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Financial Reporting Supervision

Transparency Regulations – information requests

IAASA

Irish Auditing & Accounting Supervisory Authority

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Vision

Public trust and confidence in quality auditing and accounting

Mission

Upholding quality corporate reporting and an accountable profession

Our Values

Excellence	Independence	Integrity
Striving to be the best we can be	Regulating impartially and objectively	Being trustworthy and respectful

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1. Purpose of this Paper

The primary purpose of this Paper is to provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate as to whether or not issuers have adequately considered the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. 277 of 2007) ('Transparency Regulations') regarding the content of Management Reports.

With the aim of achieving this primary purpose, IAASA is publishing a selection of the information requests that it has asked issuers during recent financial statement examinations.

2. Transparency Regulations requirements

The EU Transparency Directive[1] was introduced to harmonise the information requirements applying to entities whose securities have been admitted to trading on a regulated market situated, or operating, within the EU ('issuers'). The EU Transparency Directive sets out a number of transparency requirements regarding the disclosure of periodic and ongoing information, including issuers' obligations relating to publication, content and timing of issuers' financial reports.

The EU Transparency Directive has been implemented in Ireland through a combination of:

(a) primary legislation (sections 1379 to 1384 of the Companies Act 2014), and

(b) secondary legislation (Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. 277 /2007) as amended by:

- (i) Transparency (Directive 2004/109/EC) (Amendment) Regulations 2010 (S.I. 102/2010)
- (ii) Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 (S.I. 238/2012)
- (iii) Transparency (Directive 2004/109/EC) (Amendment) (No. 2) Regulations 2012 (S.I. 316/2012)
- (iv) Transparency (Directive 2004/109/EC) (Amendment) Regulations 2015 (S.I. 44/2015)
- (v) Transparency (Directive 2004/109/EC) (Amendment) (No. 2) Regulations 2015 (S.I. 541/2015)
- (vi) Companies (Accounting) Act 2017 (No. 9 of 2017);, and
- (vii) Transparency (Directive 2004/109/EC) Amendment Regulations 2017 (S.I. 336 of 2017).

Set out in the Appendix 1 to this Paper are relevant extracts from the Transparency Regulations.

[1] Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

3. IAASA information requests to issuers

In undertaking examinations of periodic financial reports, IAASA has observed that the extent of compliance with the Transparency Regulations has been and continues to be a recurring topic.

IAASA has received undertakings from issuers to improve their financial reporting treatments and disclosures in this area. For example:

(a) an issuer provided extensive narrative disclosures in its management commentary about its commitment to be a net zero entity by 2030 without discussing the challenges in achieving such a target. The issuer undertook to include additional information in future management reports to present a balanced and comprehensive review of the development of its business with regard to its commitment to being a net zero entity by 2030

(b) an issuer included and discussed 19 different profit measures in its management commentary; however, it made little reference to the fact that it made a loss for the financial year as detailed in its IFRS consolidated income statement. The issuer provided undertakings that, in future reports, it would:

   (i) expand the management commentary for the statutory performance of the business

   (ii) include a balanced and comprehensive discussion and analysis of its development and performance

   (iii) include a fair review of its financial position at the end of the reporting period

   (iv) provide narrative explanations in the management commentary of the significant statutory amounts that will be included in future statutory financial statements, and

   (v) reduce the number of profit measures presented in the management report or provide a greater balance in the discussion of profit measures between IFRS-based and non-GAAP performance measures.

To understand issuers' rationale for the extent of disclosures provided under the Transparency Regulations, IAASA has sought additional information from issuers. Set out below is a non-exhaustive list of information requests that IAASA asked of issuers:

No.	Information request
1.	Explain to IAASA how the management report provides a fair review of the development and performance of the issuer's business when its performance was substantially measured and commented against pro-forma numbers as opposed to the IFRS-based measures in the consolidated income statement
2.	Explain to IAASA why the management report did not include a narrative discussion on the issuer's net current liability position at the reporting date
3.	Explain to IAASA how the management report gives a fair review of the development and performance of the business and the position of the issuer when performance is measured against a significant number of profit measures [Section 327 of the Companies Act 2014 is also of relevance and is included in Appendix 2 for ease of reference].
4.	Explain to IAASA the issuer's understanding of the requirements of Regulation 5(4)(c) of the Transparency Regulations and Section 327 of the Companies Act 2014 as to why it is appropriate to not include in the management report a balanced and comprehensive narrative discussion on the development and performance of the issuer and its subsidiaries

