-financial assurance 'A Buyer's guide to assurance on non-financial information'
- The European Commission (EC) has published a final report on '*EU Climate Benchmarks and Benchmarks' ESG Disclosures'* by its Technical Expert Group (TEG) on Sustainable Finance
- The International Federation of Accountants (IFAC) has published 'Enhancing Corporate Reporting'

Alternative performance Measures

In 2015, ESMA published its final Guidelines on Alternative Performance Measures (APMs) for listed issuers that became effective in July 2016. ESMA has now published a report that builds on a desktop review of 2018 annual financial reports to assess issuers' compliance with the guidelines.

The assessment of issuers' compliance with the guidelines shows that there is significant room for improvement but that the use of APMs is widespread in all sectors and within all regulated documents, as only a minority of issuers comply with all principles. Significant diversity exists in the number and type of APMs used, as well as in their labels and definitions.

Non-Financial Reporting Standard Setting

Accountancy Europe has published a paper describing and calling for a global solution to interconnected standard-setting that can meet the need for reliable, consistent information in non-financial reporting that is interconnected with financial reporting. The paper introduces nine criteria to assess approaches to interconnected standard-setting for corporate reporting.

Accountancy Europe is of the view that a global corporate reporting structure offers the best solution with an enhanced monitoring body and a corporate reporting foundation that builds on the current IFRS Foundation Trustees and would be responsible for financial reporting and non-financial reporting oversight. Comments on the paper are invited by 31 March 2020.

Ireland and UK – New Developments

FRC Annual Review

In its Annual Review of Corporate Governance and Reporting, the FRC expects companies will improve the quality of reporting of forward-looking information, the potential impact of emerging risks on future business strategy, the carrying value of assets and the recognition of liabilities. The FRC expresses concern that failure to report on these crucial areas undermines trust in business and can lead to the conclusion that management is either unaware of their potential impact, is being opaque, or is not managing them effectively.

Alongside the Annual Review, the FRC has also published a letter to Audit Committee Chairs and Finance Directors in advance of the 2019/20 reporting season on key areas that need to be considered in the preparation of forthcoming annual reports and accounts. Those key areas are drawn from, and are consistent with, the findings included in the FRC's Annual Review of Corporate Governance and Reporting.

FRS 102: Interest rate benchmark reform

The FRC has issued Amendments to FRS 102 – Interest rate benchmark reform, which responds to a current financial reporting issue. These amendments to specific hedge accounting requirements in FRS 102 provide relief that will avoid unnecessary discontinuation of hedge accounting during the period of uncertainty. Entities will apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of interest rate benchmark reform.

The amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

FRS 101: Annual review

The FRC has issued FRED 73 Draft amendments to FRS 101 – 2019/20 cycle. This arises from the annual review of FRS 101 Reduced Disclosure Framework and proposes two minor amendments to improve the consistency of the disclosure exemptions in relation to the statement of cash flows and related disclosures.

FRC: IFRS 16 thematic review

The FRC has published the results of its thematic review on IFRS 16 "Leases".

The review identified that there are a number of areas where disclosure could be improved and that "some companies in their half-year reports did not sufficiently explain the impact of adopting IFRS 16". The FRC's key findings were that the following disclosures could be improved:

- information about key judgements made on adopting the new standard, explaining the specific judgements made and the effect on the accounts
- for modified retrospective adopters:
  - clearer communication of transition choices
  - better explanations of the difference between the IAS 17 commitments and the IFRS 16 lease liability; and
  - clarification that alternative performance measures have not been restated and where new APMs are used that disclosure is consistent with ESMA's Guidelines.

The FRC indicates that the best disclosures were those that were specific to the entity.

IAASA has also published an Information Note on IFRS 16 implementation.

The FRC has also published three other thematic reviews to help companies improve the quality of their corporate reporting in relation to IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and the impairment of non-financial assets. The reports analyse the disclosures in a sample of companies' reports and provide examples of better practice.

FRC Thematic Reviews – 2020/21

The FRC has announced the thematic reviews that it will undertake in 2020/21, with four thematic reviews which will "identify scope for improvement, as well as areas of better practices, in a number of areas of stakeholder interest": a review of disclosures made under IFRS 16 Leases in the first year of implementation; cash flows and liquidity disclosures; a deeper dive into certain findings from the recent thematic review on the application of IFRS 15 Revenue from Contracts with Customers; and the effects of the decision to leave the EU on companies' disclosures reviewing company disclosures with respect to climate change.

FRC: Corporate Reporting Developments

The Financial Reporting Lab is inviting investors and companies to participate in a new project on the disclosure of business models, strategy and the longer-term. The first reporting topic project will consider what users want from business model and strategy disclosures and how companies might best communicate the longer-term plans and prospects. The scope of the project is likely to explore how companies develop, monitor and communicate their business model and strategy to examine how companies include a longer-term focus in their reporting.

The FRC Lab is calling for participants to participate in the next phase of its 'Digital Future project', looking to investigate how Video, Augmented Reality (AR) and Virtual Reality (VR) is, and will be, used in the production and consumption of corporate reporting data.

The FRC is also undertaking a major new project on the future of corporate reporting, Having carried out an online survey to gather the views of a wide range of stakeholders seeking to answer the question 'what information do users need'. A key aim of the project is to challenge the FRC to think more broadly about how to promote greater 'brevity, comprehensibility and usefulness in corporate reporting' moving forward.

FRC: Revised UK Stewardship Code

Some of the principal features are:

- An extended focus that includes asset owners, such as pension funds and insurance companies, and service providers as well as asset managers..
- A requirement to report annually on stewardship activity and its outcomes.
- Signatories will be expected to take environmental, social and governance factors, including climate change, into account and to ensure their investment decisions are aligned with the needs of their clients

Signatories are required to explain their organisation's purpose, investment beliefs, strategy and culture and how these enable them to practice stewardship.

The 2020 Code takes effect for reporting years beginning on or after 1 January 2020.

Additionally, the FCA has published a feedback statement to its joint discussion paper entitled 'Building a regulatory framework for effective stewardship'.

The UK Investment Association (IA) has published its updated Principles of Remuneration ("the Principles"). It has issued a letter to Remuneration Committee chairmen highlighting key aspects of the Principles that its members have identified as areas of focus for the forthcoming AGM season.

Legal and Regulatory Developments

IAASA Developments

IAASA has published its Work Programme for the period 2020–2022, as it begins publishing the results of its Public Interest Entity audit firm inspections, and as its Conduct Unit comes fully on stream.

IAASA has published its Settlement Procedures for Investigations under Section 934 of the Companies Act 2014. They provides timely resolution and transparency through the publication of the details of the case.

Central Bank: Enforcement sanctions

The Central Bank has published a new guide to sanctions imposed under the Administrative Sanctions Procedure (ASP) for the financial services sector.

Guidance will provide greater clarity on the Central Bank's approach to enforcement sanctioning factors.

Guidance seeks to promote an improved culture of compliance in firms by clarifying the behaviours which may aggravate or mitigate a breach of financial services law.

Lack of co-operation with the regulator can have a considerable bearing on subsequent sanctions.

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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