

COMMENTARY ON HALF-YEARLY FINANCIAL REPORTS

prepared since the coming
into effect of the Transparency
(Directive 2004/109/EC)
Regulations, 2007



IAASA
Irish Auditing & Accounting
Supervisory Authority

MISSION

To support and enhance public confidence in the accountancy profession and in financial reporting through the exercise of effective, independent oversight and the promotion of adherence to high standards



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1

INTRODUCTION

INTRODUCTION

1.1 Context for this commentary

The efficient functioning of financial markets depends on, amongst other things, investors' ability to rely on the periodic financial information published by entities whose securities have been admitted to trading on regulated markets (such entities are referred to as 'issuers' in this commentary).

In the context of the foregoing, the EU Transparency Directive ('the Directive')¹ was adopted by the European Parliament and Council with the objective of enhancing the European financial market by harmonising issuers' periodic financial reporting requirements as well as shareholders' disclosure obligations. The Directive became effective in Ireland from 13 June, 2007, having been implemented, in the main, through the Transparency (Directive 2004/109/EC) Regulations, 2007 ('the Regulations')². As a result, the Irish Auditing & Accounting Supervisory Authority ('IAASA') assumed responsibility for monitoring and enforcing compliance with certain aspects of the Regulations relating to periodic (annual and half-yearly) financial reports, i.e. issuers' obligations to ensure the compliance of

such reports with the relevant reporting framework. IAASA's review constituency in this regard is currently in excess of 300 issuers, comprising of three distinct categories, viz:

- I. Issuers of equity;
- II. Issuers of debt; and
- III. Closed ended funds.

This commentary should be read in conjunction with the document entitled '*A Guide to the Financial Reporting Requirements of the EU Transparency Directive and to IAASA's role under the Directive*', which was published by IAASA in September, 2007³. The Guide provides further detail regarding, amongst other subjects:

- the factors that determine whether Ireland is an issuer's home Member State;
- issuers' periodic financial reporting obligations; and
- the functions and powers conferred upon IAASA in the context of its role under the Regulations.

¹ The text of the Directive is available at <http://www.iaasa.ie/legislation/index.htm>

² The text of the Regulations is available at <http://www.iaasa.ie/legislation/index.htm>

³ The Guide is available in hard copy upon request from IAASA or, alternatively, for download at http://www.iaasa.ie/publications/IAASA_TD_Guide.pdf

Further information regarding IAASA's activities can be obtained from its first two Annual Reports, both of which are also available on IAASA's website⁴.

1.2 Purpose of this commentary

The Regulations were implemented in a manner whereby issuers' periodic financial reporting obligations commence based on each issuer's established financial reporting period. Accordingly, an issuer whose financial reporting period commenced:

- I. on or after 20 January, 2007 is required to prepare its first half-yearly financial report in respect of the period ending six months following the commencement of its financial year;
- II. prior to 20 January, 2007 is required to prepare its first half-yearly financial report in respect of the period ending six months after the commencement of its next financial reporting period.

As a consequence:

- only a very small number of issuers have been required to publish their first annual financial reports under the new requirements. Accordingly, IAASA's supervisory activities to date have concentrated largely on monitoring issuers' compliance with the half-yearly financial reporting requirements of the Regulations; and
- the majority of issuers coming within the scope of the Regulations will be required to prepare their first half-yearly financial reports in respect of the six months ending on 30 June, 2008 or in the following months.

In the context of the foregoing, the principal purposes of this commentary are:

- to provide those issuers who have yet to prepare and publish their first half-yearly financial reports under the new requirements with a summary of the principal issues that have arisen on foot of IAASA's monitoring activity to date;
- by so doing, to assist those issuers in achieving a high standard of compliance with the periodic financial reporting requirements of the Regulations; and
- through providing a summary of the nature of issues that have arisen to date, together with a summary of the steps being taken by IAASA to address same, to contribute towards the support and enhancement of public confidence in the quality of issuers' periodic financial reporting and in the supervision of such reporting.

