2018

FINANCIAL REPORTING DECISIONS

NOVEMBER 2018

IRISH AUDITING & ACCOUNTING SUPERVISORY AUTHORITY

Contents

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

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 deemed by IAASA to be 'significant' as they met one or more of the publication criteria namely:

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

(b) has been discussed at EECS[1] 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 significantly different financial reporting treatments being 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.

[1] The European Securities and Markets Authority (ESMA)-sponsored European Enforcers Co-ordination Sessions, a forum that brings together all EU national accounting enforcers

2. Ryanair Holdings plc – IFRS 8 *Operating Segments*

Issuer	Ryanair Holdings plc
Report type	Annual financial statements
Reporting period	Year ended 31 March 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 8 *Operating Segments*

Summary
This financial reporting decision concerns the level of disaggregation provided in the disclosure of revenues by country of origin.

Background
The issuer operates an ultra-low fare, scheduled airline serving short-haul, point-to-point routes from 86 bases to airports across Europe, offering over 2,000 short-haul flights per day serving over 200 airports across the continent with a fleet of over 440 Boeing 737 aircraft.

IAASA performed a focused examination of certain aspects of the issuer's annual financial statements for the year ended 31 March 2018.

Outline of financial reporting treatment applied by the issuer
Paragraph 33 of IFRS 8 *Operating Segments* states that:

> ***Information about geographical areas***
>
> *33 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:*
>
> *(a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.*
>
> *(b) non-current assets …*
>
> *The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.*

The issuer disclosed information about geographical areas including revenues from external customers attributed to (i) Ireland (being the issuer's country of domicile), (ii) UK, and (iii) all other European countries in aggregate.

IAASA sought information from the issuer as to the composition of revenues from other individual countries and requested the issuer to outline the basis on which the directors assessed whether or not revenues from external customers attributed to an individual foreign country are material [IFRS 8.33(a) refers].

The issuer confirmed that three countries (UK and two other countries) had attributable revenues from external customer exceeding 10% [IFRS 8.13(b) refers] of total revenues.

Outline of findings made by IAASA
IAASA concluded that the geographic disclosures provided in the notes to the financial statements did not comply in full with the requirements of IFRS 8.33.

Outline of corrective actions undertaken or to be undertaken
The issuer undertook to revise the geographic area disclosures in the next annual financial statements by:

(a) extending the disclosures to include revenue disclosure for all countries that are in excess of the materiality threshold of 10% of overall revenues as set out in IFRS 8.13(b); and

(b) revising the comparative amounts accordingly.

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3. Ryanair Holdings plc – IAS 24 *Related Party Disclosures*

Issuer	Ryanair Holdings plc
Report type	Annual financial statements
Reporting period	Year ended 31 March 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 24 *Related Party Disclosures*

Summary
This financial reporting decision concerns the definition used by the issuer for "key management personnel" (KMP) and the associated disclosures provided in the annual financial statements for KMP compensation.

Background
The issuer operates an ultra-low fare, scheduled airline serving short-haul, point-to-point routes from 86 bases to airports across Europe, offering over 2,000 short-haul flights per day serving over 200 airports across the continent with a fleet of over 440 Boeing 737 aircraft.

IAASA performed a focused examination of certain aspects of the issuer's annual financial statements for the year ended 31 March 2018.

Outline of financial reporting treatment applied by the issuer
Paragraph 9 of IAS 24 *Related Party Disclosures* defines "key management personnel" as:

> *… those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly,* ***including any director*** [bold emphasis added] *(whether executive or otherwise) of that entity.*

IAS 24.17 requires an entity to disclose KMP compensation in total and for a number of specified categories.

The issuer stated in the notes to the financial states that "senior key management" as "*the Executive team reporting to the Board of Directors*".

The issuer acknowledged that the disclosures in the related party note to the financial statements excluded remuneration paid to non-executive directors. (However, such remuneration was disclosed elsewhere in the notes to the annual financial statements).

