2017

IAASA's OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

YEARS ENDING ON OR AFTER 31 DECEMBER 2017

SEPTEMBER 2017

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

IAASA publications referred to in this *Observations* document are available on IAASA's website at www.iaasa.ie/publications

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1 INTRODUCTION

1.1 Financial reporting review remit of IAASA

IAASA, Ireland's accounting enforcer, has responsibility for the examination and enforcement of certain listed entities' periodic financial reporting ('issuers').

As such, IAASA examines the annual and half-yearly financial reports of certain equity, debt and closed-ended fund issuers with securities admitted to trading on an EU regulated market for compliance with the relevant reporting framework.

The relevant reporting framework for the purposes of this document is limited to those issuers preparing their financial statements under International Financial Reporting Standards ('IFRS') and financial reporting standards issued by the Financial Reporting Council in the UK ('Irish/UK GAAP'). Therefore, although IAASA's review activity may extend to periodic financial reports prepared under other financial reporting standard frameworks (e.g. Luxembourg GAAP and US GAAP), the observations offered in this document are limited to the requirements as they apply to IFRS and Irish GAAP issuers.

The matters raised in this document derive from a combination of:

(a) financial reporting matters identified during IAASA's examinations and surveys undertaken during 2017;

(b) matters identified in the course of IAASA's work, but not raised with specific issuers;

(c) IAASA's expectations of issuers regarding the upcoming financial reporting season; and

(d) financial reporting matters discussed at the European Securities and Markets Authority ('ESMA') sponsored European Enforcer Co-ordination Sessions ('EECS') meetings at which meetings IAASA is an active participant.

1.2 Purpose of this *Observations* document

The purpose of this document is to assist issuers' management and those charged with governance in the preparation of high quality financial reports by offering observations on selected financial reporting topics to coincide with the preparation of issuers' 2017 financial statements. It is also intended that some of the matters set out in this document will be the focus of IAASA's attention when examining issuers' financial reports during 2018.

The audience for this document is principally intended to be those involved in the preparation, approval and/or review of issuers' financial reports. This includes issuers' management, Audit Committees and Boards, providers of audit and other assurance services, legal advisors, listing agents and, where applicable, fund administrators and/or other relevant service providers.

This *Observations* document may also help the primary users of financial statements to understand the significant judgements made by issuers' directors in preparing financial statements and highlight those matters on which they may wish to focus when using those financial statements. In that context, IAASA encourages the widest possible transmission of this document.

1.3 Continued applicability of matters raised in previous years

This is the 10th *Observations* document for year-end financial reporting published by IAASA and some of the matters raised in previous years' *Observations* documents have continued applicability in the upcoming financial reporting season. This document should be read in conjunction with those earlier years' documents, which are available on the publications section of the IAASA website.

1.4 Financial reporting environment

1.4.1 Economic backdrop

Issuers are faced with the challenge of incorporating medium and long-term forecasts into their financial statements in a climate of mixed economic signals. There are many positive economic indicators for the Irish economy and international markets, for example:

> *Economy forecast to grow 4.5 per cent this year and 3.6 percent in 2018.*
>
> Central Bank of Ireland, *Quarterly Bulletin*, No. 3 2017

> *A growing backlash against globalisation could trigger protectionist policies and undermine international trade, with lower growth as a result. Brexit negotiations remain a significant risk: a break-up of negotiations or the prospect of an unfavourable deal could hurt confidence and trade.*
>
> OECD, Euro-area economic outlook June 2017

> *Economic growth is projected to moderate gradually. The economy, particularly exports and investment, is already being slowed by the prospect of Brexit. Nonetheless, the Irish economy will continue to expand on the back of solid domestic demand and strong employment and wage growth.*
>
> OECD, *Country snapshots 2017-18: Ireland*

> ***Strong growth against external headwinds***
>
> *GDP is forecast to expand robustly over the forecast horizon, but the pace will moderate. Improving labour market conditions are expected to support domestic demand. However, the practices of multinationals in the country, which can have large statistical effects, continue to create some unpredictability. Public finances are projected to improve but risks to the fiscal outlook remain.*
>
> EU Commission , *Spring 2017 Economic Forecast*

However, there remain fears of the unquantified effects from Brexit and other international factors that may impair international trade and that may negatively impact issuers' business prospects. Issuers ability to do business on '*normal trading terms*' in the future may be compromised depending on a range of factors including, for example, access to the single market, access to the customs union, the impact of cross-border and cross-channel trade, and the euro-Sterling exchange rates.

