



Financial Reporting Decisions

9 January 2017

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Readers should note that the financial reporting decisions published by IAASA may include decisions where:

- a) the issuer has voluntarily provided undertakings to enhance its financial reporting treatment and/or disclosures in future financial statements to address matters identified in the course of IAASA's examinations; and
- b) IAASA concurred with the financial reporting treatment applied by the issuer and, consequently, no corrective actions are required.

Readers may find it helpful to refer to IAASA's [Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings](#).

Issuer	Aryzta AG
Report type	Interim financial statements
Reporting period	Period ended 31 January 2016
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 28 <i>Investments in Associates and Joint Ventures</i> IFRS 11 <i>Joint Arrangements</i> IFRS 10 <i>Consolidated Financial Statements</i>

Summary

This financial reporting decision concerns the treatment by the issuer of its investment in Picard Groupe ('Picard') as an associate under IAS 28. However, following an examination of certain extracts of the Securities Transfer Agreement, IAASA concluded that the issuer's investment in Picard should be treated and disclosed as a Joint Venture under IFRS 11.

Background

The issuer is an international food business with a major market position in specialty bakery and is listed on both the SIX Swiss and the Irish Stock Exchanges.

IAASA performed a focussed examination of the issuer's interim financial statements for the six-month period ended 31 January 2016.

Outline of financial reporting treatments applied by the issuer

In its interim financial statements, the issuer disclosed that during August 2015 it acquired a 49.5% interest in Picard for €450m and it was accounted for as an Investment in an Associate under IAS 28. It was also disclosed in the interim financial statements that the issuer retains the right to exercise a call option to acquire the remaining outstanding interest in Picard during specified periods in 2018, 2019 and 2020.

In response to a request from IAASA, the issuer provided relevant extracts from the Securities Transfer Agreement to IAASA. It is noted from that Agreement that the issuer's qualified consent (i.e. its positive vote) is required for 15 "restricted matters". The 15 "restricted matters" require the agreement of both the other party (Lion Capital LLP ('Lion')) and the issuer. Examples of the restricted matters are approval of Picard's annual budget and appointing and removing Picard's Chief Executive or Chief Financial Officer.

The issuer informed IAASA that its rationale for treating its investment in Picard as an "Associate" was as follows:

- (a) the issuer holds a minority shareholding of 49.5% and Lion owns the remaining 50.5% shareholding in Picard;
- (b) the issuer holds only two of the five seats on Picard's Board of Directors. Lion holds the other 3 seats (including the Chairman);
- (c) while the "restricted matters" require the issuer's positive approval, all other decisions require only a majority vote of the members of Picard's Board of directors;
- (d) the "restricted matters" provide the issuer with protective rights and allow it to have the ability to influence the relevant activities, but these rights do not allow it to direct the relevant activities of Picard;
- (e) the "restricted matters" allow the issuer an increased level of participation in the critical operating decisions of Picard, but Lion continues to control the primary decisions and

resolution of such matters; and

- (f) Lion continues to substantially control all major decisions in connection with management of the business of Picard. Lion makes the initial selection of the respective recruiting firms and individuals proposed for any key roles. The issuer's positive vote is then required to give effect to these decisions.

Outline of findings made by IAASA

IAASA concluded that the issuer jointly controls Picard with Lion. The arrangement between the issuer and Lion would appear to meet the definition of "joint control" in Appendix A of IFRS 11 *Joint Arrangements*:

"the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control"

The issuer has the power of veto as its qualified consent is required for the 15 "restricted matters". These restricted matters, as outlined in the Securities Transfer Agreement would appear to relate to the strategic decisions over the operation and governance of Picard. IAASA agrees that the issuer does not control or have power over Picard as it cannot direct the relevant activities of Picard without the cooperation of Lion. The restricted matters would appear to meet the definition of "relevant activities" of Appendix A of IFRS 10 *Consolidated Financial Statements* which are defined as follows:

"activities of the investee that significantly affect the investee's returns".

