

# Financial Reporting Supervision Key Areas of Focus 2017

Deloitte

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Michael Kavanagh

Trevor Rushe

Garrett Ryan

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# Presentation overview

- IAASA's financial reporting supervision functions
- Accounting enforcement – Ireland
- Accounting enforcement in an EU context
- Key activities undertaken in 2016
- IAASA key focus areas for 2017
- Closed ended funds & Debt – recurring topics
- Looking to the future

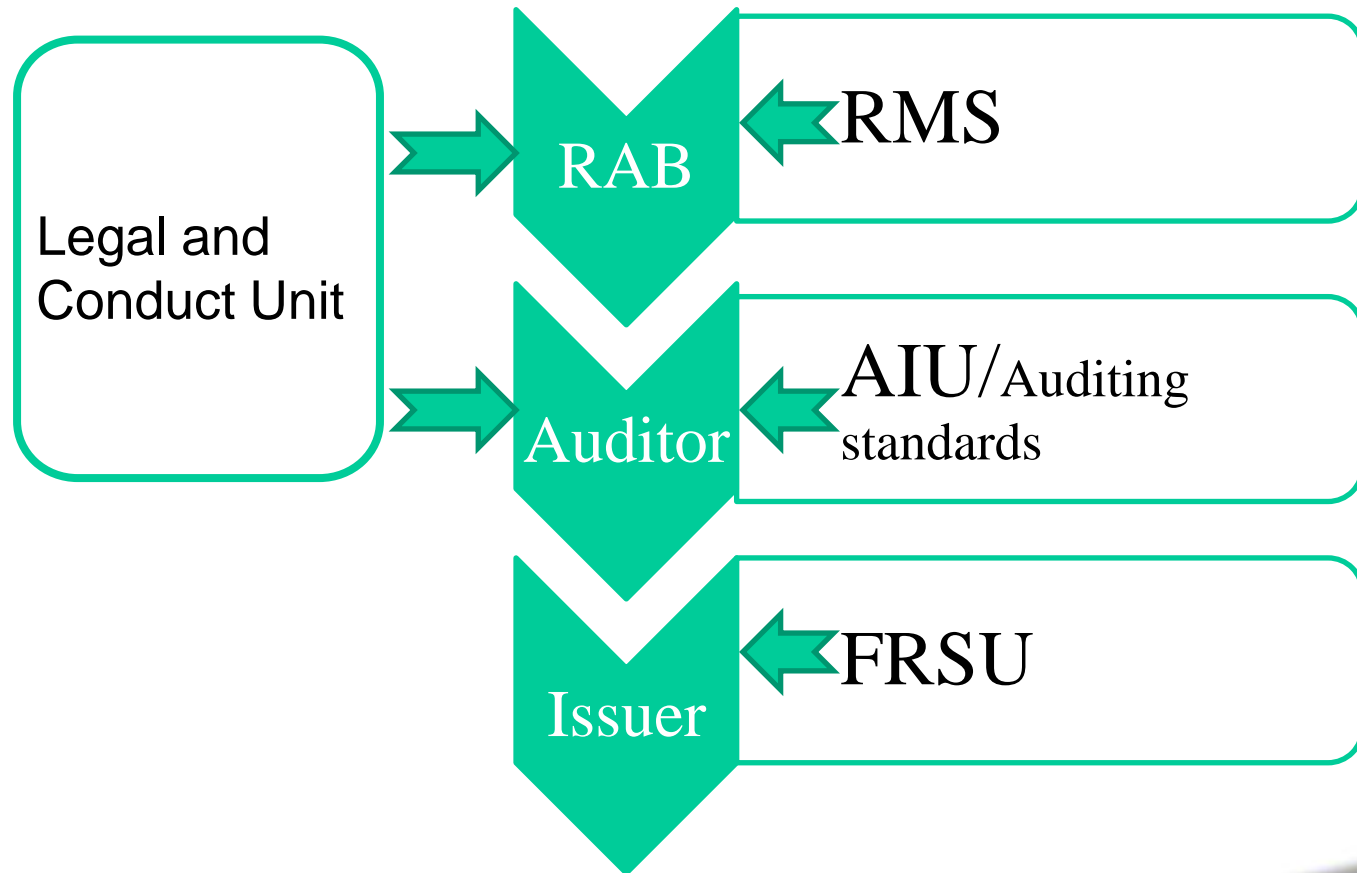
# **IAASA**

## **Financial Reporting Supervision**

### **Functions**

# Financial reporting - where IAASA fits in

Protection of investors and capital markets