In what appears to be a mixed outlook for the economic climate, IAASA reminds issuers to ensure they apply medium and long-term assumptions that reflect changes in the current market expectations for the products, services, markets and countries in which they operate. It is likely that issuers' medium and long-term key assumptions may need to be revised to reflect greater uncertainty in markets. Furthermore, where the key assumptions applied by an issuer exceed historical performance, the financial statements should clearly explain what are the most significant judgements and the basis for those judgements.

1.4.2 Accounting enforcement at EU level

IAASA's national enforcement priorities, policies and methodologies are aligned with the enforcement priorities set at ESMA level. ESMA continues to take an increasingly interventionist role in ensuring greater convergence of enforcement activity by EU national accounting enforcers.

ESMA has issued Guidelines relative to:

- *ESMA Guidelines on enforcement of financial information* (July 2014). ESMA has undertaken peer reviews of these Guidelines to assess the extent of compliance by national accounting enforcers;

- *ESMA Guidelines on Alternative Performance Measures* (October 2015); and

ESMA has also published a Paper, *Peer Review on Guidelines on Enforcement of Financial Information* (July 2017) to which all national enforcers, including IAASA, contributed

In addition, ESMA sets annual Europe-wide common enforcement priorities, which are areas in which EU national enforcers must incorporate into their examination programmes.

Issuers can continue to expect IAASA's enforcement activity to reflect both national and European common enforcement priorities. A practical consequence of this is that issuers may be questioned by IAASA on their financial reporting treatments in relation to items that are an ESMA enforcement priority.

1.5 Barriers to effective communication in financial statements

IAASA frequently calls on issuers to avoid boilerplate disclosures in their financial statements in order to improve the quality of disclosures. '*Boilerplate*' refers to disclosures that provide users of financial statements with little or no value, e.g. where a disclosure merely repeats the text of an IFRS without providing any entity-specific context and/or where entities provide an extensive list of accounting policies without indicating which policies are the most significant policies. Boilerplate disclosures often results in:

(a) insufficient information necessary for an understanding of the financial position, financial performance and cash flows of the entity being provided to users of those statements; and/or

(b) more important features of the entity's financial position, financial performance and cash flows of the entity being obscured from users.

Some issuers fail to provide entity-specific information that is relevant to gaining an understanding of the significant judgements in applying accounting policies.

IAS 1 *Reporting Financial Performance* requires entities to present information that is relevant, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information to users of the financial statements [IAS 1.17(b) refers].

IAASA reiterates to issuers that they can improve the effectiveness of communications in their financial statements by focussing on the following examples of ineffective communication in financial statements that the International Accounting Standards Board (IASB) has identified:

(a) using 'boilerplate' descriptions that merely repeat the requirements of Standards;

(b) omitting material information or including immaterial information that obscures material information;

(c) using unclear descriptions and providing no or poor cross-referencing between related information;

(d) using an inappropriate format when disclosing information (e.g. using tables, graphs, bullet points or narrative descriptions inappropriately);

(e) disclosing IFRS information outside the financial statements and non-IFRS information within the financial statements; and

(f) failing to identify which accounting policies are important to the financial statements.

IAASA will continue to encourage issuers to strive to continually improve the effectiveness of communication in the financial statements by avoiding the use of boilerplate disclosures and by eliminating instances of ineffective communication in financial statements.

2 OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

2.1 New accounting Standards issued and not yet effective

For certain issuers, the transition to and adoption of new IFRSs, namely IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* will represent a significant change in financial reporting treatments as compared to the existing Standards and, therefore, the recognition, measurement, presentation and disclosure of assets, liabilities, income, expenses and cash flows may be affected.

