2020

Financial Reporting Supervision Unit

Financial Reporting Decisions

IAASA
Irish Auditing & Accounting Supervisory Authority

MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

DISCLAIMER

Contents

1. Background & introduction

In accordance with its Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings, IAASA publishes this compendium of financial reporting decisions with the aim of promoting high quality financial reports.

The financial reporting decisions included in this compendium were deemed by IAASA to be 'significant' and, therefore, are published in this document, as they met one or more of the following publication criteria:

(a) refers to financial reporting matters with technical merit;

(b) has been discussed at EECS as an emerging issue;

(c) has been submitted to the EECS Decision Database;

(d) will be of interest to other European accounting enforcers;

(e) indicates to IAASA that there is a risk of significant differences in the financial reporting treatments applied by issuers;

(f) is likely to have a significant impact on other Irish or European issuers;

(g) is taken on the basis of a provision not covered by a specific financial reporting standard; or

(h) otherwise meets IAASA's mission of promoting high quality financial reporting.

2. Bank of Ireland Group plc

Issuer	Bank of Ireland Group plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	▪ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ▪ IFRS 9 *Financial Instruments*

Summary

Bank of Ireland Group plc ('the issuer') provides a range of banking and other financial services. The issuer is one of the largest financial services groups in Ireland with total assets of €124bn as at 31 December 2018.

IAASA performed a focused examination of the issuer's annual financial statements for the year ended 31 December 2018. The issuer provided IAASA with a number of voluntary undertakings to provide additional disclosures in future financial statements.

Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA

Set out below is an outline of the financial reporting treatments applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
1. IAS 8 – restatement of liquidity maturity table of financial liabilities	
The issuer disclosed a liquidity risk and profile table of financial liabilities presented on a contractual-maturity basis. IAASA noted that the prior year comparative amounts for commitments 'on demand' had been re-stated by €2,502m from €12,172m to €14,674m and commitments classified as '1 - 5 years' had been re-stated by €2,502m from €2,556m to €54m). The liquidity note stated that comparative amounts had been adjusted to reflect a change in the assessment of the maturity dates for certain commitments. The issuer's 2017 financial statements also referred to comparative figures amounting to €1,500m having been adjusted to reflect a change in assessment of the maturity dates for certain debt securities in issue. It was noted that the net line items in the Statement of Financial Position and the Statement of Cash Flow were not impacted by the re-statement.	IAASA concluded that the 2017 and 2016 misstatements in the liquidity maturity table of financial liabilities are the corrections of prior period errors as defined by IAS 8.5. The issuer gave the enforcer voluntary undertakings that future financial statements would: (a) comply, in full, with the disclosure requirements of IAS 8.42 and 49 (disclosure of prior period errors); and (b) enhance the controls involved in the preparation of the liquidity risk table in future financial statements.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
2. Implementation of IFRS 9	
The following three financial reporting decisions are linked to the implementation of IFRS 9 and involve the exercise of judgement. Disclosures in this area are evolving over time.	
2.1 Reconciliation of impairment loss allowance	
The issuer disclosed an expected credit loss (ECL) allowance reconciliation in the notes to the financial statements. A number of line items therein were presented as 'net' items. IFRS 7.35H states that entities shall explain the changes in the impairment loss allowance and the reasons for those changes by class of financial instrument. IFRS 7.35I states that such information shall include relevant qualitative and quantitative information. Some line items in the ECL allowance reconciliation are significant ECL adjustments which materially exceed some of the ECL sensitivity analysis disclosed elsewhere in the notes to the financial statements and the ECL impairment charge in the Consolidated Income Statement. Impacted line items included reconciling items described as: (a) re-measurements amounting to €166m; and (b) ECL model/parameter changes.	IAASA concluded that the materiality of selected line items in the ECL allowance reconciliation (e.g. re-measurements and ECL model/parameter changes) required further narrative in the notes explaining their impact on the impairment loss allowance and the reasons for the changes. The issuer gave the enforcer voluntary undertakings that future financial statements would: (a) provide a more detailed explanation of the nature and type of ECL movements attributed to re-measurements and other material line items on the impairment loss allowance reconciliation during the year [i.e. qualitative and quantitative disclosures]; and (b) comply, in full, with the disclosure requirements of IFRS 7.35H and IFRS 7.35I.
2.2 Disclosure of ECL sensitivity analysis	
The issuer's financial statements disclosed a sensitivity analysis that disclosed the quantitative impact of: (a) applying multiple ECL scenarios rather than a central ECL scenario; (b) the impact of a 100% upside ECL scenario; and (c) the impact of a 100% downside scenarios on ECLs. The key macroeconomic variables and assumptions disclosed in the notes to the financial statements were disaggregated by RoI and UK portfolios; however, the sensitivity analysis was limited to an aggregated portfolio sensitivity analysis.	IAASA observed quantitative analysis of variations in the sensitivity and non-linearity of ECLs across selected portfolios. IAASA noted that the ECL sensitivity analysis disclosure in the financial statements appeared to limit the transparency of: (a) differences in the sensitivities of ECLs across sub-portfolios and/or (b) non-linearity observed in ECLs across various sub-portfolios e.g. RoI compared to UK loans. The issuer gave the enforcer voluntary undertakings that future financial statements would:

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
	(a) disclose variations in the sensitivity of ECLs across portfolios (including non-linearity in ECL sensitivity) such that users understand the variability in the estimation uncertainty across portfolios; (b) comply, in full, with the disclosure requirements of IAS 1.125, IAS 1.129 and IFRS 7.B3; and (c) distinguish, in the critical accounting estimates and judgements note, between assumptions it makes about the future and other major sources of estimation uncertainty that: (i) have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year [IAS 1.125 to 1.129 refers]; and (ii) those that do not have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
2.3 Disclosure of management adjustments to model generated ECLs	
The issuer disclosed that at 31 December 2018, the impairment loss allowance for residential mortgages of €537m included a management adjustment of the modelled ECL amounting to €92m. This was described as a reflection of the evolving nature of impairment modelling under IFRS 9, measurement uncertainty and the non-linear relationship between macroeconomic indicators and associated credit losses. The management adjustments to residential mortgages (RoI and UK) are equivalent to a circa 20% increase in the residential mortgage modelled ECL loss allowance. IFRS 9.B5.5.52 states that estimates of changes in ECLs should reflect and be directionally consistent with changes in related observable data from period to period that are indicative of credit losses on the financial instrument or in the group of financial instruments and in the magnitude of those changes.	IAASA concluded that, notwithstanding the reduction in management adjustments to €92m as at 31 December 2018, the quantum of such adjustments are material to both operating profit before impairment and to the residential mortgage ECL loss allowance. Consequently, management adjustments merited further qualitative and quantitative disclosure in accordance with IFRS 7.35G and IAS 1.125. The issuer gave the enforcer voluntary undertakings that future annual financial statements would: (a) disclose greater qualitative and quantitative information for material management adjustments; and comply, in full, with the disclosure requirements of IFRS 7.35G and IAS 1.125.

3. Crown Global Secondaries IV plc

Issuer	Crown Global Secondaries IV plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 13 *Financial Value Measurement*

Summary
Crown Global Secondaries IV plc ('the issuer') is a closed-ended investment company. The focus of the issuer is to provide its participating shareholders with long-term capital appreciation from a globally diversified portfolio of private equity investments.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2018.

IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of aspects of IFRS 13 *Fair Value Measurement*. The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements.

Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA
Set out below is an outline of the financial reporting treatments applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
1. IFRS 13 – quantitative disclosure of the unobservable inputs (Level 3) used in the fair value measurement of financial instruments (investments)	
The issuer categorised all its financial instruments as Level 3 assets under the IFRS 13 fair value hierarchy. Paragraph 93(d) of IFRS 13 *Fair Value Measurement* requires that for fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. The notes to the issuer's financial statements did not provide quantitative information about the significant unobservable inputs used in the fair value measurement of selected financial instruments. The requirements of IFRS 13.93(d) were not satisfied by disclosing that all investments were based on unobservable inputs.	IAASA concluded that the financial statements did not disclose quantitative information about the significant unobservable inputs used in the fair value measurement of selected financial instruments as required by IFRS 13.93(d). The issuer provided undertakings to IAASA that future financial statements would: (c) disclose a quantitative table of the significant unobservable inputs used in the fair value measurement of financial instruments; and (d) comply, in full, with the disclosure requirements of IFRS 13.93(d).