Outline of findings made by IAASA
IAASA concluded that the disclosures provided in the notes to the financial statements did not comply in full with the requirements of IAS 24.17.

Outline of corrective actions undertaken or to be undertaken
The issuer undertook to revise the related party transactions note in the next annual financial statements by:

(a) amending the definition of "senior key management" to include both the Executive team reporting to the Board of Directors and all non-executive directors; and

(b) revising the comparative amounts disclosed to include remuneration paid to non-executive directors.

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4. CRH plc & Kerry Group plc – IFRS 3 *Business Combinations*

Issuers	CRH plc & Kerry Group plc	
Report type	Annual financial statements	
Reporting period	Year ended 31 December 2017	
Financial reporting framework	IFRS-EU	
Applicable financial reporting standards	IFRS 3	*Business Combinations*

Summary
This financial reporting decision concerns the aggregation of the fair values of business acquisitions completed during the financial year and the directors' judgements used when determining the materiality thresholds warranting separate disclosure of the fair values of individual business acquisitions.

Background
This financial reporting decision relates to two Issuers:

(a) CRH plc, an international building materials issuer engaged in the manufacturing and supply of a wide range of building materials; and

(b) Kerry Group plc, a leader in global food ingredients, bringing technology leadership and sustainable growth to the food and beverage industries.

IAASA performed a focussed examination of the issuers' annual financial statements for the year ended 31 December 2017.

Outline of financial reporting treatments applied by the issuers
Paragraph B65 of IFRS 3 *Business Combinations* states that:

> *For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64 (e)-(q).*

In their 2017 annual financial statements, CRH plc noted that it had completed 31 business acquisitions during the year for total consideration of €2.1bn and Kerry Group plc completed 8 business acquisitions for total consideration of €397m. In each case, it was noted that two business acquisitions made up the majority of the total business acquisitions during the year.

The two issuers disclosed that none of the business acquisitions completed during the year were considered sufficiently material to warrant separate disclosure and, accordingly, aggregated the required disclosures for all the business acquisitions completed during the year.

Outline of findings made by IAASA
IAASA requested the directors of each issuer to set out their assessment criteria and judgements used when determining whether or not an individual business acquisition is sufficiently material to warrant separate disclosure under IFRS 3.

In terms of quantitative thresholds, each issuer used a 5% threshold when analysing against a range of key measures. This involved assessing the individual business acquisition to the Group, as a whole, in terms of key measures such as revenues, profits, gross assets, net assets and enterprise value[2] to assess materiality of individual business acquisitions. Each issuer indicated that the business acquisition would be material if any measure exceeded the 5% threshold. It was noted that none of the individual business acquisitions completed during the year exceeded these 5% thresholds for either issuer.

[2] Enterprise value = market capitalisation plus reported borrowings less total cash and cash equivalents

Each issuer indicated that a single acquisition may require separate disclosure if it has a transformational effect on the strategy of the issuer, in tandem with any quantitative measure of materiality, such as whether the acquired business is complementary or not to the issuer's operations.

Each issuer indicated that none of the business acquisitions completed during the year exceeded the 5% quantitative threshold or met the qualitative considerations, either individually or collectively, and, as a consequence, each issuer concluded that no acquisition merited separate disclosure in the annual financial statements.

Outline of corrective actions undertaken or to be undertaken
IAASA concurred with each issuers' rationale that the acquisitions did not exceed the quantitative thresholds or meet the qualitative considerations to warrant separate disclosure.

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5. Boost Issuer plc – IFRS 7 *Financial Instruments: Disclosures*

Issuer	Boost Issuer plc
Report type	Half-yearly financial statements
Reporting period	Six month period ended 30 June 2017
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 7 *Financial Instruments: Disclosures*

Summary
This financial reporting decision concerns the disclosure of the maturity profile by the issuer in the maturity analysis table of redeemable debt instruments.

The debt instruments have a legal maturity date of 30 November 2062. However, the holders of those instruments have an option to redeem on a daily basis. The maturity profile table included in the financial statements did not reflect the early redemption options of the holders of the debt instruments.