The audience for this commentary is principally intended to be those involved in the preparation, approval and/or review of issuers' half-yearly financial reports, including, for example, issuers' senior management, audit committees, boards of directors, providers of audit and other assurance services, legal advisors, listing agents and, where applicable, fund administrators and/or providers of similar services. In that context, IAASA encourages the widest possible transmission of this commentary and readers are, therefore, invited to request additional copies or to access the commentary *via* IAASA's website⁵.

⁴ <http://www.iaasa.ie/publications/index.htm>

⁵ <http://www.iaasa.ie/publications/index.htm>

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COMMENTARY ARISING FROM REVIEWS OF HALF-YEARLY FINANCIAL REPORTS TO DATE

COMMENTARY ARISING FROM REVIEWS OF HALF-YEARLY FINANCIAL REPORTS TO DATE

2.1 Introduction

Since the Regulations came into effect, in excess of 60 half-yearly financial reports have been published by issuers and IAASA has undertaken detailed reviews of over half of those reports – with reviewed reports having been selected from across all three categories of issuer.

Based on IAASA's review activities to date, the standard of issuers' compliance with the financial reporting requirements of the Regulations has been varied. While some issuers' reports have displayed a high standard of awareness of (and, by extension, compliance with) the periodic financial reporting requirements of the Regulations, at the other end of the spectrum certain issuers' reports have indicated significantly less awareness and knowledge of the requirements and, as a consequence, have been found to be non-compliant to varying degrees.

Following the review of half-yearly reports selected for examination, IAASA has had reason to correspond with a high proportion of selected issuers' boards of directors (approximately 90%) - across all three categories - regarding a range of matters arising. Experience thus far has been that, relative to the other two categories, equity

issuers have to date been displaying a better level of knowledge of, and compliance with, their obligations.

As further elaborated upon later in this commentary, IAASA seeks to resolve issues arising from reviews in an effective and proportionate manner and, where appropriate, through adopting a collaborative approach with affected issuers. In that context, IAASA is pleased to have found that, in this initial period of review activity, issuers' reactions to contacts have been both positive and constructive, with issuers generally being willing to actively engage in addressing issues arising with a view to reaching mutually satisfactory outcomes. For that reason, IAASA is pleased to note that it has not, thus far, been necessary to invoke the enforcement powers provided for under the Regulations.

Since the Regulations came into effect, and following communication from IAASA, there have been nine instances in which issuers (from across all three categories) have agreed to publish revised half-yearly financial reports. Similarly, in other instances, matters arising have been addressed to IAASA's satisfaction by way of agreement with issuers - for example, through the provision of undertakings to

make necessary improvements and/or amendments in future half-yearly and/or annual financial reports. The approach adopted towards remediating issues arising is determined on a case by case basis and has regard, amongst other things, to the extent of the non-compliance or other issue(s), the significance of the matters in question and their potential to affect investors' decisions and/or public confidence in the quality of financial reporting.

In such cases, and as part of its ongoing risk assessment, IAASA will review affected issuers' subsequent periodic financial reports with a view to monitoring and evaluating the extent to which improvements/amendments have been effected. Similarly, IAASA will have regard to the cumulative knowledge acquired from previous reviews of individual issuers' periodic financial reports in assessing such issuers' risk profiles. As might be expected, where previous instances of non-compliance have been identified, the potential for an issuer's future periodic financial reports to be the subject of review increases significantly.

Based on the varying standard of compliance identified to date, the focus of the remainder of this section of the document is on highlighting some of the principal issues identified through reviews, from which issuers are likely to benefit in preparing their first and subsequent half-yearly financial reports.

2.2 Summary of issuers' half-yearly financial reporting requirements as provided for by the Regulations

Issuers of shares⁶, and subject to certain exemptions, debt securities are required to make public half-yearly financial reports (covering the first six months of their financial years) which shall include:

- a condensed set of financial statements;
- an Interim Management Report; and
- a Responsibility Statement.

