



Irish Auditing & Accounting Supervisory Authority

Presentation to SPV Debt issuers – Update on relevant accounting enforcement issues

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Disclaimer and confidentiality

Disclaimer

The views expressed are ours and do not necessarily reflect the views of the Board, individual Board members.

Section 31

No person shall disclose, except in accordance with law, information that –

- a) is obtained in performing the functions or exercising the powers of the Supervisory Authority, and*
- b) has not otherwise come to the notice of members of the public...*

Certain exemptions provided for in law

Presentation overview

1. Re-cap on IAASA's financial reporting supervision functions
2. Overview of 2010 activities and issues observed among SPV debt issuers

Principal Functions of IAASA's FRSU

- To examine whether the financial reports of issuers whose Home Member State is Ireland under the Transparency Regulations complies with the relevant reporting framework
- Liaising with other countries' financial reporting monitoring bodies
- Co-operating in the development of accounting standards and practice notes
- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters

Recap on IAASA's financial reporting supervisory/enforcement function

- IAASA is the independent designated competent authority for carrying out functions under Article 24(4)(h) of the Transparency Directive, i.e.

“..to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.”

Review constituency as at 31 December 2009

Category	Number of issuers in category	Half-yearly financial reports issued per annum	Annual financial reports issued per annum	Total no. of periodic financial reports per annum
Equity	31	31	30 [▼]	61
Funds	45	45	39 [▼]	84
Debt	92	67	92 [▼]	159
Total	168	143	161	304

Certain debt issuers are exempt from the requirement to make public half-yearly financial reports for a period of 10 years

Recap on methodology for selection of entity for review

Selection criteria include:

- Risk of material misstatement in the financial statements
- Potential impact on users of financial statements in the event of material misstatement
- Supplemented with random selection of financial statements for review

Responses to matters arising from reviews completed during 2009/(2008)

Issuer category	Number reviews completed	Undertakings regarding future reporting	Publication of amended financial report
Equity	18 (15)	13 (10)	0 (1)
Fund	13 (17)	10 (11)	3 (9)
Debt	17 (19)	10 (18)	5 (18)
Total	48 (51)	33 (39)	8 (28)

Observations on selected financial reporting issues – issuers’ financial years ending on or after 31 December, 2010

Summary of items relevant to SPV Debt issuers

❖ **Fair value recognition and measurement:**

Valuation policies appropriate to issuers circumstances and changes to valuation policies

❖ **Fair value disclosures:**

Lack of transparency of valuation techniques (V/Ts) and significant assumptions underpinning V/Ts’ and changes therein during the period including Directors’ significant judgements

Observations on selected financial reporting issues – issuers’ financial years ending on or after 31 December, 2010

❖ **Risk reporting and best practice:**

- ensure a comprehensive explanation of all risks (by ‘class’ of financial instrument), mitigation of those risks and changes to risks during the period evident from the quantitative disclosures
- include ‘*qualitative*’ description of each risk and strategies,
- addresses all information required by users (e.g. Noteholders) necessary for a proper understanding of all risks,
- deficiencies of risk disclosures identified in, other price risk, credit risk (credit quality), counterparty risk, concentration risk, etc.

Better disclosures rather than more disclosures ! (risk disclosures should be user specific and period specific, not boilerplate)

Observations on selected financial reporting issues – issuers’ financial years ending on or after 31 December, 2010

Summary of items relevant to SPV Debt issuers – continued

❖ **Half Yearly reports:**

- failure to provide an explanation of significant movements on Balance Sheet, P/L, Cash Flow statements etc.
- provide explanation of important transactions and events during the period material to an understanding of HY period,
- avoid temptation to adopt a ‘*same as last year*’ approach to HY reports (despite material changes in issuers circumstances) ,
- what information is *useful to users* where circumstances have changed during the period,
- repetition of basic mistakes indicative of poor quality control process and generates repeated unnecessary correspondence for issuers.

Observations on selected financial reporting issues – issuers’ financial years ending on or after 31 December, 2010

❖ **Directors/management reports**

[Transparency Directive, S13 CAA 1986, Transparency Rules (FR/Central bank Sept 09)]

Directors/management reports can be characterised as providing minimal Information, boilerplate, generally fail to provide info’ *useful to users!*

Should include an ‘analysis’ of performance of the period using KPIs (Financial & non Financial) (e.g.: net debt o/s, debt issued/matured during the period, gain/loss on investments and debt, net income or other relevant KPIs’.

Must describe important events or transactions and future developments and risks

❖ **Restatement of ‘*comparative*’ amounts** (paragraph 41 of IAS 1) - (changes in presentation or classification)

Entities must disclose the nature of the reclassification , amount of each item reclassified and reasons for same!

Questions?

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