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
2. IFRS 13 – reasonably possible alternative assumptions that would change the Level 3 fair values significantly	
IFRS 13.93 (h)(ii) requires disclosure if changing unobservable inputs to reflect reasonably possible alternative assumptions would change the Level 3 fair values significantly. The issuer's financial statements did not disclose the effect of reasonably possible alternative assumptions for Level 3 assets. IAASA did not agree with the issuer's assertion that a disclosure was not deemed appropriate.	IAASA noted that all financial instruments were categorised as Level 3 assets. The omission of the disclosure of how the impact of changing unobservable inputs to reflect reasonably possible alternative assumptions (that would change the level 3 fair values significantly) limits users' understanding of the fair valuation judgements. The issuer provided undertakings to IAASA that future financial statements would: (a) disclose in quantitative terms the impact on the fair value measurement of changing unobservable inputs to reflect reasonably possible alternative assumptions for Level 3 financial instruments; and (b) comply, in full, with the disclosure requirements of IFRS 13.93(h)(ii).

4. Irish Residential Properties REIT plc

Issuer	Irish Residential Properties REIT plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	▪ IFRS 13 *Financial Value Measurement* ▪ IFRS 15 *Revenue from Contracts with Customers* ▪ IAS 1 *Presentation of Financial Statements*

Summary

Irish Residential Properties REIT plc ('the issuer') is a Real Estate Investment Trust ("REIT") that owns apartments in Dublin. The issuer is focused on acquiring, holding, managing and developing investments primarily focused on residential rental accommodations in Ireland.

IAASA performed a focused examination of the issuer's annual financial statements for the year ended 31 December 2018. IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of a number of financial reporting standards. The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements.

Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA

Set out below is an outline of the financial reporting treatments applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
1. IFRS 13 – quantitative disclosure of the Level 3 inputs used in the fair value measurement of investment properties	
The issuer categorised all its investment properties as Level 3 assets under the IFRS 13 fair value hierarchy. These properties included income generating investment properties, properties under development and development land. Paragraph 93(d) of IFRS 13 *Fair Value Measurement* requires that for fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. The notes to the issuer's financial statements disclosed that the fair value of investment property under development was determined based on the 'residual method' of valuation which is the market-derived capitalisation rates [i.e. yields] applied to current and projected future income	IAASA concluded that the financial statements did not disclose quantitative information of the costs to completion for property under development. The issuer provided undertakings to IAASA that future financial statements would: (a) disclose the costs to complete as a key input in the residual method valuation for the 'Properties under Development' asset class including quantitative information regarding the maximum, minimum and weighted average build cost per square foot; and (b) comply, in full, with the disclosure requirements of IFRS 13.93(d).