A number of the "restricted matters" meet the specific examples of "Relevant Activities" as outlined in IFRS 10.B11 and IFRS 10.B12.

The issuer's assertion that Lion dominates all key decisions in addition to being directly involved in the "Relevant Activities" of Picard and that the issuer is involved only in the formal approval of the results of those "Relevant Activities" was noted by IAASA.

However, the issuer's assertion that it does not participate in the day-to-day management of Picard does not necessarily mean that it cannot be involved in the direction of Picard's "Relevant Activities" with Lion. IFRS 11.8 states:

"... All the parties or group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities)."

On this basis, it appeared to IAASA that the issuer has existing rights to jointly direct the "Relevant Activities" of Picard as a decision relating to the "Relevant Activities" of Picard requires the positive approval of the issuer's Board representatives on the Picard Board (i.e. qualified consent). In addition, any deadlock on such matters would appear to have to be resolved to the satisfaction of the issuer's Board representatives.

The issuer's qualified consent over the 15 "restricted matters" of Picard was considered by the issuer to provide the issuer with only a protective right as opposed to a substantive right.

IAASA considers that the issuer's veto power/qualified consent represents a substantive right for the issuer. It is IAASA's view that the veto power amounts to joint control as the issuer's veto/qualified consent needs to be exercised to require the issuer's consent for decisions regarding the "Relevant Activities" in order to govern Picard.

IFRS 10.B25 and IFRS 10.B27 state:

"B25 Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs B26–B28), substantive rights held by other parties may

prevent the investor from controlling the investee even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities’.

....

B27 Because protective rights are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee ...”

The issuer's power of veto/qualified consent over the restricted matters appears to give the issuer the power to:

- (a) approve or block decisions relating to Picard's "Relevant Activities"; and
- (b) prevent Lion from having power over Picard.

Based on the foregoing, IAASA considers that the issuer's power of veto/qualified consent represents a substantive right for the issuer over Picard's "Relevant Activities" as opposed to a protective right. In IAASA's view, the issuer's veto/qualified consent distinguishes it as a party with joint control in Picard as it has a veto over the strategic decisions on the operation and governance of Picard. If the issuer had just a protective veto right, the issuer would have no veto on the strategic decisions of Picard and would be subject to majority rule.

Outline of corrective actions undertaken or to be undertaken

Following engagement with IAASA, the issuer presented its investment in Picard as a Joint Venture in its 2016 annual financial statements.

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Issuer	Cairn Homes plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2015
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 7 <i>Financial Instruments: Disclosures</i>

Summary

This financial reporting decision concerns the omission by the issuer of certain market risk disclosures required by IFRS 7.

Background

The issuer is a house builder founded in 2015.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2015.

Outline of financial reporting treatments applied by the issuer

In December 2015, the issuer acquired a portfolio of loans for €379m from a financial institution. The loans were acquired at a substantial discount to their nominal value of €1,700m reflecting their distressed state at the time of acquisition. All of the loans were past due and were all in default. The loans were secured on property assets of the borrowers. The issuer confirmed to IAASA that the commercial objective in acquiring the loan portfolio was to enable it to access the underlying residential development sites which collateralised the loan portfolio.

The issuer disclosed that its objective in purchasing the portfolio of loans was to generate future returns for the issuer through a combination of:

- (a) acquisition of collateral assets for inclusion as inventory in its development portfolio;
- (b) disposal of collateral assets over time to achieve a redemption of the loan at a value greater than the acquisition cost; and
- (c) income from the underlying property asset portfolio.

The issuer's market risk disclosure note in its annual financial statements did not disclose:

- (a) a detailed description as to how the exposures to property market risk arises [IFRS 7.33(a)];
- (b) a description of the issuer's objectives, policies and processes for managing property market risk and the methods used to measure that risk [IFRS 7.33(b)]; and
- (c) appropriate sensitivity analysis for property market risk together with the supplementary disclosures [IFRS 7.40].