IFRS 9 sets out requirements regarding the recognition, measurement and impairment of financial assets and financial liabilities and general hedge accounting. IFRS 15 sets out a single, principles based five-step model to be applied to all contracts with customers. IFRS 16 sets out how an issuer will recognise, measure, present and disclose leases. IFRS 17 sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of an impending change in accounting policies when an issuer has yet to implement a new IFRS that has been issued but not yet come into effect (irrespective of whether or not that IFRS has been endorsed by the EU). In addition, it requires disclosure of '*known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application*' [IAS 8. 30 and IAS 8. 31 refer].

IAASA reminds issuers that if '*reasonably estimable*' quantitative information exists it must be disclosed notwithstanding that the actual amounts in the 2018 financial statements might be different owing to changes in conditions [IAS 8.30 – 31].

IAASA has published its *Desktop survey – Disclosures of the New Accounting Standards in issuers' 2016 annual financial statements*. That Paper provides an overview of the disclosures of the impact of implementation of the new Standards provided in issuers' 2016 annual financial statements. It encourages preparers, management and directors of issuers expected to be significantly impacted by the new Standards to provide more timely disclosures about any required changes in accounting policies and the financial statement impact in the period of initial application.

IAASA concluded that the disclosures of the expected impact of the new Standards given by a small number of issuers was of good quality and indicative of the type of information that is useful to users of financial statements. However, in a large number of instances, issuers:

(a) provided little or no disclosure of qualitative and quantitative information regarding the implementation and impact of those new Standards in the period of initial application;

(b) failed to disaggregate the expected impacts into elements that are useful to users of financial statements; and

(c) gave little quantitative information on the impact on the issuer where a significant impact from implementation of the new Standards was expected.

IAASA expects that, as the application date of the new Standards nears, issuers should provide progressively more entity-specific qualitative and quantitative information about the impact of the application of the new Standards in their financial statements.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should carefully consider the level of disclosure provided regarding IFRSs issued and yet to be adopted.

Disclosures should avoid a "*boilerplate*" repetition of the new Standards and issuers should provide progressively more entity specific information of the impact of the new Standards in quantitative and qualitative terms at the earliest possible opportunity.

IFRS 9
IAASA reminds financial institutions of the need to provide updates to qualitative and quantitative information regarding the implementation and impact of IFRS 9 and to disclose a disaggregation of the expected impacts into elements that issuers use to measure the impact and are useful to users of financial statements.

IFRS 15
IAASA reminds all issuers that IFRS 15 requires the disclosure of more information about contracts with customers than is currently required under IAS 18 *Revenue* and IAS 11 *Construction Contracts*, including more disaggregated information about revenue and more information about performance obligations. [IFRS 15.114 – 128 refer.]

IFRS 16
IAASA reminds issuers expected to be significantly impacted by IFRS 16 that their financial statements should provide additional qualitative and quantitative information as set out in (a), (b) and (c) above together with quantitative information on the impact on profitability, loan covenant agreements, and key APMs where a significant impact from implementation of IFRS 16 is expected and reliable quantitative data becomes available.

2.2 Alternative performance measures ('APMs')

IAASA's publication *Alternative Performance Measures – Thematic Survey* sets out the results of a desk-top survey it undertook into the range of APMs that issuers included in their 2016/17 financial reports and assesses the compliance by issuers with the *ESMA Guidelines on Alternative Performance Measures* . The ESMA APM Guidelines became effective on 3 July 2016.

As part of its examination cycle for 2016 financial year ends, IAASA engaged with seven issuers regarding their use of APMs and examined the level of those issuers compliance with the ESMA APM Guidelines. These examinations have revealed instances of good practice by issuers relative to their use of APMs. Conversely, other instances were detected where the level of compliance with the ESMA APM Guidelines was below what IAASA expected. IAASA has received a number of undertakings from issuers to comply, in full, with ESMA's APM Guidelines regarding defining APMs, labelling APMs, providing reconciliations to IFRS-based measures, explaining the rationale for using APMs, and ensuring APMs are consistently presented.