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
streams with a deduction for the costs necessary to complete the development. The issuer confirmed that estimates of the cost to complete are a key input in the residual method valuation for properties under development. However, quantitative information of the cost to completion for property under development was not disclosed in the notes to the financial statements.	
2. IFRS 15 – disclosure of disaggregated revenue (qualitative and quantitative information) recognised from contracts with customers (non-lease income)	
The issuer disclosed that revenue was made up of rental income from short-term rental of investment properties and a nominal amount of car park income (non-lease income). The issuer also disclosed that they had adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The issuer did not disclose separately the amount of common area and maintenance income (i.e. CAM service income which amounted to 11% of total revenue) and other non-lease revenue.	IAASA concluded that, while total operating revenue was presented in the financial statements, the financial statements did not disclose disaggregated revenue analysed into categories that depict the nature and amount of non-lease revenue including CAM service income and other non-lease income. The issuer provided undertakings to IAASA that future financial statements would (a) disclose disaggregated income including lease and non-lease income; and (b) comply, in full, with the disclosure requirements of paragraphs 114, 119, 123 and124 of IFRS 15.
3. IAS 1 – disclosure of sensitivity analysis of the fair valuation to stabilised NRI	
The issuer's financial statements disclosed that the estimated stabilised net rental income (NRI) and market-observed capitalisation rates are key inputs in the valuation model used. However, a sensitivity analysis was provided only for reasonably possible changes to capitalisation rates and was not disclosed for stabilised NRI. The issuer asserted that the sensitivity was not disclosed for Stabilised NRI as a movement in Stabilised NRI does not result in a material impact on the fair value of the Group's investment properties.	IAASA noted that the omission of a sensitivity analysis disclosure in the financial statements for stabilised NRI appeared to limit the transparency of sensitivities of the fair valuation to changes in the stabilised NRI which is a key fair valuation input. The issuer provided undertakings to IAASA that future financial statements would: (a) disclose the sensitivity of the fair valuation of properties to reasonably possible movements in Stabilised NRI; and (b) comply, in full, with the disclosure requirements of IAS 1.125 and IAS 1.129 with regard to the disclosure of

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
	sources of estimation uncertainty and movements in Stabilised NRI.

5. Kerry Group plc

Issuer	Kerry Group plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	IFRS 15 *Revenue from Contracts with Customers*

Summary

This financial reporting decision concerns the categories into which an issuer disaggregates revenue recognised from contracts with customers which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Background

The issuer is an operator in taste and nutrition serving the food, beverage and pharmaceutical industries and a supplier of added value brands and customer branded foods to the Irish, UK and international markets with revenue of €6.6bn in 2018.

IAASA performed a focussed examination of the issuer's annual financial statements for the year ended 31 December 2018.

Outline of financial reporting treatments applied by the issuer

In its 2018 annual financial statements the issuer disaggregated revenue by its two operating segments – (1) Taste and Nutrition, and (2) Consumer Foods.

IAASA noted that the issuer presented colour coded graphics in its Management Report for '*Revenue by End Use Markets (EUMs)*' for its Taste and Nutrition operating segment and *'Revenue by Category', 'Revenue by Channel'* and '*Revenue by Region*' for its Consumer Foods operating segment. The four graphics included the following information:

- Revenue by EUMs analysed over 8 separate EUM categories;
- Revenue by Category analysed over 3 separate categories;
- Revenue by channel analysed over 2 separate channels; and
- Revenue by Region analysed by 3 separate geographical regions.

Paragraph 114 of IFRS 15 *Revenue from Contracts with Customers* states that:

> *'An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87 – B89 when selecting the categories to use to disaggregate revenue.'*

Outline of findings made by IAASA

IAASA requested the issuer to outline how it considered the requirements of IFRS 15.114 when determining the appropriate disaggregated revenue categories to depict the nature, amount, timing and uncertainty of revenues and cash flows affected by economic factors.

In assessing the requirements of IFRS 15, the issuer stated that it considered the following factors:

(a) the EUMs disclosed in the Management Report are the markets in which its customers operate and the additional analysis provided is to show the breadth of the EUMs in which its customers operate and utilise the issuer's ingredients; and

(b) the consumer foods business provides a range of chilled foods products to meet its customer requirements. The colour coded graphics of *'Revenue by Category', 'Revenue by Channel'* and '*Revenue by Region*' were provided to demonstrate the breadth of the distribution of its products.

The issuer also indicated that, in assessing the categories of disaggregated revenue that may be appropriate to present within the annual financial statements, it determined that it has two types of products – (1) Taste and Nutrition products, and (2) Consumer Foods products; revenue is, therefore, disaggregated at this level.

IAASA further requested the issuer to explain how the economic factors for the EUMs within the Taste and Nutrition operating segment and the categories/channels/regions within the Consumer Foods operating segment are similar and do not require further disaggregation of revenue disclosures within the notes to the financial statements.