Required content of condensed financial statements

Where an issuer is required to produce consolidated financial statements, the condensed financial statements must be prepared in accordance with the international accounting standard applicable to interim financial reporting as adopted by the EU⁷ (i.e. IAS⁸ 34 '*Interim Financial Reporting*'). Where the issuer is not required to prepare consolidated financial statements, the condensed financial statements must at least include:

- a condensed balance sheet;
- a condensed profit and loss account; and
- explanatory notes.⁹

Responsibility Statements and 'True & Fair View' in the context of condensed financial statements

A Responsibility Statement is a statement, made by persons responsible within the

⁶ i.e. equity issuers and funds

⁷ Regulation 7(2)(a)

⁸ International Accounting Standard

⁹ Regulation 7(2)

issuer, that, to the best of their knowledge, the condensed financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the profit/loss and assets, liabilities and financial position of the issuer (or the undertakings included in the consolidation as a whole)¹⁰.

The concept of *'true and fair view'* is one which, until the enactment of the Regulations, generally only applied to 'full' financial statements (i.e., financial statements prepared in accordance with the full set of applicable accounting standards (as well as applicable law)). However, the preparation of a 'full' set of financial statements is not required (although not precluded) for the purposes of issuers' obligations to include, at a minimum, condensed financial statements in their half-yearly financial reports.

Therefore, Regulation 8(5)(d) provides that the requirement for an issuer to confirm that their condensed financial statements give a true and fair view will be satisfied by preparing those condensed financial statements in accordance with:

- I. for issuers required, or electing, to use International Financial Reporting Standards ('IFRSs') ('IFRS issuers'), the international accounting standard applicable to interim financial reporting, (i.e. IAS 34);
- II. for Irish incorporated issuers not using IFRS ('Irish GAAP¹¹ issuers'), pronouncements on half-yearly reports as issued by the Accounting Standards

Board (ASB), currently a Statement entitled *'Half-Yearly Financial Reports'* ('the ASB Statement'); or

- III. for all other issuers not using IFRS, a national accounting standard relating to interim reporting,

provided always that those responsible within the issuer have reasonable grounds to be satisfied that the condensed set of financial statements prepared in accordance with such a standard are not misleading.

The practical effect of the above provision, and as IAASA's experience to date bears out, is that the majority of issuers listed in Ireland, and who are required to make public a half-yearly financial report in compliance with the Regulations, apply either IAS 34 or the ASB Statement in preparing their condensed financial statements. It is in that context that the commentary which follows focuses on the requirements of these two accounting pronouncements.

2.3 Confidentiality

While this commentary seeks to be as informative as possible in the pursuit of its stated aims, IAASA is subject to a statutory duty of confidentiality which prevents certain information from being disclosed publicly. Similarly, in other instances where it would be legally permissible to provide further information, IAASA has chosen not to do so might result in it being possible to determine individual issuers' identities, which is not considered necessary or appropriate in the context of the principal objectives of this commentary.

¹⁰ The Responsibility Statement should also include confirmations concerning the content of the Interim Management Report. See section 2.12 and 2.13 of this commentary for further details.

¹¹ Generally Accepted Accounting Principles

2.4 Content requirements of relevant accounting pronouncements

In addition to the minimum requirements set out by the Regulations, IAS 34 and the ASB Statement both set out further requirements regarding condensed financial statements, including requirements in relation to a Cash Flow Statement, Statement of Changes in Equity and Statement of Total Recognised Gains and Losses. There are also requirements regarding the form and content of condensed financial statements and the disclosures to be included in selected explanatory notes accompanying same. IAS 34 and the ASB Statement also provide guidance to preparers on recognition and measurement principles.

Issuers that prepare their annual financial statements in accordance with IFRS have the option to prepare a full set of financial statements (i.e., as opposed to condensed financial statements) for the purposes of their half-yearly financial reports, but, where they elect to do so, the form and content of those financial statements must conform to the requirements of IAS 1¹², i.e. as applies to a full set of annual financial statements¹³. Condensed financial statements prepared in accordance with IAS 34 or the ASB Statement should include explicit disclosure of such compliance in the half-yearly financial report¹⁴.

Commentary

In the case of a small number of the half-yearly financial reports reviewed to date, the minimum content requirements of the Regulations or the applicable accounting pronouncement had not been met. While some deficiencies arose in the context of each of the primary statements, the most

common area of non-compliance identified was the failure to provide certain selected explanatory notes.

