IAASA

Irish Auditing & Accounting Supervisory Authority

Observations on Selected Financial Reporting Issues

Years ending on or after 31 December 2014

October 2014

MISSION STATEMENT

Our mission is to promote high quality financial reporting and effective regulation of accountants and auditors through the delivery of independent and effective supervision which protects 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

Under the Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended) ('the Regulations')[1], the Irish Auditing and Accounting Supervisory Authority ('IAASA') examines the annual and half-yearly financial reports of certain equity, debt and fund issuers with securities admitted to trading on a regulated market within the European Union ('EU') for compliance with the relevant reporting framework.

Most issuers publishing their annual and half-yearly financial reports in compliance with the Regulations apply either International Financial Reporting Standards ('IFRS') (such issuers being referred to as 'IFRS issuers') or financial reporting standards issued by the Financial Reporting Council in the UK (such issuers being referred to as 'Irish GAAP issuers'). Therefore, although IAASA's review activity may extend to periodic financial reports prepared under other financial reporting standard frameworks (e.g. 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) the financial reporting matters identified during IAASA's examinations and surveys undertaken in 2014, including matters not necessarily raised with specific issuers;

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

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

1.2 Purpose of this *Observations* document

The purpose of this document is to continue to assist issuers' management and those charged with issuers' governance in the preparation of high quality financial reports by offering observations on selected financial reporting issues to coincide with the preparation of issuers' 2014 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 in 2015.

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. In that context, IAASA encourages the widest possible transmission of this document.

1.3 Continued applicability of matters raised in earlier years' *Observations* documents

This is the seventh *Observations* document for year end financial reporting published by IAASA and many of the matters raised in earlier 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 IAASA website. For ease of reference, the topics addressed in those earlier years' documents are summarised in Appendix I to this document.

[1] The Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) amended by the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2010 (S.I. No. 102 of 2010), the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 (S.I. No. 238 of 2012), and the Transparency (Directive 2004/109/EC) (Amendment) (No. 2) Regulations 2012 (S.I. No. 316 of 2012). Each of these documents is available at http://www.iaasa.ie/legislation/si277_2007.htm

1.4 Financial reporting enforcement activity – *a new emphasis*

The worst of the recession (domestic and international) may have begun to abate and, in some sectors, growth has begun to emerge. However, in other sectors, particularly entities that are more dependant on domestic demand, the economic prospects are less certain and growth may be constrained by micro- and macro-economic factors such as availability of financing or high levels of debt.

Issuers' can expect IAASA to be mindful of a range of risk indicators, including, for example:

a) inconsistencies or unexplained differences between IFRS financial statements and front-end reporting;

b) growth prospects on budgets used to underpin the values of various assets reported in financial reports;

c) increased competition and/or lower margins on issuers' forecast financial performance and financial position; and

d) constraints on availability of funding to issuers.

Issuers can expect more requests from IAASA for explanations, documentation and evidence backed data. Such requests are more likely when the following circumstances arise:

a) high levels of gearing;

b) significant amounts of intangible assets as a proportion of total assets;

c) business combination activity; and

d) failure to meet previous cash flow forecasts.

As the regulatory influence of Europe (*via* ESMA) grows and as issuers' business models and strategies increase in complexity, the methodologies and the actions of accounting enforcers such as IAASA must also evolve to remain fit for purpose. For this reason, IAASA will, to the fullest extent possible and as resources permit, review its methodologies to promote a culture of high quality financial reporting. For example, in areas requiring significant judgements, IAASA will expect more evidence based responses from issuers and may also conduct more thematic examinations for financial reporting enforcement purposes.

2 OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES (ALL ISSUERS)

2.1 Measurement of recoverable amounts of Cash Generating Units ('CGUs')

2.1.1 Value-in-use calculations ('VIU')

In instances where an entity's balance sheet consists of a significant amount of goodwill or intangible assets with indefinite lives, the VIU calculations and assumptions underpinning same remain a key judgment. Issuers' VIU assumptions remain a risk area in selecting reports for IAASA examination. IAASA's observations in this regard, contained in previous publications remain valid.

During 2014 IAASA has examined in detail:

a) the measurement aspects of IAS 36 *Impairment of Assets* (i.e. VIU calculations) and the key assumptions underpinning same;

b) the quality of issuers' impairment/VIU disclosures;

c) the disclosure of the key assumptions for <u>each significant</u> CGU (IAS 36.134) rather than the provision of aggregated data which may obscure key differences between CGUs;

d) explanations for components of, and movements in, the discount rate used in VIU calculations;

e) data to confirm whether all key assumptions reflect past experience or are consistent with external sources of information, and, if not, why they differ; and

f) the justification for extrapolating cash flows over a period greater than 5 years and the reliability of information where a long period is used.