# Principal Functions of IAASA's Financial Reporting Supervision Unit

- Accounting enforcer for Ireland
- Liaising with other EU countries' accounting enforcers through ESMA
- 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
- Advocacy

# Accounting enforcement - Ireland

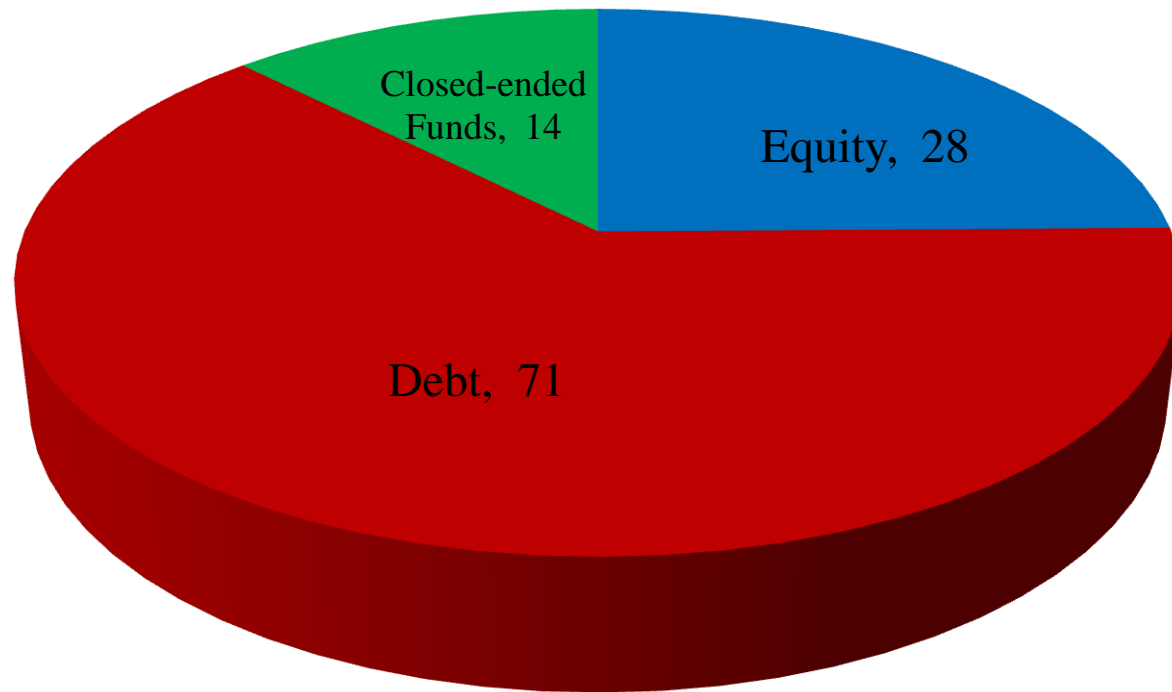


# IAASA's accounting enforcement function

- IAASA's role under Article 24(4)(h) of the Transparency Directive
  - *“..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.”*
- The Central Bank of Ireland is the central administrative competent authority