In some cases, issuers did not state whether the financial statements included in their half-yearly financial reports complied with IAS 34 or the ASB Statement and, thus, it was unclear as to whether financial statements purported to represent full or condensed financial statements. Condensed financial statements, which are intended to comply with either IAS 34 or the ASB Statement should not be described as complying with, for example '*standards*', '*accounting standards generally accepted in Ireland*' or '*standards issued by the IASB (or ASB)*' unless they comply with all of the Standards issued by the applicable accounting standard setter.

There has also been evidence to suggest that, in a number of instances, wording which is inappropriate in the context of condensed financial statements has been retained from previous condensed financial statements, i.e. statements that pre-dated the coming into effect of the Regulations.

In the context of the foregoing, issuers should include a clear and unequivocal statement to the effect that they have complied with the applicable accounting Standard/Statement where this is the case.

¹² IAS 1 '*Presentation of Financial Statements*'

¹³ Paragraph 9 of IAS 34 refers

¹⁴ Paragraph 19 of IAS 34 and Paragraph 2 of the ASB Statement refer.

2.5 Explanatory notes

For IFRS issuers, paragraph 16 of IAS 34 specifies certain minimum information to be included in the explanatory notes to the condensed financial statements. In addition to disclosing this minimum information, issuers are also required to include disclosures concerning any events or transactions that are significant to an understanding of the changes in financial position and performance of the issuer since the last annual reporting date¹⁵.

Similarly, for Irish GAAP issuers, sufficient supplementary information should be given, where appropriate to the nature of the company's business and as the directors see fit to permit an understanding of the significant items contained within the primary statements¹⁶. The Regulations further provide that explanatory notes shall include sufficient information to ensure comparability with the annual financial statements and explanations of any material changes in amounts which are reflected in the balance sheet and/or the profit and loss account¹⁷.

Commentary

IAASA's review activity to date has identified a number of instances in which the explanations provided by issuers have been considered to be insufficient having regard to the requirements outlined above. In that context, it is important to appreciate that, where amounts in condensed financial reports:

- have changed materially *vis-à-vis* comparative figures; or
- are unusual because of their nature, size or incidence,

issuers should, where necessary to ensure users' proper understanding, disclose information over and above the minimal requirements listed in IAS 34 or the ASB Statement, as applicable. Such additional information should be sufficient for the purpose of explaining the nature of the amount and/or the change in that amount from the comparative period. This applies to information in all primary statements, including assets, liabilities, equity, income and cash flows. It should be further noted that materiality in this context should be assessed according to the half-yearly period data as opposed to the full year financial data¹⁸.

In the context of the foregoing, preparers should note that the inclusion of some or all of the required information and/or explanations in documents such as, for example, company announcements, press releases or similar public statements does not serve as a substitute for the legal requirement to include such information in a periodic financial report.

¹⁵ The following refer:

- IAS 34.16 - an issuer is required to '...disclose any events or transactions that are material to an understanding of the current interim period';
- IAS 34.15 - '...At an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date is more useful';
- IAS 34.16(c) - an issuer is required to disclose by way of note '...the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence'; and
- by virtue of paragraph 3 of IAS 1, paragraph 15(c) of IAS 1 also applies to condensed financial statements and states that a fair presentation also requires an entity '...to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance'.

¹⁶ Paragraph 32 of the ASB Statement refers

¹⁷ Regulation 7(3)(e) which applies to an issuer that is not required to prepare consolidated accounts, being mainly Irish GAAP issuers

¹⁸ Paragraph 23 of IAS 34 and paragraph 28 of the ASB Statement refer

2.6 Business combinations

For IFRS issuers, details of the effect of changes in their composition during the half-yearly reporting period should be given by way of note to the condensed financial statements¹⁹. In particular, in the case of business combinations occurring during the half-yearly period, issuers are required to disclose the information set out in paragraphs 66 to 73 of IFRS 3 '*Business Combinations*'²⁰.

The additional information that should be given includes:

- the names and descriptions of the combining entities;
- the date of acquisition;
- the cost of the combination and a description of the components of that cost;
- the fair value of assets and liabilities acquired and the carrying amounts, determined in accordance with IFRS, prior to acquisition;
- a description of the factors that contributed to any cost that results in the recognition of goodwill;
- the profit or loss of the acquiree since acquisition; and
- details of what the revenue and profit or loss of the combined entity would have been had the acquisition occurred at the beginning of the period.