The measurement aspects of IAS 36 will continue to be an area of focus for IAASA examinations. Disclosure aspects are outlined in more detail below.

2.1.2 Disclosure of the recoverable amount of CGUs containing goodwill or intangible assets with indefinite useful lives

IAS 36.134(d) requires disclosures for each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison to the entity's total carrying amount of goodwill or intangible asset with indefinite useful lives.

IAASA identified instances of either non-compliance with IAS 36.134 or poor quality disclosures in the following areas:

a) management's approach to determining the values assigned to each key assumption was found to be so vague as to be of little benefit to users and/or lacked issuer specific information;

b) failure to disclose the period over which management has projected cash flows beyond the period covered by management's budgets and failure to disclose an explanation of why that longer period was justified (terminal values);

c) disclosure of the key assumptions in aggregate (i.e. at group level) rather than by significant CGU leading to differences in assumptions between significant CGUs being obscured; and

d) failure to disclose whether key assumptions reflected past performance or were consistent with external sources of information and, if not, how and why they differ from same.

Issuers can expect IAASA to continue to focus on the disclosures requirements of IAS 36 in 2015.

2.2 Deferred tax assets ('DTAs')

2.2.1 Recognition and measurement

Certain issuers which have incurred significant losses in recent years have recognised material amounts of deferred tax assets. Paragraph 34 of IAS 12 *Income Taxes* requires the recognition of a DTA to the extent that it is probable that future taxable profits will be available against which the unused tax losses may be recovered.

Because of the quantum of the DTA recognised by some issuers, full recovery of DTA will depend on future taxable profits being available over a period of time considerably beyond the normal forecasting range. In some cases, issuers' forecasts of the probable taxable profits forecasts extend to more than 20 years into the future.

While IAS 12 does not specify a time period over which the losses are expected to be utilised, IAS 12.34 requires that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. In addition, IAS 12.35 requires that there be convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. IAS 12.36 is also relevant in this regard.

IAASA has examined (through correspondence and meetings with issuers) whether the key assumptions that underpin issuers' taxable profit forecasts are sufficiently robust and representative of the average profitability of the entity that will prevail over the entire period covered by those long term forecasts. Issuers' should expect to provide an explanation of how they have adjusted the key assumptions for the conditions expected to prevail over the entire term of the period covered by the forecast including correlation between assumptions and taxable profits and changes in micro- and macro-economic conditions during the period.

In addition, IAS 12.56 requires that DTAs be reviewed at the end of each reporting period and reduced to the extent that it becomes no longer probable that sufficient taxable profit will be available.

IAASA will continue to challenge issuers:

a) in instances where the issuer is forecasting indefinite future taxable profits (for DTA purposes); and

b) as to the limitations, if any, the issuer has identified when assessing whether profits are more likely than not (IAS 12.34 refers).

In addition, IAASA will continue to assess whether issuers' taxable profit forecasts are consistent with forecasts elsewhere in the financial statements (i.e. the key assumptions that an entity makes when recognising DTAs would be expected to be not inconsistent with projections elsewhere in the financial statements such as the assumptions used in VIU impairment calculations).

2.2.2 Disclosure

IAS 1.125 requires that:

> *An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:*
>
> *(a) their nature, and*
>
> *(b) their carrying amount as at the end of the reporting period.*

IAS 12.85 states:

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

(c) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

It is IAASA's expectation that issuers will ensure there is entity specific disclose of the key assumptions underpinning future taxable profit forecasts together with a description of the most significant sources of estimation uncertainty. Disclosure of an analysis of the pattern of utilisation of DTAs provides information useful to users and is encouraged. IAASA expects that any significant limitations on the utilisation of DTAs between jurisdictions should also be disclosed in financial reports by disaggregating DTAs disclosures based on the characteristics of the tax losses.

IAASA has discussed the matter of the long periods of time being used to forecast profits in order to support the recognition of material DTAs with the International Accounting Standards Board ('IASB') and IFRS Interpretations Committee ('IFRS IC') representatives. IAASA will continue to closely monitor issuers' key judgements and assumptions related to the recognition, measurement and disclosures regarding DTAs.