The issuer informed IAASA that its rationale for not providing the above disclosures was that:

- (a) the loans were purchased in December 2015 at fair value in an open market transaction with a third party;
- (b) the principal aim of the issuer in acquiring this distressed loan portfolio was to access development sites for future residential developments, consistent with the principal activities of the issuer;

- (c) the amount paid for the loan portfolio reflected the issuer's assessment of the value of the underlying property collateral;
- (d) there was only a short period between the acquisition of the loans (11 December 2015) and the reporting date (31 December 2015); as a result, no significant matters affected the property market in that period which would have indicated that the carrying values of the loan portfolio needed to be impaired at year-end; and
- (e) on the basis that the loan portfolio was purchased just prior to the reporting date, the disclosures in the annual financial statements was sufficient to enable users to have an understanding of the nature of the loan portfolio and the related risks.

The position, as recorded in the issuer's Statement of Financial Position at 31 December 2015, reflected the fact that the loan portfolio was acquired during December 2015 and the foreclosure process to access underlying residential development sites had not yet commenced. The issuer explained to IAASA that, under the terms of the acquisition, there was a sub-participation period for the first two months post acquisition which prevented the issuer from commencing the foreclosure process during that period. Subsequent to the reporting date, the issuer has commenced the foreclosure process to take direct ownership of the underlying residential development sites or, in some limited instances, to the sale of the underlying loans to the original borrower.

The commercial substance of the loan portfolio acquisition was the acquisition of residential development sites and not the acquisition of a loan portfolio.

Outline of findings made by IAASA

IAASA concluded that the disclosures provided in the financial statements did not comply, in full, with the requirements of IFRS 7.33 and IFRS 7.40 in respect of property market risk for the following reasons:

- (a) the loan portfolio amounting to €379m equated to 67% of the issuer's total assets;
- (b) the market risk of property could impact the value of the loan portfolio given that the loan portfolio was based on the value of the underlying property collateral;
- (c) it was not readily apparent from the disclosures provided in the annual financial statements as to whether or not the information required by IFRS 7.33 and IFRS 7.40 with regard to property market risk had been disclosed; and
- (d) given the principal activities of the issuer, the market risk of property was considered by IAASA to be important information for the users of the financial statements.

Outline of corrective actions undertaken or to be undertaken

Following engagement with IAASA, the directors undertook to provide in future periodic financial statements, in the event that material loan receivables remain on the issuer's Statement of Financial Position:

- (a) a detailed description as to how the exposures to property market risk arises [IFRS 7.33(a)];
- (b) a description of the issuer's objectives, policies and processes for managing property market risk and the methods used to measure the risk [IFRS 7.33(b)]; and
- (c) appropriate sensitivity analysis for property market risk together with the supplementary disclosures [IFRS 7.40].

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Issuer	Permanent TSB Group Holding plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2014
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 12 <i>Income Taxes</i> and IAS 1 <i>Presentation of Financial Statements</i>

Summary

This decision concerns the recognition, measurement and disclosure of deferred tax assets ('DTAs') by Permanent TSB Group Holding plc (the 'issuer') amounting to €420m or approximately 18% of total equity and which was forecast to be recovered over 26 years.

IAASA's decisions were:

- (a) there was insufficient clarity in the accounting standard (IAS 12) to enable IAASA to require the issuer to apply alternative recognition and measurement criteria in respect of DTAs; and
- (b) additional DTA disclosures were necessary in the issuer's financial report to enable users to gain a better understanding of the judgements and key assumptions underpinning the recovery of DTAs over an extended time period.

Background

The issuer reported consistent profits prior to 2008 but since then had recognised substantial losses. The issuer's detailed medium-term forecasts (over a 4 year period) indicated a return to profitability in the Core Bank and this is supported by improving economic data. The issuer has substantially deleveraged segments of its loan book and the remaining business is smaller in scale compared to pre-2008 and is now focused primarily on retail banking in the Irish market.