Commentary

In a number of cases reviewed, the necessary disclosures regarding business combinations had not been made. While information such as, for example, the name of the acquiree, the date of the acquisition and the cost of the acquisition were noted as usually being disclosed, information such as details of the fair values of assets and liabilities acquired, the resultant goodwill recognised and details of the combined entity's revenue and profit or loss from the beginning of the period tended to be omitted. In relation to certain of these disclosures, paragraphs 67-73 of IFRS 3 provide that where such disclosures are impracticable, an issuer must explain why this is the case.

Issuers are expected to ensure full compliance with all of the disclosure requirements contained in paragraphs 66 to 73 of IFRS 3 in respect of material acquisitions effected during half-yearly reporting periods. Issuers who propose not to disclose such information on the grounds of materiality should assess materiality on the basis of the half-yearly period financial data as opposed to the full year financial data²¹.

19 Paragraph 16(i) of IAS 34 refers

20 With effect for annual reporting periods beginning on or after 1 July 2009 paragraph 16(i) of IAS 34 has been amended to take account of the revised IFRS 3 *Business Combinations*. If an entity applies the revised IFRS 3 for an earlier period, these amendments shall be applied for that earlier period. The new wording is 'In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*.'

21 Paragraph 23 of IAS 34 refers

2.7 Application of specific accounting standards

When preparing condensed financial statements, issuers are required to apply accounting policies that are consistent with those applied in their most recent annual financial statements. Accordingly, the principles for recognising assets, liabilities, income, and expenses for the purpose of condensed financial statements are required to be the same as applied in the annual financial statements²².

Commentary

While the policies applied in condensed financial statements were generally consistent with those applied in issuers' most recent annual financial statements, IAASA nevertheless found it necessary to seek clarification from a number of issuers regarding specific accounting treatments adopted in respect of certain matters and how the adopted treatments complied with relevant accounting standards.

Set out below, and to the extent practicable without identifying individual issuers, are specific accounting standard related matters that have been raised with issuers to date. Further to such matters having been raised, where considered necessary or otherwise appropriate, remediating actions have been agreed upon by IAASA. Such agreed actions have included, for example, issuers undertaking to (i) amend accounting treatment(s) in subsequent reports; and (ii) provide additional disclosures in revised half-yearly financial reports or in future annual and/or half-yearly financial reports.

IFRS Standards

- IAS 12²³ – matters concerning the recognition of deferred tax assets and liabilities;
- IAS 18²⁴ – matters concerning the accounting treatment of taxes, duties and levies;
- IAS 28²⁵ – matters concerning the accounting treatment of investments in associate entities;
- IAS 37²⁶ – matters concerning the classification of provisions;
- IAS 41²⁷ – matters concerning the recognition and measurement of biological assets; and
- IFRS 5²⁸ – matters concerning the accounting treatment of non-current assets held for sale and discontinued operations.

Irish GAAP Standards

- FRS 25 and FRS 26²⁹ – matters concerning the accounting policies applied to financial instruments and the sufficiency of disclosures concerning same.

²² Paragraphs 28 and 29 of IAS 34 refer. Paragraph 11 of the ASB Statement contains similar requirements

²³ IAS 12 'Income Taxes'

²⁴ IAS 18 'Revenue'

²⁵ IAS 28 'Investment in Associates'

²⁶ IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

²⁷ IAS 41 'Agriculture'

²⁸ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'

²⁹ FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement'

2.8 Presentation of information

All issuers are required to ensure that the presentation applied in their condensed financial statements shall be consistent with that applied in their latest published annual financial statements³⁰. Furthermore, both IAS 34 and the ASB Statement include certain additional requirements concerning the inclusion of the same headings and sub-totals as were presented in issuers' most recent annual financial statements³¹.

It should be further noted that the requirements of paragraphs 13 to 41 of IAS 1 should also be complied with in IFRS issuers' condensed financial statements³². The aforementioned paragraphs deal with matters such as:

- fair presentation and compliance with IFRSs;
- going concern;
- consistency of presentation;
- offsetting; and
- comparative information.