2.3 Uncertain tax positions ('UTPs')

UTP liabilities arise where the ultimate tax treatment of an item is unclear or is a matter of dispute between an entity and the relevant tax authority. UTPs generally occur where there is an uncertainty as to the meaning of the law, or to the applicability of the law to a particular transaction, or both. The outcomes of UTPs are often open to different interpretation of local tax laws and may take a long time to resolve.

IAASA has examined the recognition, measurement and disclosures related to UTPs of a number of entities.

2.3.1 Measurement

IAS 12 *Income Taxes* applies to all taxes which are based on taxable profits. IAS 12.46 states:

Current tax liabilities (assets) for the current and prior periods shall be measured at ***the amount expected to be paid*** [bold emphasis added] *to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.*

IAS 12 lacks clarity with regard to the measurement of UTPs and as a result, a variety of methodologies are applied in practice. IAASA has noted that the recognition of a significant amount of UTPs in issuers' reports were not matched with similar amounts of cash tax payments in later years. This brings volatility to the amounts recognised in the Income Statement as UTPs are reversed/written off.

IAASA has raised the issue of the measurement of UTPs with a number of issuers and also with representatives of the IASB and IFRS IC. As a result, the IFRS IC discussed the measurement of assets and liabilities on UTPs at its meeting of 16 – 17 September 2014[2]. It tentatively decided to proceed with the project on measurement of UTPs, subject to further analysis and deliberations. IFRS IC also concluded that an entity should assume that the tax authorities will examine the amounts reported to them and have full knowledge of all relevant information (i.e. it should assume a 100%

[2] See http://media.ifrs.org/2014/IFRIC/September/IFRIC-Update-September-2014.pdf

detection risk). Issuers are encouraged to monitor and remain informed about developments from the IFRS regarding measurement of UTPs.

Subject to the IFRS IC's deliberations on this matter, it remains IAASA's expectation that an excessively prudent or conservative estimate/measurement of UTPs may be inconsistent with a fair presentation or the amount '*expected to be paid*' to/recovered from the tax authorities (IAS 12.46 refers).

2.3.2 Disclosure of accounting policy

IAASA has determined that issuers apply a variety of UTP measurement methodologies, for example:

a) an "all or nothing" approach;

b) a probability weighted expected value; or

c) a most likely single outcome.

IAS 1.122 states that:

> *An entity shall disclose, in the summary of significant accounting policies or other notes, the **judgements** [bold emphasis added], apart from those involving estimations ... that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.*

IAASA has found that disclosure of UTP measurement policies, key judgements and any changes therein have been varied and lacking in detail. As a result of a number of examinations by IAASA a number of issuers have provided undertakings to improve their disclosure of the financial reporting treatments applied in respect of UTPs.

It remains IAASA's expectation that issuers' disclosure of their UTP measurement policies will be such that the key UTP measurement judgements are readily apparent to users.

Issuers are reminded that IFRS do not provide an exemption from UTP disclosures on the basis that the information disclosed would otherwise be considered confidential or prejudicial to the issuer.

2.4 Assessing control under IFRS 10

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) together constitute the "suite of consolidation Standards" and were applicable, at the latest, from the commencement date of the first financial year starting on or after 1 January 2014.

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation of all types of entities.

The principle of IFRS 10 is that control is more broadly defined than that previously applied under IAS 27 and SIC-12. Control is not limited to a majority share of the voting rights of an issuer. IFRS 10.5 states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Issuers should carefully consider their judgements in assessing whether there is control under IFRS 10. IFRS 10 Appendix B.3 describes factors that may assist in determining whether or not there is control including:

a) the purpose and design of the investee (paragraphs B5–B8);

b) what the relevant activities are and how decisions about those activities are made (paragraphs B11–B13);

c) whether the rights of the investor give it the current ability to direct the relevant activities (paragraphs B14–B54);

d) whether the investor is exposed, or has rights, to variable returns from its involvement with the investee (paragraphs B55–B57); and

e) whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns (paragraphs B58–B72).

Issuers should carefully assess whether control arises from contractual agreements or a combination of other facts and circumstances of the issuer.

It is likely that the implementation of this suite of consolidation Standards will be an area of focus by IAASA in 2015.

2.5 Alternative performance measures

In 2012, IAASA issued recommendations for equity issuers' on the use of alternative performance measures ('APMs') which were contained in a paper titled *Alternative Performance Measures – A Survey of their Use together with Key Recommendations*[3]. The purpose of that publication was to identify and describe the most common financial APMs presented in equity issuers' annual reports and to identify key recommendations which, if applied, should enhance users' understanding of the performance, financial position and cash flows and enable better comparability across issuers.