Outline of financial reporting treatment applied by the issuer

The issuer recognised DTAs in its 2014 financial statements on the basis of it being probable (i.e. more likely than not) that there would be sufficient future taxable profits against which losses can be utilised.

The DTAs recognised in the 2014 financial statements amounted to approximately 18% of total equity and the financial statements disclosed it would take over 20 years for DTAs to be utilised. The issuer has confirmed to IAASA that based on its own estimates, a period of 26 years was required to fully recover DTAs. While the issuer recognised an accounting loss in 2014, it had commenced using its tax losses in the year ended 2014 and recent profit forecasts have been achieved.

In accordance with IAS 12, where there is a history of recent losses, '*convincing other evidence*' is required by paragraph 35 of IAS 12 before DTAs may be recognised. IAS 12.56 states that the carrying amount of DTAs shall be reviewed at each reporting date.

The 2014 annual financial statements disclosed that, based on the issuer's most recent forecast plans to 2018, and assuming a level of profitability growth consistent with GDP growth of approximately +2% per annum, it would take over 20 years for the DTAs of €420m to be utilised.

IAASA regards forecasts over a longer term as subject to a higher level of uncertainty.

Outline of decisions made by IAASA

DTAs: recognition and measurement

IAASA concluded that there was insufficient clarity in the relevant sections of the accounting standard (IAS 12.34 to IAS 12.36 and IAS 12.56) to enable it to require the issuer to apply alternative recognition and measurement criteria in respect of DTAs.

IAASA was cognisant of significant uncertainties in key future profit assumptions and subjective management judgements underpinning the recognition of a significant amount of DTAs over a period of 26 years.

The absence of detailed guidance in IAS 12 as to what constitutes '*convincing other evidence*' is also a limiting factor in IAASA's conclusion.

In arriving at its conclusion IAASA had regard to:

- (a) the facts and circumstances specific to the issuer as at 31 December 2014;
- (b) the results of the European Enforcers Co-ordination Sessions (EECS¹) fact-finding exercise on the application across Europe of the IAS 12 requirements on recognising and measuring DTAs arising from tax losses carried forward²; and
- (c) the outcome of discussions between EECS and representatives of the accounting standards setter (the International Accounting Standards Board) on the IAS 12 requirements on recognising and measuring DTAs arising from tax losses carried forward.

DTAs: disclosure

The issuer's 2014 annual financial statements provided qualitative and quantitative disclosures upon which it had based its assessment of it being probable that there would be sufficient future taxable profits against which losses can be utilised including disclosures regarding:

- (a) the improving macroeconomic environment;
- (b) improvements in the projected viability of the Core Bank;
- (c) the submission of the issuer's Restructuring Plan to the European Commission (August 2013); and
- (d) progress made on deleveraging the Non-Core portfolios.

IAASA also considered factors that could negatively impact the ability of the issuer to meet long term profit forecasts that support the recognition of DTAs. The issuer disclosed that, based on the detailed forecast profitability to 2018 and assuming a level of profitability growth consistent with GDP growth of approximately +2% per annum, it would take 26 years for the DTAs of €420m to be fully utilised. The results of the sensitivity analysis were not disclosed in the issuer's 2014 annual financial statements. The issuer indicated to IAASA that the key element of uncertainty for DTAs related to the timing of future profitability rather than future profitability itself and the issuer was satisfied that the DTA disclosures made in its 2014 annual financial statements met the requirements of IAS 1 and IAS 12.

Given the circumstances of the issuer, it was IAASA's conclusion that additional disclosures were necessary to enable users' to gain a better understanding of the judgements and key assumptions underpinning the recovery of €420m DTAs over 26 years including a quantification of selected key DTA assumptions in accordance with the requirements of IAS 1.17 and IAS 1.112(c).