IAASA will continue to focus and engage with issuers on:

(a) directors' rationale for not including definitions, reconciliations and comparatives for each APM presented in periodic financial reports;

(b) the reasons why certain items have been excluded from adjusted earnings measures;

(c) directors' rationale for not considering certain measures to be APMs within the scope of the ESMA APM Guidelines;

(d) directors' rationale for not including a discussion of or reference to IFRS measures when discussing APMs; and

(e) reasons and explanations for APMs which are redefined or not used by the issuer in subsequent financial reports.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should continually reassess their level of compliance with the ESMA APM Guidelines and should strive to ensure compliance to the fullest extent possible with those Guidelines.

2.3 IFRS 13 *Fair Value Measurement*

IFRS 13 came into effect in 2013. The IASB is conducting its post-implementation review of the effect of IFRS 13 on financial reporting.

In July 2017, ESMA published a report, *Review of Fair Value Measurement in the IFRS financial statements*, which provided an overview of the implementation of IFRS 13 by European issuers. The report assessed the level of compliance of IFRS financial statements with the requirements in IFRS 13 and the comparability amongst issuers and concluded that, in general, the requirements of IFRS 13 had been well incorporated by the issuers in the sample. However, ESMA detected that there was room for improvement in areas such as:

(a) disclosures on fair value (i.e. disclosure effectiveness);

(b) providing more clarity about judgements of the unit of account;

(c) the assessment as to when a transaction or quoted price does not represent fair value; and

(d) the use of credit value adjustments ('CVA') and debit value adjustments ('DVA') adjustments in the valuation of derivatives.

IAASA published the results of its survey of Irish equity issuers in its paper, *Survey on the application of IFRS 13* Fair Value Measurement *by Irish Companies* (November 2016). The results were consistent with the ESMA IFRS 13 fair value measurement findings that there is room for improvement in selected areas. IAASA continues to engage with issuers on their application of the requirements of IFRS 13. IAASA has secured undertakings from a number of issuers regarding disclosure of quantitative information of the significant unobservable inputs [IFRS 13.93(d) refers] and the disclosure, where relevant, of the sensitivities of fair value to a change in unobservable inputs [IFRS 13.93(h) refers].

IAASA will continue to focus on the level of compliance with IFRS 13 in the forthcoming financial reporting season.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should give continuing consideration to the measurement and disclosure of fair values and, in particular, should ensure that the disclosures:

(a) are entity-specific and inform users of the financial statements of the measurement bases and valuation techniques used in determining fair values;

(b) clearly set out the key fair value judgements and assumptions made and that have the most significant effect on the carrying amounts of assets recognised in the financial statements;

(c) are sufficient to detail how material liabilities are fair valued;

(d) provide fair value disclosures by class of assets and liabilities where appropriate; and

(e) provide sufficient details as to whether or not reasonably possible alternative assumptions would change fair value significantly.

2.4 Sources of estimation uncertainty – uncertain tax positions

In their 2016 financial reports a number of issuers disclosed 'Taxation' as a source of estimation uncertainty and within this narrative, issuers referred to uncertain tax positions ('UTPs') liabilities. IAASA determined that the amount of the UTP liabilities comprised practically the entire amount of each issuer's current tax liability.

IAASA challenged issuers' rationale for not disclosing their UTP liabilities separately in accordance with IAS 1.125. IAASA considered the following matters:

(a) UTP liabilities have a separate carrying value and create a separate tax liability;

(b) UTP liabilities practically comprise the full amount of the current income tax liability of each issuer;

(c) each issuer included taxation as a source of estimation uncertainty and tax uncertainties were referred to therein; and

(d) the disclosure of the UTP liability is considered by IAASA to be relevant information for an understanding of the line item 'current income tax liability' in accordance with IAS 1.112(c).