# FRSU known constituency at 31 December 2016



# Who is within FRSU's remit?

- **CRH** - No 1 asphalt and no 1 provider of building materials in USA (no 2 provider of building materials worldwide)
- **Greencore** - one of the world's largest manufacturers of pre-packed sandwiches
- **Kerry** - World leader in food ingredients and flavours
- **Ryanair** - No 1 passenger carrier in Europe – will carry 119m customers this year
- **Smurfit** - one of the world's largest integrated manufacturers of paper based packaging products

# IAASA's accounting enforcement function

## - What does it mean?

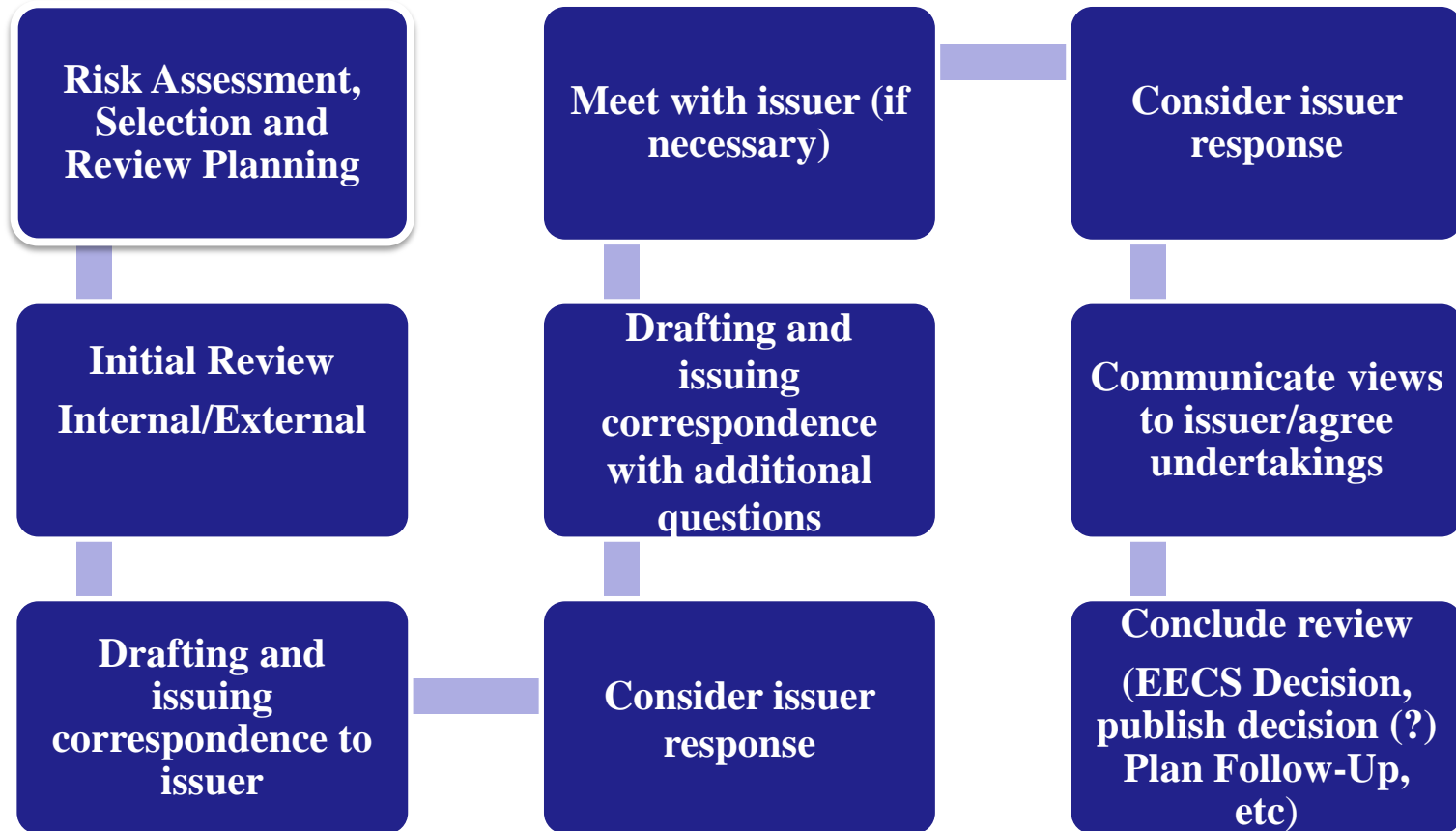
- To examine that the annual and half yearly financial reports of issuers are drawn up in accordance with IFRS, Irish/UK GAAP and US GAAP (for some fund and debt issuers) and take appropriate measures in case of discovered infringements