The issuer indicated that:

(a) it manufactures products that are either:

 (i) ingredients used by other Food and Beverage manufacturers; or

 (ii) finished food products;

(b) economic factors impact the EUMs within the Taste and Nutrition operating segment and the categories/channels/regions within the Consumer Foods operating segment in a similar way as the issuer operates in only one industry (i.e. Food and Beverage);

(c) the factors with the greatest impact on the issuer's revenue growth are those resulting from the consumers preferences; and

(d) all of the changes in consumer preferences are consistent across the EUMs into which the issuer's Taste and Nutrition customers sell and the various categories, channels and countries into which Consumer Foods sells.

IAASA concluded that:

(a) the issuer operates in a number of geographical locations with customers located in a number of different regions and significant changes in economic factors could affect the nature, amount, timing and uncertainty of revenue and cash flows for the issuer's EUMs within the Taste and Nutrition operating segment and the categories/channels/regions within the Consumer Foods;

(b) the EUMs and the regions where the issuer sells its finished products may exhibit different economic factors e.g. different economic growth rates, different inflation rates, different consumer sentiments, etc); and

(c) the issuer disclosed in its Annual Report the different impacts of currency translation and lower pricing on the reported revenue in the Americas, Europe and APMEA regions which further demonstrates the existence of dissimilar economic factors across the regions where the issuer sells and manufactures its products.

Outline of corrective actions undertaken or to be undertaken
Following engagement with IAASA, the issuer, while maintaining that its accounting treatment was in compliance with IFRS 15, voluntarily undertook to increase the level of disclosure of disaggregation of revenue in future financial statements. The issuer undertook to ensure greater consistency between the disaggregation of revenue disclosed in the disaggregation of revenue

note to the financial statements and the revenue information that is disclosed elsewhere in the Annual Report.

6. Kenmare Resources plc

Issuer	Kenmare Resources plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	▪ IFRS 15 *Revenue from Contracts with Customers* ▪ IAS 36 *Impairment of Assets*

Summary
These financial reporting decisions concern:

- the categories into which an issuer disaggregates revenue recognised from contracts with customers which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors; and
- the rationale as to why the issuer did not apply the full country risk premium to the calculation of its weighted average cost of capital ('WACC') used for performing an impairment review.

Background
The issuer is a producer of mineral sands products from its mine in Mozambique. The issuer's production accounts for approximately 7% of global titanium feedstocks.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2018.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
1. IFRS 15 – disclosure of disaggregated revenue	
In its 2018 annual financial statements, the issuer disaggregated revenue by three product lines: (a) Ilmenite; (b) Zircon; and (c) Rutile. In a presentation on its website to coincide with the publication of its 2018 earnings announcement, a graphic was presented titled '*2018 revenue contribution by product (%)*' and revenue percentages were presented for four product lines: (a) Ilmenite – comprising 69% of revenue; (b) Primary Zircon – comprising 23% of revenue;	Following engagement with IAASA, the issuer indicated that for future financial statements an additional product category will be used namely 'mineral sands concentrate'. In future years secondary Zircon and other mineral sands products (i.e. secondary Zircon, Monazite and Rutile) will be mixed and sold as a mineral sands concentrate product. The issuer voluntarily undertook to present disaggregated revenue in the following categories in future financial statements: (a) Ilmenite; (b) Zircon; (c) Rutile; and