Background
The issuer is a public limited company incorporated in Ireland and established as a special purpose vehicle for the purposes of issuing the debt instruments (known as Exchange Traded Products (ETPs)).

IAASA performed an unlimited scope examination of the issuer's half-yearly financial statements for the period ended 30 June 2017. The issuer prepared its half-yearly financial statements as a complete set of financial statements in accordance with IFRS as adopted by the EU rather than a condensed set of financial statements as permitted by IAS 34 *Interim Financial Reporting*. As a result, IFRS 7 applied to this particular matter.

Outline of financial reporting treatment applied by the issuer
The issuer has established a collateralised ETP Securities Programme under which it issues, on an ongoing basis, collateralised ETPs of different classes. The issuer uses the net proceeds of the issuance of ETPs to enter into total return swap contracts with the objective of providing the ETP holders with an exposure to a prescribed index.

The ETPs in issue all have a legal maturity date of 30 November 2062. However, both the ETP holders and the issuer can exercise an early redemption option.

In its half-yearly financial statements, the issuer disclosed the contractual maturities of the ETPs liabilities amounting to €709.5m as maturing in the '*more than five years*' category in the maturity analysis table.

IAASA noted material ETP redemptions from the issuer's Statement of Cash Flows, namely:

(a) €583.9m during the six month period ended 30 June 2017;

(b) €746.9m during the six month period ended 30 June 2016;

(c) €629.1m during the six month period ended 30 June 2015;

(d) €108.0m during the six month period ended 30 June 2014.

Outline of findings made by IAASA

IAASA requested the issuer to explain why the maturity analysis table was based on the legal maturity date of the ETPs (i.e. 30 November 2062) rather than reflecting the ETP holders' option to redeem early.

In response, the issuer indicated that:

(a) the maturity analysis was based on the contractual maturity date of the products while also disclosing the daily redemption rights of the ETP holders;

(b) it disclosed in the half-yearly financial statements that ETPs can be issued and redeemed daily;

(c) the legal maturity of the ETPs is 30 November 2062;

(d) the contractual maturity dates are not affected by the ETP holders' option to redeem early and, as a result, the ETP liabilities are disclosed in the *'more than five years'* column in the maturity analysis table; and

(e) the information provided in the liquidity risk note fully informed the user of the half-yearly financial statements of the liquidity obligations of the issuer.

IFRS 7.39 states that:

> *An entity shall disclose:*
>
> *(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.*
>
> *(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.*
>
> *(c) a description of how it manages the liquidity risk inherent in (a) and (b) ...*

IFRS 7.B11C(a) states that:

> *Paragraph 39(a) and (b) requires an entity to disclose maturity analysis for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:*
>
> *(a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.*
>
> *(b) …*

In addition, IFRS 7.BC57 states that:

> *The Board decided to require disclosure of a maturity analysis for financial liabilities showing the remaining earliest contractual maturities (paragraph 39(a) and paragraphs B11–B16 of Appendix B)…….. The Board decided to require disclosure based on the earliest contractual maturity date because this disclosure shows a worst case scenario …*

It was not clear to IAASA as to how the maturity analysis which disclosed all the ETPs as maturing in more than five years, was consistent with:

(a) the recurring level of material cash flow redemptions to the ETP holders;

(b) the fact that the ETP holders have an option to redeem on a daily basis and redemptions occur significantly earlier than what is indicated in the maturity analysis;

(c) the fact that many of the ETP liabilities are settled earlier than the contractual maturity of 2062; and

(d) the fact that the existing maturity analysis does not appear to have been prepared on a worst-case scenario, but on a best-case scenario (i.e. all ETPs maturing after more than 5 years).

Following its engagement with IAASA, the issuer confirmed that it would adjust the maturity analysis in future periodic financial reports to categorise ETPs in an earlier category in the maturity analysis table to make it clear that ETPs are redeemable daily.

Outline of corrective actions undertaken or to be undertaken
The issuer undertook to include the ETPs in an earlier category in the maturity analysis table in future periodic financial statements.

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