# Categories of examinations

- Full scope examinations (based on risk assessment criteria)
- Focused examinations
- Follow-up examinations
- Thematic examinations
- Topical surveys

# Financial Reporting Supervision

## Typical Full Scope Review



# Accounting enforcement in an EU context



# IAASA engagement with ESMA – mandatory

- Mandatory application by IAASA of “*ESMA Guidelines on enforcement of financial information*” and “*ESMA Guidelines on Alternative Performance Measures*”
  - **Enforcement Guideline 1** – Enforcers should co-ordinate the enforcement of financial information with ESMA
  - **Enforcement Guideline 2** – Sufficient human and financial resources to carry out activities in an effective manner

# IAASA engagement with ESMA – mandatory

- **Enforcement Guideline 3** – adequate independence from Government, issuers, auditors and other market participants
- **Enforcement Guideline 10** – Enforcers discuss the enforcement of IFRS during meetings of EECS and identify Common Enforcement Priorities
- **Enforcement Guidelines 11 & 12** – harmonisation of European enforcement practices – discussion of Emerging Issues and Decisions takes place in EECS



# IAASA engagement with ESMA – mandatory

- **Enforcement Guidelines 15 & 16** – All Emerging Issues and Decisions meeting the ESMA criteria should be submitted to the EECS database
- **Enforcement Guideline 18** – European enforcers must provide a report periodically on national enforcement activities to ESMA
- Also:
  - Issuer selection criteria
  - Participation in ESMA surveys
  - Embed CEPs in financial statement examinations
  - Reporting of activity and findings to ESMA annually