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
(c) Secondary Zircon – comprising 6% of revenue; and (d) Rutile – comprising 2% of revenue. Paragraphs 114 and 115 of IFRS 15 state that: ‘ *114. An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87 – B89 when selecting the categories to use to disaggregate revenue.* *115. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies IFRS 8* Operating Segments.’ It appeared to IAASA that the revenue information disclosed in the notes to the financial statements for Zircon was comprised of the aggregate revenue for ‘Primary Zircon’ and revenue for ‘Secondary Zircon’. It also appeared to IAASA that the revenue amounts for both ‘Primary Zircon’ and ‘Secondary Zircon’ were available as their respective revenue percentages were presented within the issuer’s results presentation. IAASA also reviewed the issuer’s investor presentations, annual reports, results announcements since 2015 and it appeared that both primary Zircon and secondary Zircon are subject to different price volatility. For example, the issuer disclosed in a 2015 investor presentation that: (a) primary Zircon price decrease was 2%; and (b) secondary Zircon price decrease was 12%. For 2016 the issuer disclosed similar information in its investor presentation indicating that:	(d) Mineral Sands Concentrate.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
(a) primary Zircon price (FOB) decrease was 16%; and (b) secondary Zircon price (FOB) decrease was 36%. It appeared to IAASA that the impact of external economic factors have different impacts on the price per tonne for both primary Zircon and secondary Zircon. The basis for the differing impacts is because primary Zircon is of a higher quality grade compared to the lower grade secondary Zircon. In addition, the issuer completed a capital project in November 2018 and the production of Mineral Sands Concentrate (secondary Zircon, Monazite and Rutile) was commenced (i.e. just 1,900 tonnes were produced). IAASA requested the issuer to explain why further disaggregation of revenue was not provided within the notes to the financial statements for the categories of products disclosed in the issuer's preliminary results presentation. The issuer indicated that in determining the disaggregation of revenue for 2018 it determined that the three main product categories was the most appropriate analysis. The issuer indicated that it sold three main product categories during 2018. The revenue of both primary Zircon and secondary Zircon were aggregated for this purpose.	
2. IAS 36 – application of full country risk premium to the calculation of weighted average cost of capital used for an impairment review	
In its 2018 annual financial statements, the issuer disclosed the following information in the notes to its financial statements: '*The discount rate is based on the Group's weighted average cost of capital. This rate is a best estimate of the current market assessment of the time value of money and the risks specific to the Mine, taking into consideration country risk, currency risk and price risk. The factors making up the cost of equity, cost of debt and capital structure have changed from the prior year resulting in a discount rate of 12%.* **The Group does not consider it appropriate to apply the full country risk premium to the calculation of the Group's weighted average cost of capital** [bold emphasis added] *as it*	Following engagement with IAASA, the issuer undertook to expand its impairment review disclosures in future periodic financial statements to disclose the breakeven discount rate that would result in the recoverable amount of the mine being equal to its carrying amount recognised in the financial statements.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
believes the specific circumstances which have resulted in the country risk increases over the past number of years are not appropriate to the specific circumstances of the Moma Mine. Hence, the calculation of county risk applicable to the calculation of the cost of equity has been adjusted accordingly …' No impairment provision was recognised in the year by the issuer in respect of its mining assets. Paragraph A18 of IAS 36 states that discount rates must be adjusted: ' *(a) to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and* *(b) to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.* *Consideration should be given to risks such as country risk, currency risk and price risk.* IAASA requested the issuer to explain why the specific circumstances which have resulted in an increase in Mozambique's country risk are not appropriate to the specific circumstances of the mine. The issuer indicated that the country risk premium data is provided by its financial advisor and is based on Damodaran methodology using the Mozambique sovereign credit rating and the credit default swap spread. The Mozambican Government's sovereign credit rating declined from B1 to B3 in early 2016 and then to Caa3 in October 2016 following deterioration of the Government's finances in the wake of the Ematum Tuna Boat Bond scandal. The country's credit rating has not been updated since October 2016. The issuer also indicated that it believed it would be inappropriate to apply the country risk premium in its entirety due to the specific characteristics of the mine. The country risk premium has been adjusted to exclude risks that are not considered relevant to the mine's estimated cash flows taking into account: (a) the issuer has a global customer base with customers located in China, USA and	

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
Europe, all highly developed economies with a spread of revenue streams; (b) all sales are made in US$ and not impacted by foreign currency exposure; (c) the coastal location of the mine requires limited use of domestic infrastructure and logistics which makes the issuer less vulnerable to certain significant country specific risks; (d) the mining operation is governed by a Mineral Licensing Contract which was entered into with the Government of Mozambique in January 2002 covering an initial period of 25 years of mining and renewable thereafter at the option of the issuer; (e) the issuer has not experienced any disruptions to its operations from the deterioration in the country risk and continues to maintain a positive working relationship with the Government of Mozambique; and (f) the mine is located in the north of Mozambique. The issuer owns and operates two transhipment vessels which transport the finished product to a deep-water transhipment point 10 kms offshore where they self-discharge into bulk carrier vessels. It is noted that other infrastructure at the mine includes a 170 kms 100kV power transmission line and substation which delivers power to the mine, a leased 9.6MW diesel generator plant, an accommodation village for employees, an airstrip to bring employees to the mine and water supply. The aforementioned infrastructure was built to ensure the mine was self-sufficient in its operations. The mine, therefore, requires limited use of domestic infrastructure and logistics. Given that the issuer is not dependent on the Government of Mozambique's infrastructure to operate the mine, together with other matters, IAASA concluded that it does not disagree with the issuer's rationale in not applying the full country risk premium for Mozambique to the calculation of its WACC. During the examination, IAASA examined the issuer's calculation of its discount rate and	