Commentary

In a number of cases, issuers had not satisfied the requirement to present their condensed financial statements in accordance with the presentation adopted in their most recent annual financial statements. In particular, instances have been identified where the presentation of a primary statement in a set of condensed

financial statements was not consistent with the format used in the most recent annual financial statements.

Cases have also been identified where IAASA has considered it necessary to query the format of presentation used, with reference, in particular, to the requirements of IAS 1.

2.9 Related party transactions

Issuers, subject to certain exceptions, are required to include in their Interim Management Reports, disclosure of³³:

- (a) related party transactions that have taken place during the period covered by the half-yearly financial report and that have materially affected the financial position or performance of the issuer;
- (b) any changes in related party transactions described in the last annual report that could have a material effect on the financial position or performance of the issuer in the half-yearly period; and
- (c) for issuers of shares not required to prepare consolidated accounts, details of any material transactions which have been entered into with related parties if such transactions have not been concluded under normal market conditions.

Commentary

IAASA's review activity has identified a number of half-yearly financial reports

30 Rule 6.2 of the Financial Regulator's Interim Transparency Rules. These rules are available on the Financial Regulator's website at www.financialregulator.ie

31 Paragraph 10 of IAS 34 and paragraphs 40 and 51 of the ASB statement refer

32 By virtue of paragraph 3 of IAS 1

33 Readers should refer to Regulation 8(3), paragraph 35 of the ASB Statement and paragraph 17 of IAS 34

which contained either (i) no disclosures concerning related party transactions; or (ii) disclosures only of the existence of related parties, notwithstanding that there had been related party transactions during the period that materially affected the half-yearly financial position or performance of the entity and which, therefore, should have been disclosed.

Issuers who propose not to disclose related party transactions on the grounds of materiality should assess materiality on the basis of the half-yearly period financial data as opposed to the full year financial data³⁴. Issuers are also encouraged to confirm that there have been no related party transactions during the period which would require disclosure, where that is the case.

2.10 Consistent accounting policies

As referred to earlier, the accounting policies applied in condensed financial statements must be consistent with those applied in issuers' most recent annual financial statements, unless the accounting policies are to be changed in the subsequent annual financial statements, in which case the new accounting policies should be followed³⁵. Issuers are further required to include a statement in their condensed financial statements to the effect that they have been prepared on the basis of the accounting policies set out in the most recent annual financial statements and to disclose any changes and the reasons for those changes³⁶.

In light of the foregoing, any new accounting pronouncements issued by the IASB or ASB as applicable, which are required to be

adopted³⁷ for the first time by an issuer in its subsequent annual financial statements, should, to the extent applicable, be adopted for the purpose of the condensed financial statements.

Commentary

In a number of cases reviewed, the statement required to the effect that the condensed financial statements have been prepared on the basis of the accounting policies set out in the most recent set of annual financial statements was absent.

In several other cases - where this statement had been made - there was no disclosure regarding changes in accounting policies, even though new accounting pronouncements had become effective in the period, and in some cases, the most recently published annual financial statements included references to the requirement to apply new pronouncements in the subsequent annual financial statements. Thus, it was unclear as to whether the new accounting pronouncements had been adopted in respect of the half-yearly period and, if so, what effect, if any, the adoption of new accounting pronouncements had on accounting policies used in preparing the condensed financial statements.

If new accounting pronouncements that are applicable to the financial year have been adopted in the condensed financial statements, issuers should consider what effect, if any, their adoption has had on accounting policies used for the condensed financial statements and whether any resultant disclosure requirements arise.

34 Paragraph 23 of IAS 34 and paragraph 28 of the ASB Statement refer

35 Paragraph 28 of IAS 34, paragraph 11 of the ASB Statement and Rule 6.2 of the Financial Regulator's Interim Transparency Rules refer.

36 Paragraph 16(a) of IAS 34 and paragraphs 12-14 of the ASB Statement refer.

37 Or are voluntarily adopted early

2.11 Comparative information

For IFRS issuers, comparative information is required as follows:

- comparative Balance Sheet as at the end of the immediately preceding financial year; and
- comparative Income Statement, Cash Flow Statement and Statement of Changes in Equity (SoCE) for the equivalent period in the previous year, i.e. comparative half-yearly period³⁸.