In its 2012 Paper, IAASA encouraged issuers, in the selection preparation and presentation of APMs, to:

a) explain the reason for the use of each APM;

b) clearly define each APM;

c) explain the calculation of each APM;

d) reconcile each APM to the relevant IFRS-based measure;

e) include comparative amounts for each APM;

f) disclose all APMs in a single location in the annual report;

g) avoid presenting APMs that detract from or conflict with IFRS-based financial statement measures; and

h) avoid giving undue prominence to non-IFRS-based APMs.

We continue to engage with issuers on their use of APMs and note that the response of issuers to our key recommendations has been mixed. In a number of instances noticeable improvements have been made but in other instances, issues still arise.

Given the importance of APMs to users of financial reports and the emphasis placed on such measures in market and press announcements, IAASA will continue to engage with issuers in order to seek improvements in this regard. IAASA is also undertaking an updated thematic study on the use of APMs by equity issuers in 2014.

IAASA will continue to focus on the use of APMs by issuers in its 2015 examination programme.

[3] Available in e-book format at http://www.iaasa.ie/publications/obsdoc2013/Observations_on_selected_Financial_Reporting_Issues.pdf and in printable PDF format at http://www.iaasa.ie/publications/IAS1/ebook/Presentation_of_Financial_Statements_10-2013.pdf

2.6 Other matters

2.6.1 Requirement to disclose dividends proposed

IAASA reminds issuers of the requirement in IAS 1 *Presentation of Financial Statements* to disclose dividends proposed.

Paragraph 134 of IAS 1 states:

> *An entity shall disclose in the notes:*
>
> *(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and*
>
> *(b) the amount of any cumulative preference dividends not recognised.*

IAASA has observed that a number of equity issuers have failed to provide complete disclosures as required by IAS 1.134.

Certain issuers, while appropriately disclosing the relevant amount per share of dividend proposed or declared, have not disclosed the total amount of such dividends.

Issuers are reminded that IAS 1 requires the disclosure of both:

a) the amount of such dividends; and

b) the related amount per share.

2.6.2 Amendments to IFRS 8

Amendments to IFRS 8 *Operating Segments*, effective for annual reporting beginning on or after 1 July 2014, mandate that:

a) an entity discloses the judgements made by management in applying the criteria used to aggregate operating segments into reportable segments; and

b) an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly to the Chief Operating Decision Maker.

In earlier years IAASA had challenged issuers’ judgements regarding the basis on which operating segments have been aggregated into reportable segments. IAASA welcomes this amendment to IFRS 8.

IAASA intends to monitor issuers’ compliance with these new requirements.

3 OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES (FINANCIAL INSTITUTIONS)

3.1 European Central Bank ('ECB') /European Banking Authority ('EBA') Comprehensive Assessment and Asset Quality Review ('AQR') – impact on financial institutions

At the time of publication of this *Observations* document, the ECB's comprehensive assessment of the European banking sector that includes the AQR is at an advance stage. The ECB/EBA comprehensive assessment is expected, at a minimum, to lead to a harmonised treatment of non-performing exposures and provisioning rules, which varies between jurisdictions at present and is not directly comparable between institutions.

It is IAASA's expectation that banks under its financial reporting review remit will ensure that all material impacts of the ECB's comprehensive assessment and AQR will be clearly disclosed, in their IFRS financial reports including, for example:

a) correction of any material errors;

b) the nature of any changes to provisioning policy and provisioning models and the quantitative effects of any such change;

c) changes in accounting estimates;

d) changes to regulatory capital funding requirements;

e) the classification of any new complex financial instruments (and accounting for related dividends and interest payments) that might be issued in order to increase regulatory capital (e.g. contingent convertible instruments); and

f) adequate explanation of any anticipated changes in the banks' long term profit forecasts, e.g. a need to dispose of non-core assets or subsidiaries, deleveraging, recognition of deferred tax assets or impairments of non-financial assets.

It is also IAASA's expectation that changes in the banks' impairment provisioning policy arising from the comprehensive assessment will be directionally consistent with changes in related observable data as required by IAS 39.AG89.

3.2 Impairment provisioning

The Central Bank of Ireland ('CBI') issued Impairment Provisioning and Disclosure Guidelines (May 2013)[4] that set out the CBI's best practice guidelines regarding the policies, procedures and disclosures which the State supported Covered Institutions should adopt for loans and receivables financial assets (and held to maturity financial assets where applicable). These CBI guidelines expect banks to apply a conservative approach[5] to impairment provisioning.