# IAASA involvement with ESMA/EECS

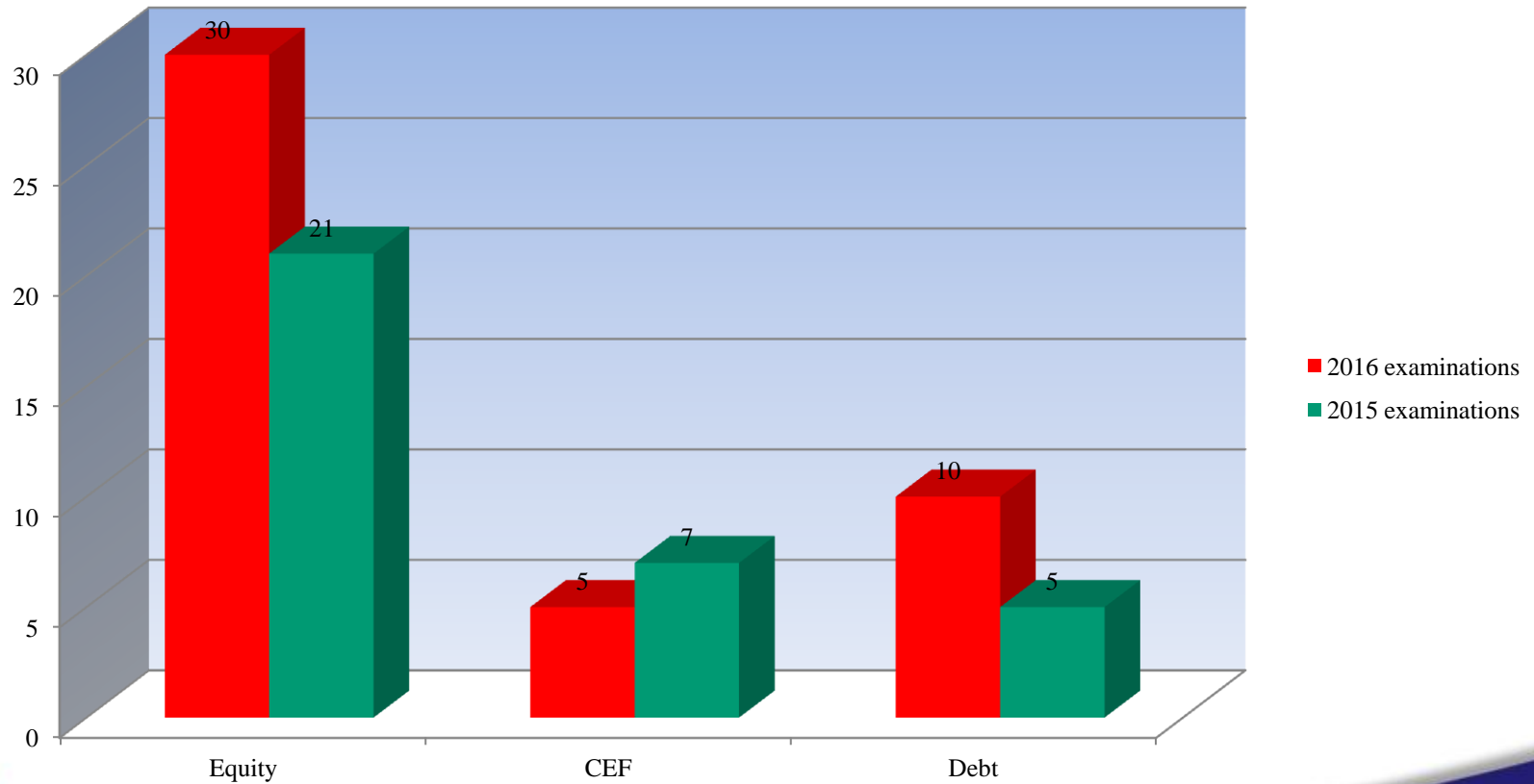
- **IAASA plays a leading role in European accounting enforcement**
  - Publications – the benchmark for others
  - IAASA input into ESMA common enforcement priorities
  - EECS involvement
  - Subgroups – examples include:
    - EECS Agenda group;
    - Deferred Tax Assets sub-group; and
    - Task Force on IFRS 13.