IAASA concluded that the UTPs are separate liabilities comprising specific individual balances (i.e. the unit of account is the individual UTP rather than the aggregated current tax liability). The nature and the carrying amounts recognised in respect of individual material UTPs falling within the scope of IAS 1.125 must be disclosed. In instances where the tax balances does not contain individually material UTP amounts but the UTP liabilities are material on an aggregated basis, then issuers must disclose the nature and the carrying amounts of the UTP liabilities at an aggregated level.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should ensure that, where taxation is considered a source of estimation uncertainty and where uncertain tax position liabilities are material, the nature and carrying amounts of the individual material UTP liabilities should be separately disclosed.

In addition, management, Directors and Audit Committees should also ensure that in instances where tax balances do not include individually material UTP liabilities but the UTP liabilities are material on an aggregated basis, then the nature and carrying amounts of the UTP liabilities must be disclosed at an aggregated level.

2.5 Impairment testing – IAS 36 *Impairment of Assets*

Examination of issuers' compliance with IAS 36 has been a recurring topic in IAASA's examination activities for a number of years. Accurately forecasting the amount and timing of future cash flows for cash generating unit(s) ('CGUs') beyond a few years has become even more difficult in recent times and involves the application of management judgement.

ESMAs' Report *European Enforcers review of impairment of goodwill and other intangible assets in IFRS financial statements* (January 2013) is also relevant in this context.

IAASA's examination experience to date suggests that the disclosures of the key impairment judgements range from good to boilerplate with room for improvement. Consequently, IAASA is conducting an impairment testing thematic that is a desktop-based survey of issuers' impairment testing methodologies.

The subject of the thematic includes looking at the following topics:

(a) whether or not CGUs have been tested for impairment at an appropriate level;

(b) the period covered by issuers value-in-use cash flow forecasts – whether the forecast period appears long enough to achieve '*normalised*' growth and profit margins?;

(c) consistency or otherwise of the CGU used for impairment testing with the segment reporting;

(d) the approach to determining the key assumptions and whether greater weight has been given to external evidence;

(e) whether all key assumptions are realistic and consistent with other information in the financial statements e.g. segment disclosures;

(f) long terms growth rates and the discount rate (including determining the terminal values);

(g) aggregation or disaggregation of the relevant assumptions by class of CGU; and

(h) enhanced disclosures required when a reasonably possible change in a key assumption would cause the CGU(s) carrying amount to exceed its recoverable amount [IAS 36.134(f)].

Depending on the results of this thematic, this may lead to IAASA corresponding with certain issuers to examine in more detail their impairment judgements. IAASA may publish its findings on issuers' impairment testing practices when the thematic has been concluded.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should reassess the significant judgements used in determining the recoverable amounts of CGUs where there are material amounts of goodwill and intangible assets (with indefinite useful lives) recognised. Issuers are encouraged to refer to IAASA's previous commentaries on determining recoverable amounts of CGUs in recent *Observations* documents.

2.6 Restatement of comparative amounts

IAS 1.41 states that when an entity reclassifies comparative amounts it shall disclose (including as at the beginning of the preceding period) the following:

" *(a) the nature of the reclassification;*

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification."

IAS 8.49states that:

"*an entity shall disclose the following:*

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction:

(i) for each financial statement line item affected; and

(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected."

IAASA has detected an increasing number of instances where issuers have restated comparative amounts or have retrospectively corrected material prior period errors and have failed to provide the required IAS 8 disclosures. Where issuers fail to adequately provide the required disclosures it limits the ability of users to understand the nature of and reasons for reclassifications. A common explanation for the reclassification of comparative amounts provided by issuers is '*to more appropriately reflect and enhance comparability*'. Depending on the circumstances, such an explanation may not comply in full with the disclosure requirements of IAS 1 and IAS 8.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should ensure that, where material prior period errors are retrospectively corrected or where comparatives are restated, the required disclosures are provided in the financial statements. This applies equally to instances where the retrospective correction relates only to material corrections to amounts presented in the notes to the financial statements and does not impact the primary statements.