For Irish GAAP issuers, the above comparatives are also required and, in addition, comparative amounts for the condensed Profit and Loss Account, Statement of Total Recognised Gains and Losses (STRGL) and the condensed Cash Flow Statement should be presented for the previous full financial year³⁹.

Commentary

In a number of cases reviewed, Irish GAAP issuers had not met the full requirements as outlined above and, in particular, had omitted to include the comparative half-yearly period for the Profit and Loss Account and Cash Flow Statement.

2.12 Interim Management Reports⁴⁰

An issuer's half-yearly financial report must contain an Interim Management Reports which should include at least:

- an indication of important events that have occurred during the first six months of the financial year;
- an indication of the impact of such events on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the year; and
- in the case of an issuer of shares, details of certain related party transactions⁴¹.

Commentary

In a number of cases reviewed:

- half-yearly financial reports did not contain an Interim Management Report, as required; or
- the Interim Management Report included in the half-yearly report did not meet the full requirements of the Regulations. In particular, the description of the principal risks and uncertainties for the remaining six months of the year was, in a number of instances, considered to be deficient.

38 Paragraph 20 of IAS 34 refers

39 Paragraph 54 of the ASB Statement refers

40 Regulation 6(3)(b) refers

41 Regulations 8(2) and 8(3) refer

2.13 Responsibility Statements

Issuers are required to include a Responsibility Statement in their half-yearly financial report⁴². The persons making a Responsibility Statement, whose names and functions should be included in that Statement, are required to confirm that, to the best of their knowledge:

- the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit/loss of the issuer, or the undertakings included in the consolidation as a whole; and
- the Interim Management Report includes a fair review of the information required to be included therein, as outlined in section 2.12 above.

Commentary

In a number of cases reviewed, and specifically in the case of fund and debt issuers, half-yearly financial reports:

- did not include Responsibility Statements; or
- included Responsibility Statements that did not satisfy the requirements of the Regulations.

2.14 Other transparency-related requirements

In addition to financial reporting obligations, which are discussed in the previous sections, the Regulations also introduced certain new requirements concerning the dissemination of financial reports. In that regard, it is considered timely to draw issuers' attention to certain obligations which are of relevance to half-yearly financial reports, with a view to assisting issuers to identify the appropriate measures to be taken in order to ensure compliance. In summary, issuers are required to:

- make public their half-yearly financial reports not later than two months after the end of the first six months of their financial year⁴³. Issuers should further note that the Irish Stock Exchange has stated that failure to adhere to this deadline will result in a suspension of listing of securities as there is no flexibility in the Regulations or in the Financial Regulator's Interim Transparency Rules for granting extensions to deadlines⁴⁴.
- publish the half-yearly financial report in unedited full text⁴⁵;
- include in the announcement relating to publication of half-yearly financial reports an indication of the website on which such reports are available⁴⁶; and
- ensure that the half-yearly financial report remains publicly available for at least five years following publication⁴⁷.

42 Regulation 6(3)(c) and Regulation 8(5) refer

43 Regulation 6(2)(b) refers

44 ISE document 'Transparency Directive Implementation' dated 18 June, 2007, which is available at <http://www.ise.ie/index.asp?docID=469>, refers

45 Regulation 33(5)(a) refers

46 Regulation 33(5)(c) refers

47 Regulation 6(2)(c) refers

The Regulations also provide that regulated information should be disclosed in a manner that ensures that it is capable of being disseminated to as wide a public as possible⁴⁸. Furthermore, an issuer that discloses regulated information such as a half-yearly financial report is, at the same time, required to file that information with the Financial Regulator⁴⁹. In practice and under the Financial Regulator's Interim Transparency Rule 8.1, such filing is deemed to have occurred where the issuer disseminates the information using a Regulatory Information Service, simultaneously notifying the Company Announcements Office ('CAO'). Alternatively, issuers will satisfy the filing obligation by notifying the CAO directly.

⁴⁸ Regulation 33(4) refers

⁴⁹ Regulation 31 refers

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IAASA'S APPROACH TOWARDS MATTERS ARISING FROM REVIEWS OF PERIODIC FINANCIAL REPORTS

IAASA'S APPROACH TOWARDS MATTERS ARISING FROM REVIEWS OF PERIODIC FINANCIAL REPORTS

When determining which issuers' periodic financial reports will be the subject of a detailed review, IAASA uses a risk based approach, which is supplemented by cyclical and random selections⁵⁰.