Impairment provisioning has been an area of focus for IAASA in 2014 and, in particular, IAASA is currently examining:

a) the approach to the measurement of impairment provisions of financial assets during 2013 and the linking of impairment provisions to actual loss experience/observable data;

b) the specific changes to the impairment methodologies/models used and the rationale for changes to these models;

[4] Available at http://www.centralbank.ie/regulation/industry-sectors/credit-institutions/Documents/Impairment%20Provisioning%20Guidelines%20May%202013.pdf

[5] Covered institutions should '*... Adopt a sufficiently conservative … approach to the measurement of impairment provisions across all loan portfolios …* ' (CBI guidelines, page 3).

c) the measurement of impairment provisions (by class of financial asset) and how such measurement is linked to changes in observable data;

d) the key assumptions underpinning the impairment model(s), the sources of key assumptions and the reasons for significant changes to those key assumptions; and

e) the mechanism for periodically calibrating to reflect actual experience and the results of this calibration process.

3.3 Forbearance disclosures

Irish residential mortgage holders that have been granted forbearance measures by the three financial institutions falling within IAASA's financial reporting supervisory remit[6] amounted to €11bn at 31 December 2013. In addition, a significant amount of non-mortgage loans have been extended forbearance measures. With elevated levels of forbearance activity (evidence of the legacy of the recent financial crash in Ireland), the sustainability of forborne loans remains critical to the financial position, financial performance and future cash flows of Irish financial institutions.

Notwithstanding the improvements in the Irish economy there remains a significant level of loans that pose an elevated risk to the financial prospects of Irish financial institutions. Examples include:

a) lower quality loans (both mortgage and non-mortgage) that are neither past due or impaired (loans past due but not impaired across the three institutions amounted to €9.3bn at 31 December 2013);

b) non-performing loans (impaired and non-impaired); and

c) forborne loans that are impaired and/or whose forbearance period are about to expire e.g. interest only residential mortgages.

Differences in the risks in different segments of the financial institutions' loan books (both mortgage and non-mortgage loans) need to be transparent to users and should not be obscured by presenting information that is too aggregated.

An assessment of the forbearance disclosures for financial institutions involve consideration by IAASA of the following areas of forborne loans (and movements therein):

a) credit quality;

b) asset quality;

c) arrears levels;

d) impairment charges and impairment provision rates by sub-segment of loan;

e) interest income earned from forborne loans and losses, if any, arising from the derecognition of loans (i.e. the derecognition of an existing loan and the recognition of a new loan on significantly modified terms); and

f) a comprehensive reconciliation of forbearance activity during the period including changes, if any, in the basis for the reclassification of loans from forborne loans status to non-forborne loan category.

As part of its 2014 work, IAASA is in on-going correspondence with selected financial institutions regarding their forbearance disclosures.

[6] i.e. Allied Irish Banks plc, Bank of Ireland and Permanent tsb Group Holdings plc.

It is IAASA's expectation that additional asset quality and forbearance related disclosures required by IAS 1 and IFRS 7 should be contained within the audited financial statements rather than included elsewhere in the annual report.

Attention is drawn to the observations on forbearance contained in IAASA's 2013 *Observations* document which remain relevant.

4 OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES (DEBT AND CLOSED-ENDED FUND ISSUERS)

As has been stated in previous IAASA publications, there has been a noted improvement in the quality of the financial reports of some debt and closed-ended fund issuers falling under IAASA's financial statement review remit. However, there still remains a number of debt and closed ended fund issuers where the quality of the financial reports is below what is expected. In particular, these tend to be issuers that have not been the subject of previous IAASA examinations.

Areas of recurring non-compliance include:

a) a culture of '*same as last year'* evident from the financial statements despite apparent significant changes in issuers circumstances (e.g. fair value movements, significant transactions, changes in market conditions not appropriately explained, etc);

b) inadequate disclosure of valuation techniques;

c) selected risk disclosures not provided;

d) selected risk disclosure presented on an aggregated basis where a disaggregated presentation is more appropriate; and

e) boiler plate risk disclosures that do not lend a sufficient understanding of the issuers circumstances, risks and reasons for changes therein.

As a result, where IAASA identify significant or repeated or multiple instances of non compliance in an issuers financial report it is IAASA's policy to request that debt and closed ended fund issuers will:

a) issue a revised and re-audited set of financial statements;

b) agree to provide IAASA with a copy of same in advance of publication; and/or

c) issue a public statement, agreed with IAASA, that highlights the matters identified by IAASA's examination.