2.7 Recognition of intangible assets and scale of acquisition activity

In 2016 IAASA published a Paper, *Recognition of Intangible Assets and Scale of Acquisition Activity – A Survey*, setting out the results of a desk-top survey it had undertaken into the nature of intangible assets recognised by issuers in their statement of financial position (balance sheet) and the scale of acquisition activity undertaken by those issuers as recognised in their 2015/16 financial reports.

The IASB carried out a post-implementation review of IFRS 3 as a result of which the definition of a "business" is currently being reconsidered as entities have difficulties when determining whether they have acquired a business or a group of assets (the accounting requirements for goodwill, acquisition costs and deferred tax differ on the acquisition of a business and on the acquisition of a group of assets). The IASB decided in 2016 to examine issues related to the subsequent accounting for goodwill, improving the impairment test in IAS 36, and the identification and measurement of intangible assets in a business combination. These developments mean that IFRS 3 remains an area of interest to accounting enforcers.

As part of its examination cycle for 2016 financial year ends, IAASA has engaged with a number issuers regarding the recognition, or non-recognition, and the measurement of intangible assets.

IAASA anticipates that it will continue to engage with issuers on:

(a) directors' judgements as to why certain intangible assets have not been recognised in a business combination;

(b) directors' key assumptions used in determining the fair value measurement of intangible assets;

(c) significant factors used to determine the useful lives of material intangible assets;

(d) methods used to amortise intangible assets;

(e) required disclosures for intangible assets with indefinite useful lives; and

(f) acquisition related liabilities including debt like items and contingent consideration.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should continue to consider the key judgements applied in the recognition, or non-recognition and the measurement of the fair value of intangible assets, together with the disclosures related to same.

2.8 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – class of provision

IAS 37.84 and IAS 37.85 requires the disclosure of the analysis of the movements and other relevant information by class of provision.

IAASA challenged issuers' directors on their rationale as to why different classes of provisions were aggregated into one single class of provision. As a result, the disclosures required by IAS 37.84 and IAS 37.85 were only provided for the aggregated class of provisions. It is IAASA's expectation that issuers will provide the disclosures required by IAS 37.84 and IAS 37.85 by class of provision.

IAASA has secured undertakings in this regard for improvements in future financial reports.

> **Matters for consideration by management, Directors and Audit Committees**
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> Management, Directors and Audit Committees should carefully consider the disclosure requirements of IAS 37.84 and IAS 37.85 and ensure that all required information is disclosed by class of provision.

2.9 IFRS information located outside the financial statements

IFRS 7.B6 states that the disclosures required by IFRS 7.31 to IFRS 7.42 shall be given either

> '*in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.*'

IFRS 7.BC43 and IFRS 7.BC46 are also relevant in this context.

IAASA has identified instances where issuers have relied upon information presented outside the audited financial statements to comply with IFRSs including but not limited to IFRS 7. On a number of occasions, IAASA has determined that issuers either failed to cross-reference to information outside the financial statements or the cross-reference provided did not clearly link the financial statements to the relevant information located outside the financial statements. Such a practice reduces the understandability of the information provided as not all the information located outside the financial statements is intended to comply with IFRS and much of this information will not have been audited.

IAASA reminds issuers which present information required by IFRS outside the financial statements to:

(a) ensure that the relevant IFRS being applied permits the disclosure of information outside the financial statements;

(b) cross-reference, clearly, from the relevant note in the financial statements directly to information located outside the financial statements that is intended to provide the information required; and

(c) identify precisely the information that is intended to provide the information required by IFRS 7.31 – 41.

> **Matters for consideration by management, Directors and Audit Committees**
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> Management, Directors and Audit Committees are reminded to exercise caution when they seek to rely on information located outside the financial statements. In applying IFRS 7 they should cross-reference the financial statements directly to the relevant information located outside the financial statements and precisely identify the information that is intended to provide the information required by IFRS 7 and which information is an integral part of the financial statements.

2.10 IFRS 8 *Operating Segments* – aggregation criteria

Paragraph 22(aa) of IFRS 8 requires issuers to disclose "*the judgements made by management in applying the aggregation criteria ... This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics*".