# IAASA interactions with the IASB

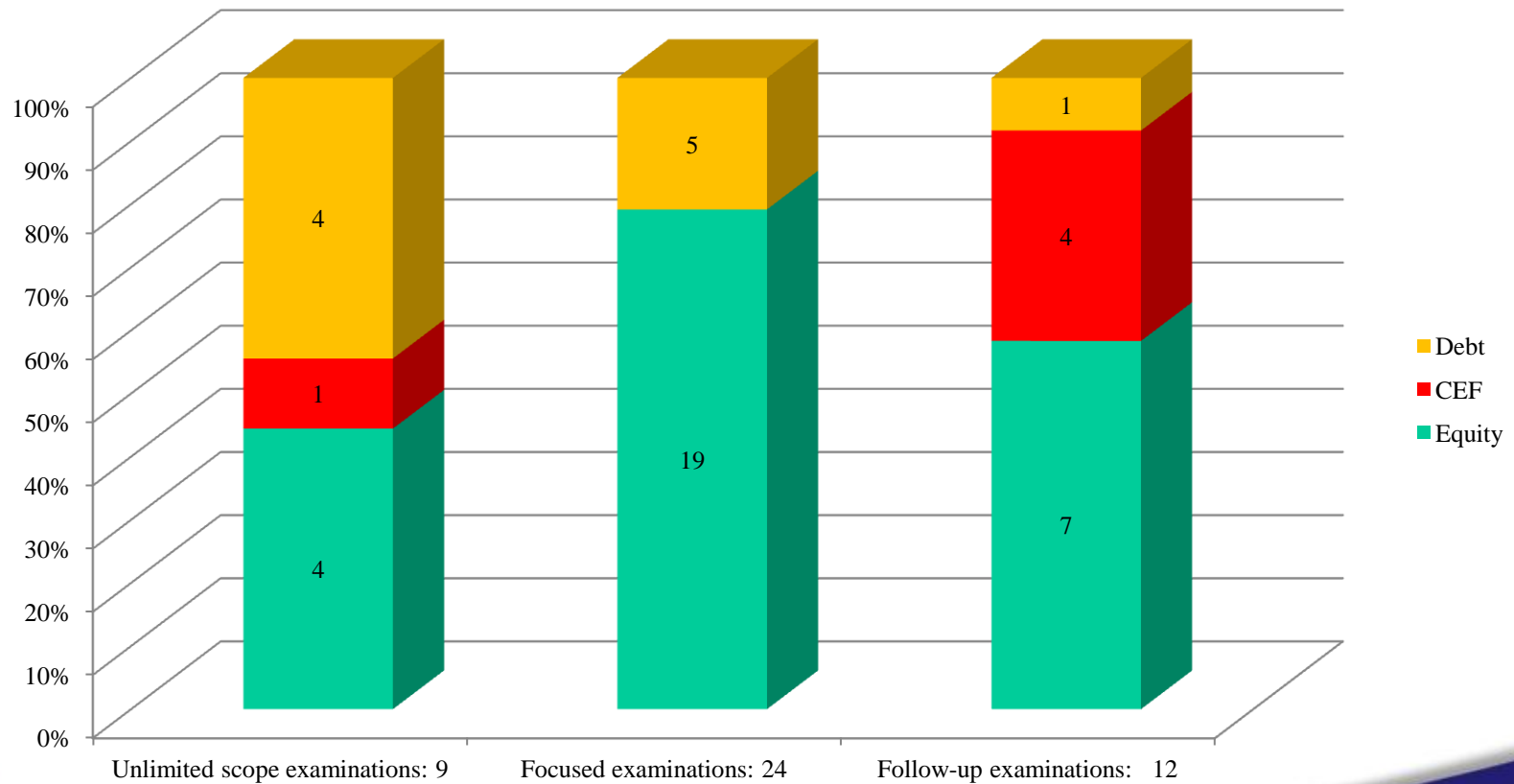
- **They know us well at this stage!**
  - Accounting for uncertain tax positions
  - Current/non-current classification of liabilities – IAS 1.69(d) – “*unconditional right*”
  - IFRS 8 amendment – aggregation criteria
  - Deferred tax assets – forecast period
  - Classification of puttable instruments – liability v. equity
    - Income Statement presentation
  - Materiality Practice statement – arose from ESMA group chaired by IAASA