¹ EECS is a forum established by the European Securities and Markets Authority (ESMA) that brings together all EU national accounting enforcers

² Fact-finding refers to the completion of a questionnaire by European national accounting enforcers to identify where diversity exists in enforcement practices in relation to the recognition and measurement of DTAs

In addition, it was the view of IAASA that, given the particular circumstances of the issuer as at 31 December 2014, DTA disclosures should:

(a) be entity specific;

(b) include quantitative data that is necessary for an understanding of the DTAs; and

explain the changes made to past assumptions concerning DTAs if the uncertainty continues.

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Issuer	Permanent TSB Group Holding plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2014
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> and IAS 34 <i>Interim Financial Reporting</i>

Summary

The Decision is concerned with the restatement of comparative amounts and the interaction between IAS 8.42(a) and IAS 34. This decision addresses whether the disclosure requirements of IAS 8.42 and IAS 8.49 to correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery applies to both:

- (a) the first interim financial statements; and
- (b) the first annual financial statements

after the error was discovered.

Background

In its 2014 annual financial statements, the issuer presented a maturity analysis table of financial liabilities on an undiscounted basis and by remaining contractual maturity as at 31 December 2014 and with comparatives as at 31 December 2013. In the maturity analysis table, selected comparative data had been restated as compared with that presented in the issuer's 2013 annual financial statements.

Outline of financial reporting treatment applied by the issuer

In the maturity analysis table, comparative data for the year ended 2013 had been restated as compared with that presented in the issuer's 2013 annual financial statements. It was noted that:

- (a) deposits by banks maturing in up to one month had been restated by €3,006m from €5,335m to €2,329m;
- (b) deposits by banks maturing in over two years had been restated by €3,200m from nil to €3,200m);
- (c) derivative liabilities maturing between one and two years had been restated by €92m from €18m to €110m; and
- (d) the total column had been restated by €300m from €35,589m to €35,889m.

The Notes to the issuer's 2014 annual financial statements disclosed that reclassifications were "to more appropriately reflect and enhance comparability". The maturity analysis of the financial liabilities Note referred to derivatives being restated but did not provide any further disclosure as to the nature of that reclassification.

The 2014 half-yearly financial statements stated that: "The prior year table has been restated to reflect reclassification to assist in comparability with the current period."

Outline of decisions made by IAASA

The issuer stated its view was that the correction applied in the 2014 half-yearly and 2014 annual financial statements was not a correction of a “material” misstatement as defined by IAS 8 because:

- (a) the matter did not impact the primary statements;
- (b) the matter related to a misstatement of a maturity analysis of financial liabilities which presented a weaker liquidity position than was actually the case: and
- (c) as a result of the above it would not necessarily have influenced the economic decisions that a user of the financial statements may have taken consequent on this disclosure (IAS 8.5(d) refers).

The issuer stated the correction was made to enhance comparability for users.

The Enforcer concluded that restatement of the “*deposit by banks*” maturing in *up to one month amounting to €3,006m* and *maturing over two years amounting to €3,200m* and derivatives restated by €92m was, in the circumstances, material and that disclosures related to the maturity of deposits by banks was key information for users of the financial statements. In addition, the Enforcer concluded that the requirements of IAS 8.42 to correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery applies to both:

- (a) the first interim financial statements; and
- (b) the first annual financial statement after the error was discovered.

The Enforcer concluded that the restatement of comparative data in the Notes to the half-yearly financial statements for the six months ended 30 June 2014 and the issuer’s 2014 annual financial statements did not comply, in full, with the disclosure requirements of IAS 34.15B(g) [interim financial statements] and IAS 8.42 and IAS 8.49.

The issuer disagreed with the Decision of the Enforcer that the correction of comparatives was a material misstatement as defined by IAS 8; however, it agreed that future financial statements would comply in full with the requirements of IAS 8.42 and IAS 8.49.

Outline of corrective actions undertaken or to be undertaken

In the event of a retrospective correction of a material error in future financial statements, the issuer will comply, in full, with the disclosure requirements of IAS 8.42, IAS 8.49 and IAS 34.15B(g).

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