Examples of such public statements are included on IAASA's website at
http://www.iaasa.ie/news/prev_news_2014.htm

GLOSSARY OF TERMS

AQR	Asset Quality Review
APM(s)	Alternative Performance Measure(s)
CBI	Central bank of Ireland
CGU(s)	Cash Generating Unit(s)
DTA(s)	Deferred tax asset(s)
EBA	European Banking Authority
ECB	European Central bank
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
IFRS IC	IFRS Interpretations Committee
Regulations, the	Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended by the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2010 (S.I. No. 102 of 2010), the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 (S.I. No. 238 of 2012), and the Transparency (Directive 2004/109/EC) (Amendment) (No. 2) Regulations 2012 (S.I. No. 316 of 2012)
SIC	Standing Interpretations Committee
UTP(s)	Uncertain tax position(s)
VIU	Value-in-use

APPENDIX I – MATTERS RAISED IN EARLIER YEARS' *OBSERVATIONS* DOCUMENTS

This is the seventh *Observations* document published by IAASA and readers may find it helpful to read this document in conjunction with those earlier years' documents which are available on the IAASA website. For ease of reference, the topics addressed in those earlier years' documents are set out below:

	Observations 2013	Observations 2012	Observations 2011	Observations 2010	Observations 2009	Observations 2008
Risks and uncertainties and risk disclosures		√	√	√	√	√
New and amended accounting pronouncements	√	√	√	√	√	√
Provisions	√	√	√	√		
Impairments	√	√		√		√
- impairment of goodwill					√	
Alternative performance measures	√	√			√	√
Recognition and measurement of deferred tax assets – entities with a history of recent losses -	√					
Presentation of the Income Statement	√					
Forbearance: disclosure	√					
Quality of fair value and risk disclosures by debt issuers/special purpose vehicles	√					
General disclosures in financial statements	√					
Employee benefits		√				√
- amendments to employee benefit plans			√			
- discount rates	√	√		√		
Related party disclosures					√	√
- Disclosure of Key Management Personnel ('KMP') compensation	√			√		
Financial instruments				√	√	√
Cash flow statements		√				
Off balance sheet items: qualitative disclosures		√				
Significant judgements		√				
Financial reporting pronouncements not yet effective		√				
Exceptional items and non-recurring items		√	√			
Restatement and reclassification of amounts		√		√		
Materiality			√		√	
Interim reporting			√	√		
Bank covenants				√	√	
Hedging					√	√
Operating profit					√	√
Recoverable amount of assets / Cash Generating Units ('CGUs')			√			
Tax risks and uncertainties			√			
Sovereign debt			√			
Financial reporting considerations relevant to the making of distributions			√			
Presentational errors			√			

	Observations 2013	Observations 2012	Observations 2011	Observations 2010	Observations 2009	Observations 2008
Revision to IAS 1 *Presentation of Financial Statements*				√		
Operating segments				√		
Accounting for Government grants and Government assistance					√	
Management reports					√	
Additional disclosures					√	
Reliance on '*industry practice*'					√	
Judgements						√
Deferred tax assets						√
Business combinations						√
Earnings per share						√
Prior period errors						√

APPENDIX II – 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, including:

Category	Document
Observations documents	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 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December, 2011 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December, 2010 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December, 2009 Observations on selected financial reporting issues issuers' financial years ending on or after 31 December, 2008
Information Notes	Information Note: Financial reporting considerations relevant to the disclosure requirements of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 Information Note: Financial reporting considerations relevant to the making of distributions
Other	Review of the application of IAS 7 *Statement of Cash Flows* by selected Irish equity issuers Commentary on the application of certain aspects of IAS 1 *Presentation of Financial Statements* by selected Irish equity issuers Summary of the results of its thematic review of the application of IAS 24 *related party disclosures* in respect of key management personnel ('kmp') disclosures by Irish equity issuers Survey on the use of alternative performance measures, November 2012 Review of the quality of selected debt and fund issuers' fair value and risk disclosures Commentary on half-yearly financial reports prepared since the coming into effect of the Transparency (Directive 2004/109/EC) Regulations, 2007
Guides	Guide to the financial reporting requirements of the EU Transparency Directive

Category	Document
Annual Reports	2013 Annual Report 2012 Annual Report 2011 Annual Report 2010 Annual Report 2009 Annual Report 2008 Annual Report 2007 Annual Report 2006 Annual Report.