# Key activities undertaken in 2016

# Examinations Undertaken in 2016



# Examinations Undertaken in 2016 by type



# Outcome of examinations

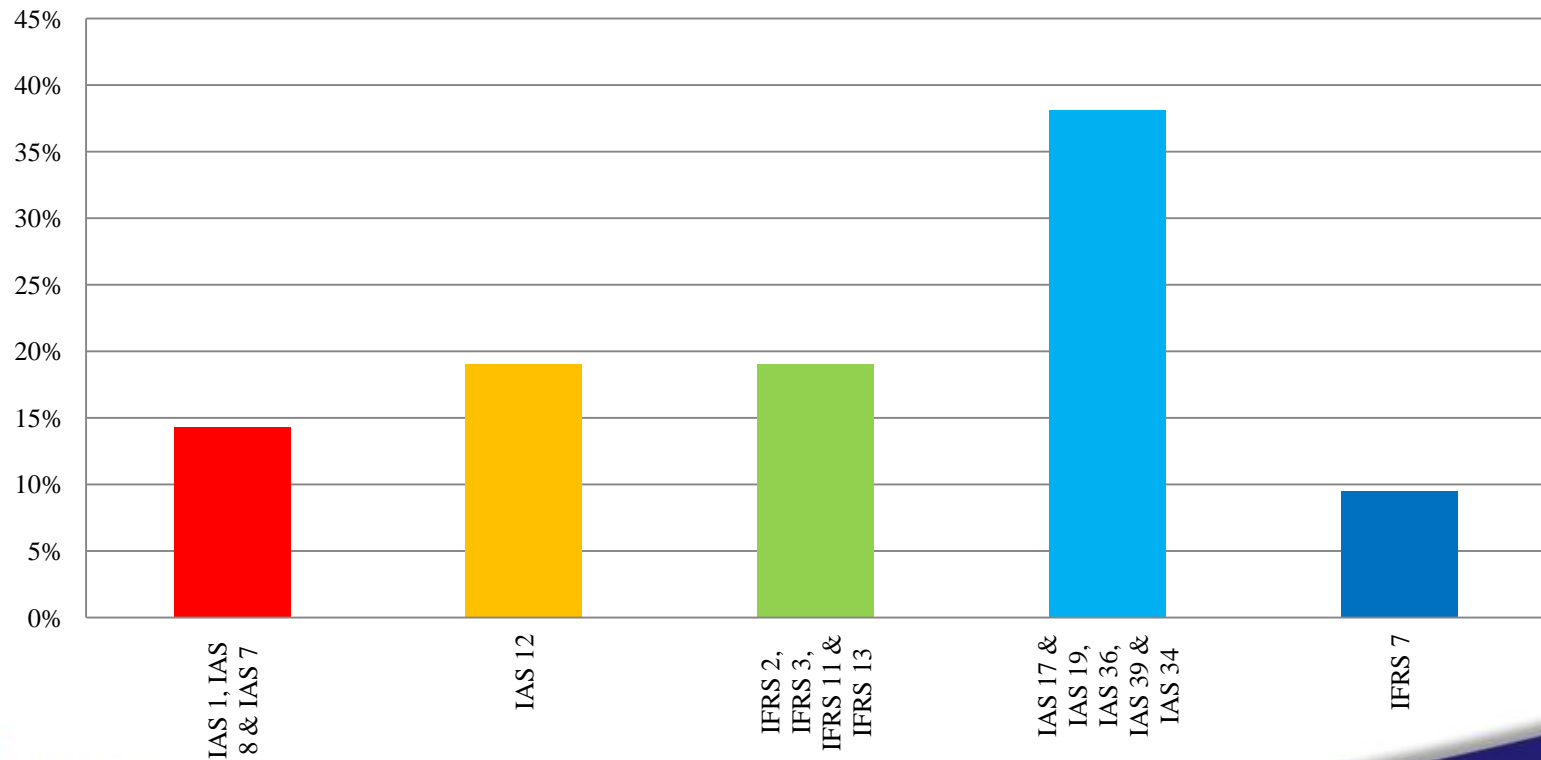
- A total of 61 undertakings were provided
- Unlimited scope examinations – 33 undertakings provided
- Focused examinations – 28 undertakings provided

# Outcome of examinations

- Equity issuers (IFRS adopted by EU) – 24 Undertakings
- CEF and debt issuers (IFRS adopted by EU) – 25 Undertakings
- Debt issuers (FRS 102/FRS 104) – 12 undertakings



# Analysis of Undertakings received from IFRS equity issuers



# Publication of Financial Reporting Decisions

- S.I. 44 of 2015
- Since 9 February 2015 – 17 financial reporting decisions have been published
- 6 decisions published relating to examinations undertaken in 2016
  - Aryzta AG – IAS 28/IFRS 10/IFRS 11
  - Cairn Homes plc – IFRS 7