IAASA has engaged with issuers on this IFRS 8 requirement.

Those issuers electing to aggregate operating segments into reportable segments for the purposes of IFRS 8 are reminded of the disclosure requirements in this regard. IAASA has received undertakings on this particular IFRS 8 requirement to improve disclosures in future financial statements.

Matters for consideration by management, Directors and Audit Committees
Management, Directors and Audit Committees of those issuers electing to aggregate operating segments into reportable segments for the purposes of IFRS 8 should ensure that all the required disclosures are provided.

2.11 Separately disclosed items, exceptional items and non-recurring items – Accounting policy

IAS 8.5 defines Accounting policies as:

> "*Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.*"

IAASA has challenged issuers on their accounting policy for separately disclosed items, exceptional items and non-recurring items. It is IAASA's expectation that issuers will disclose a comprehensive accounting policy for these items which properly reflect the specific principles, bases, conventions, rules and practices applied by the directors in preparing and presenting financial statements.

IAASA has received undertakings in this regard for improvements in future financial reports.

Matters for consideration by management, Directors and Audit Committees
Management, Directors and Audit Committees should ensure that a comprehensive accounting policy is provided for separately disclosed items, exceptional items and non-recurring items which properly reflect the specific principles, bases, conventions, rules and practices applied by directors in preparing and presenting financial statements.

2.12 Financial reporting of Debt issuers and Closed-Ended Funds ('CEFs')

As at 31 December 2016, a total of 91 issuers (CEFs and debt issuers) had recognised total assets amounting to almost €500bn. As has been reported by IAASA in previous years' *Observations* documents, the quality of financial reporting by these issuers varies considerably ranging from good to very poor. While acknowledging those issuers which have produced high quality financial reports there remains a cohort of issuers which consistently present poor quality financial statements. These financial statements are often characterised as:

(a) having fair value and risk disclosures that are boilerplate in nature;

(b) providing minimum disclosure in the notes to the financial statements with little evidence of their being tailored to the issuer-specific circumstances;

(c) failing to demonstrate sufficient consideration of the needs of the primary users of those financial statements (e.g. the principal providers of finance to structured entities being the holders of the listed debt issued by the entity); and

(d) repeating broadly similar disclosures from year to year despite indications that the issuer's circumstances have changed e.g. risk notes and fair valuation notes.

Reporting by class of financial instrument

In addition, some entities issue multiple series of listed debt instruments that are used to fund the acquisition of a segregated class of assets. Losses in each segregated class of assets are not exposed to the gains/losses in other classes of assets.

IAASA reminds these issuers that the presentation of the notes to these financial statements aggregated at company/total portfolio level is of limited value to the principal users of these entities i.e. the holders of the individual classes of debt instruments. This is because of the differences between individual series/classes of debt issued, different risk profiles and the fact that the aggregate performance of the entire portfolio may not be representative of the performance and risks of individual classes of financial assets/liabilities. Classes of financial instruments are defined in IFRS 7.6.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees of CEFs and debt issuers should make themselves aware of IAASA publications and enforcement decisions of relevant CEFs and debt issuers and reassess the quality of the financial statements.

For entities that issue multiple and segregated series of financial instruments (i.e. listed debt) IAASA recommends that these specific types of entities present the notes to the financial statements by class of financial assets and financial liabilities rather than at an aggregated level.

3 GLOSSARY OF TERMS

APM(s)	Alternative Performance Measure(s)
EECS	European Enforcement Coordination Sessions
ESMA	European Securities and Markets Authority
EU	European Union
GAAP	Generally Accepted Accounting Principles
IAASA	Irish Auditing & Accounting Supervisory Authority
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
Issuer	An entity coming within IAASA's financial statement examination remit under the Transparency Regulations
UTP(s)	Uncertain tax position(s)

APPENDIX I – IAASA'S FINANCIAL REPORTING RELATED PUBLICATIONS

Readers may find it helpful to refer to other IAASA financial reporting related publications, available on the IAASA website at http://www.iaasa.ie/Publications/FRSU, including:

Category	Document
Observations documents	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2016 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2015 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2014 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2013 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2012
Financial reporting decisions	Financial Reporting Decisions (July 2017) Financial Reporting Decisions (March 2017) Financial Reporting Decisions [2] (January 2017) Financial Reporting Decisions [1] (January 2017) Financial Reporting Decisions (March 2016) Financial Reporting Decisions (January 2016) Financial Reporting Decisions (December 2015) Financial Reporting Decisions (November 2015)
Surveys and commentaries	ALTERNATIVE PERFORMANCE MEASURES – THEMATIC SURVEY (September 2017) Desktop survey – Disclosures of the New Accounting Standards in issuers' 2016 annual financial statements (July 2017) Survey on the application of IFRS 13 Fair Value Measurement by Irish Companies (November 2016) SHARE-BASED PAYMENTS – a survey (October 2016) RECOGNITION OF INTANGIBLE ASSETS AND SCALE OF ACQUISITION ACTIVITY – a survey (September 2016) SURVEY OF ISSUERS' DEFINED BENEFIT PENSION SCHEME ASSUMPTIONS (August 2016) OPERATING LEASE COMMITMENTS - A Survey of Operating Lease Commitments by Irish Equity Issuers (July 2016)

Category	Document
	Survey of Directors' Critical Accounting Judgments and Auditors' Assessed Risks of Material Misstatement (November 2015) Alternative Performance Measures – A Survey of their Use together with Key Recommendations: An Update (January 2015) Review of the application of IAS 7 *Statement of Cash Flows* by selected Irish equity issuers (October 2014) Commentary on the application of certain aspects of IAS 1 *Presentation of Financial Statements* by selected Irish equity issuers (October 2013) Review of the application of accounting standard requirements in respect of the disclosure of key management personnel compensation by Irish equity issuers (June 2013)
Policy Paper	Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings (June 2016)
Information Notes	Consideration of the impact of Brexit for issuers' half-yearly financial reports (July 2016)
Annual Reports	2016 Annual Report 2015 Annual Report 2014 Annual Report 2013 Annual Report 2012 Annual Report

APPENDIX II – USEFUL LINKS

	Link
Legislation	
Companies Act 2014	http://www.irishstatutebook.ie/eli/2014/act/38/enacted/en/html
Companies (Accounting) Act 2017	http://www.irishstatutebook.ie/eli/2017/act/9/enacted/en/html
Companies (Amendment) Act 2017	http://www.irishstatutebook.ie/eli/2017/act/13/enacted/en/html
Central Bank of Ireland	http://www.centralbank.ie/Pages/home.aspx
Transparency Rules (November 2016)	https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/securities-markets/transparency-regulation/regulatory-requirements-guidance/transparency-rules-2016.pdf?sfvrsn=2
European Financial Reporting Advisory Group (EFRAG)[1]	http://www.efrag.org/
Endorsement status	http://www.efrag.org/Endorsement
European Securities and Markets Authority	https://www.esma.europa.eu/
Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs) (July 2017)	https://www.esma.europa.eu/press-news/esma-news/esma-publishes-new-qa-alternative-performance-measures-guidelines
ESMA Guidelines on Alternative Performance Measures (October 2015)	https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf
ESMA Guidelines on enforcement of financial information (October 2014)	https://www.esma.europa.eu/sites/default/files/library/2015/11/2014-esma-1293en.pdf
20th Extract from the EECS's Database of Enforcement Decisions (January 2017)	https://www.esma.europa.eu/press-news/esma-news/esma-publishes-extract-enforcement-decisions-financial-statements-0
19th Extract from the EECS's Database of Enforcement Decisions (July 2016)	https://www.esma.europa.eu/sites/default/files/library/2016-1208_19th_extract.pdf
International Accounting Standards Board	http://www.ifrs.org/Pages/default.aspx

[1] EFRAG provides technical expertise to the European Commission concerning the use of IFRS within Europe