Where, having undertaken a review of an issuer's periodic financial report, it appears that there are issues arising in respect of which further information or clarification is required, IAASA corresponds with the issuer's directors. In such correspondence, the matters arising are set out in detail and the issuer is requested to respond in writing with its observations thereon. It is worth noting in this context that, where matters are identified in the course of a review, IAASA has regard, amongst other things, to any similar matters that may have previously been considered by fellow EU financial reporting enforcement authorities⁵¹.

Where issuers' responses do not fully address matters raised or, as is frequently the case, issuers' responses require further elaboration or clarification, IAASA enters into further correspondence with the issuer until such time as all necessary information and/or clarification has been obtained.

In the context of the foregoing, it is important to note that not all matters raised concern potential instances of non-compliance. Rather, IAASA on occasion seeks further information or clarification from an issuer for the purpose of enabling it to better understand the basis for certain accounting judgements made by the directors in preparing periodic financial reports, including judgements relating to recognition, measurement and presentation. Receipt of a request for information regarding directors' rationale underlying a particular judgement does not, therefore, necessarily suggest that IAASA will subsequently question the appropriateness of such judgement(s).

IAASA seeks to conduct its monitoring and associated enforcement activities in a manner that is balanced and proportionate and seeks to resolve issues efficiently and effectively and, where appropriate, without recourse to using the statutory enforcement powers available to it under the Regulations. Experience to date has shown that speedy resolution of matters arising is facilitated when a full and detailed response to the initial enquiry is forthcoming from the issuer.

⁵⁰ Further details of the considerations affecting risk assessment and the selection process can be found in the IAASA publication 'A Guide to the Financial Reporting Requirements of the EU Transparency Directive and to IAASA's role under the Directive'

⁵¹ IAASA is a member of the European Enforcers Co-ordination Sessions (EECS), which serves as a forum whereby EU financial reporting enforcement authorities meet to discuss decisions taken and emerging cases of interest, and to share perspectives, experiences and knowledge with each other. The EECS, through the Committee of European Securities Regulators (CESR), maintains a confidential database of enforcement decisions taken by EU enforcers, to which IAASA has access. CESR periodically publishes summaries of the enforcement decisions posted to the EECS database for the benefit of interested parties. To date three such summaries have been published and are available at <http://www.iaasa.ie>

With a view to resolving issues arising in the most effective manner, IAASA has, where appropriate, adopted a collaborative approach, i.e. by seeking to effect improvements through agreement with those charged with issuers' governance. In that context, IAASA has found that, in this initial period of review activity, issuers' reactions to contacts have been both positive and constructive, with issuers generally being willing to actively engage in addressing issues arising with a view to reaching mutually satisfactory outcomes. For that reason, IAASA is pleased to note that it has not, thus far, been necessary to invoke the enforcement powers provided for under the Regulations.

GLOSSARY OF TERMS

ASB	Accounting Standards Board
ASB Statement, the	ASB Statement entitled ' <i>Half-Yearly Financial Reports</i> ', July, 2007
CAO	Company Announcements Office (of the ISE)
CESR	Committee of European Securities Regulators
Directive, the	Directive 2004/109/EC of the European Parliament and of the Council
EEA	European Economic Area
EECS	European Enforcers Co-ordination Sessions
EU	European Union
FSAP	EU Commission's Financial Services Action Plan
GAAP	Generally Accepted Accounting Principles
IAASA	Irish Auditing & Accounting Supervisory Authority
IAS(s)	International Accounting Standard(s)
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS issuers	Issuers that prepare annual financial statements under IFRS
Irish GAAP issuers	Irish Incorporated issuers not preparing condensed financial statements in accordance with IAS 34
ISE	Irish Stock Exchange
Issuers	Entities whose securities are admitted to trading on a regulated market, situated, or operating, within the EU/EEA
Regulations, the	Transparency (Directive 2004/109/EC) Regulations, 2007
SoCE	Statement of Changes in Equity
STRGL	Statement of Total Recognised Gains and Losses

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