# 2016 IAASA Publications

- Survey of operating lease commitments by Irish equity issuers
- Survey of issuers' defined benefit pension scheme assumptions
- Survey of recognition of intangible assets and scale of acquisition activity
- Share-Based Payments – a Survey
- Survey on the application of IFRS 13 Fair Value Measurement by Irish Companies

# 2016 IAASA Publications

- Observations on selected financial reporting issues – years ending on or after 31 December 2016
- Information note: Consideration of the impact of Brexit for issuers' half-yearly financial reports
- All publications can be located on the IAASA website: <http://www.iaasa.ie/Publications/FRSU>

# Key areas of focus for 2017

# IAASA's key focus areas for 2017

- **IAASA 2016 Observations Document**
  - Brexit – the financial reporting challenges
  - New accounting standards not yet effective – IFRS 9, IFRS 15 and IFRS 16
  - IFRS 13 Fair Value Measurement
  - Retirement benefit obligations
  - Classification of financial instruments – debt or equity
  - Deferred tax assets – recognition, measurement and disclosure

# IAASA's key focus areas for 2017

- **IAASA 2016 Observations Document**
  - Current interest rate environment: Discount rates in financial statements
  - Presentation of the financial performance and the quality of disclosures
  - Company only financial statements – notification to shareholders
  - Cash flow statements – ‘operating, investing and financing cash flows
  - ESMA Guidelines on Alternative Performance Measures
  - Recognition of intangible assets

# IAASA's key focus areas for 2017

- Likely thematic surveys for 2017:
  - ESMA APM Guidelines
  - Tax Reporting
  - Impairment Testing
  - Operating Segments
  - Earnings Per Share
  - New Accounting Standards disclosures (IAS 8.30)



# **Closed Ended Funds & Debt – Recurring topics**

# Closed Ended Funds & Debt: Recurring topics

- Significant accounting policies
- Enhanced disclosures are required under IFRS 13
- Risk disclosures - IFRS 7
- Statement of Cash Flows
- Netting in the financial statements

# Some Trends in Closed Ended Funds & Debt Financial Reporting

- Selected issuers have shown improvement in the quality of the financial reporting
- Still many issues with some outliers
- Need to tailor financial reports to specific circumstances of the entity in current year - don't just add to last year

# Closed Ended Funds & Debt - IAASA's Recommendations

- Enhance entity specific qualitative disclosures  
Quality of disclosures rather than the quantity
- Tell the story of entity in c/year:  
Changes in both the financial performance and risks
- Avoid boiler plate disclosure  
(e.g. repetition of accounting standard)
- Remove unnecessary or irrelevant policies

# Closed Ended Funds & Debt: An IAASA Published Decision

Matters identified in Morgan Stanley Asia Products Ltd Ye 2014:

- Presentation of gains and losses - IAS 1
- Statement of Cash Flows - IAS 7
- Credit risk and Market price risk disclosures - IFRS 7
- Offsetting of financial assets and financial liabilities
- Related parties transactions - IAS 24
- Operating segment disclosures - IFRS 8
- Management Report – fair review and principal risks and uncertainties (Regulation 5(4)(c)(ii)).

# Summary

- Functions of FRSU
- European dimension
- 2016 activities
- 2017 hot topics
- Fund and debt issuers

# Briefly – beyond 2017!



- Major increase in 3<sup>rd</sup> country issuers?
  - Some examples – Diageo, Tesco, debt issuers
- UK IFRS –v- EU IFRS
- FRS 102 post Brexit – time for Irish GAAP?
- Divergence in UK and Irish Company law

# Questions?



# Contacts & Further Information

**IAASA**  
**2<sup>nd</sup> Floor**  
**Willow House**  
**Millennium Park**  
**Naas**  
**Co Kildare**

**Tel: + 353 45 983600      Fax: + 353 45 983601**

**e-mail: [info@iaasa.ie](mailto:info@iaasa.ie)**

**Web: [www.iaasa.ie](http://www.iaasa.ie) / [www.iaasa.eu](http://www.iaasa.eu)**