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
requested information from the issuer regarding its sensitivity analysis that was disclosed in the 2018 financial statements.	

7. Smurfit Kappa Group plc

Issuer	Smurfit Kappa Group plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	IFRS 15 *Revenue from Contracts with Customers*

Summary
This financial reporting decision concerns the categories into which an issuer disaggregates revenue recognised from contracts with customers which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Background
The issuer is a provider of paper-based packaging solutions, operating across 35 countries with around 46,000 employees in over 350 production sites and achieved revenue of €8.9bn in 2018.

IAASA performed a focussed examination of the issuer's annual financial statements for the year ended 31 December 2018.

Outline of financial reporting treatments applied by the issuer
In its 2018 annual financial statements, the issuer disaggregated revenue by two major product lines – (1) Paper, and (2) Packaging.

Paragraphs 114 and 115 of IFRS 15 state that:
'

> *114. An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87 – B89 when selecting the categories to use to disaggregate revenue.*
>
> *115. In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies IFRS 8* Operating Segments.'

The issuer has identified two reportable segments – (1) Europe, and (2) the Americas.

Outline of findings made by IAASA
IAASA requested the issuer to:

(a) describe how it had considered the requirements of IFRS 15.114 and IFRS 15.115 when determining the appropriate disaggregated revenue categories to depict the nature, amount, timing and uncertainty of revenues and cash flows affected by economic factors; and

(b) explain whether or not its products were subject to different economic factors in Europe and the Americas which would merit further disaggregation of revenue disclosures within the notes to the financial statements.

In response, the issuer indicated that:

(a) it viewed the objective of IFRS 15.114 as the identification of appropriate levels for disaggregated revenue disclosures in order to depict how the revenue and cash flows are affected by economic factors. While the issuer sells various categories of paper and packaging products, it notes that these products are generally influenced and are affected by the same economic factors regardless of the margins achieved;

(b) in the case of paper, the pricing of paper and its related product categories are underpinned by common factors such as paper supply, packaging demand and raw material prices;

(c) in the case of packaging products, pricing is influenced in much the same way across different packaging products by supply and demand conditions which is linked to economic growth;

(d) economic factors which may affect the amount of revenue includes factors such as economic growth rates, consumer sentiment, etc which would impact the volume of both paper and packaging products sold; and

(e) Pulp and Paper Price Index (RISI) is the definitive market source of paper price and volume data and market intelligence and correlations in volume and price across paper product categories. These depict that pricing for the sub-category of products within paper follows very similar trends and is influenced by the same conditions.

The issuer also indicated that the disaggregation of material revenue by country had been provided in line with IFRS 8 *Operating Segments*.

IAASA concluded that certain of the issuer's geographic locations could be at different stages of the economic cycle within both Europe and the Americas segments i.e. some economies experiencing economic growth while others are in decline. The issuer also disclosed in its Annual Report the factors which demonstrates the existence of dissimilar economic factors across the two regions where the issuer sells and manufactures its products.

Following its engagement with IAASA, the issuer indicated that it would provide additional information in future periodic financial statements to meet the requirements of IFRS 15.115.

Outline of corrective actions undertaken or to be undertaken
The issuer voluntarily undertook to disaggregate revenue across both of its operating segments for its two major product lines (i.e. the issuer agreed to present revenue amounts for each of (1) Paper, and (2) Packaging in the Europe operating segment and in the Americas operating segment).

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