No.	Information request
	using amounts included in the consolidated financial statements (i.e., the statutory financial statements).
5.	Demonstrate to IAASA how these [X] different profit measures are useful to the user of the Report and explain to IAASA how the directors and management use all [X] different profit measures in assessing the performance of the issuer’s business.
6.	Explain to IAASA how the use of [X] different profit measures does not obscure the fair review of the development and performance of the issuer’s business.
7.	Explain to IAASA why the Management Report did not include a discussion on the following topics as part of its fair review of the development and performance of its business: (a) an overview of the performance of the loan notes supported by the key performance indicators (b) a discussion on any new products developed during the reporting period (c) a discussion on the sales environment, or (d) a discussion on the economic environment and its impact on the loan notes issued.
8.	Explain to IAASA why the Management Report did not include a narrative on the following risks which could be considered principal risks and uncertainties given the activities of the issuer: (a) the macro-economic environment (b) potential risks in the markets in which the issuer invests (c) risks related to the business environment, and (d) regulatory risks.
9.	It was noted that credit risk was considered by the issuer to be a principal risk and uncertainty. Explain why the Management Report does not include a discussion on the credit risk of the amounts due from related parties (i.e., a material amount).
10.	Explain to IAASA why the responsibility statement which is required by Regulation 6(3)(c) of the Transparency Regulations was not included in half-yearly financial report.
11.	Given the specific circumstances of the issuer, explain to IAASA why currency risk was not considered to be a principal risk facing the issuer.

4. Conclusion

IAASA continues to focus on and engage with issuers in relation to their Transparency Regulations disclosures in the Management Reports.

It is IAASA's expectation that management, Boards and Audit Committees will carefully assess and consider the nature of information requests outlined in this Paper when determining the:

(a) disclosures for the fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole,

(b) disclosures for the description of the principal risks and uncertainties that they face, and

(c) whether the correct confirmations are provided by those individuals making the responsibility statement.

Appendix 1 – Extracts from Transparency Regulations

Regulation 4(3)(c) states that*:*

> *The annual financial report shall include:*
>
> *(a) ...*
>
> *(c) responsibility statements.*

Regulation 5(4) states that:

> *(a) Responsibility statements shall be made by the persons responsible within the issuer.*
>
> *(b) The name and function of any person who makes a responsibility statement shall be clearly indicated in the responsibility statement.*
>
> *(c) For each person making a responsibility statement, the statement shall set out that to the best of his or her knowledge:*
>
> *i. the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and*
>
> *ii. the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.*

Regulation 6(3)(c) states that*:*

> *The half-yearly financial report shall include:*
>
> *(a) ...*
>
> *(b) responsibility statements.*

Regulation 8(2) states that*:*

> *The interim management report shall include at least:*
>
> *(a) an indication of the important events that have occurred during the first 6 months of the financial year, and their impact on the condensed set of financial statements, and*
>
> *(b) a description of the principal risks and uncertainties for the remaining 6 months of the financial year.*

Regulation 8(5) states that:

> *(a) Responsibility statements shall be made by the persons responsible within the issuer.*
>
> *(b) The name and function of any person who makes a responsibility statement shall be clearly indicated in the responsibility statement.*

(c) For each person making a responsibility statement, the statement shall confirm that to the best of his or her knowledge:

i. the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by Regulation 7(2);

ii. the interim management report includes a fair review of the information required by paragraph (2), and

iii. the interim management report includes a fair review of the information required by paragraph (3), in the case of an issuer of shares.

Appendix 2 – Section 327 of the Companies Act 2014

Section 327 of the Companies Act 2014 states that*:*

> *(1) The directors' report for a financial year shall contain –*
>
> *(a) a fair review of the business of the company, and*
>
> *(b) …*
>
> *(2) The review required by subsection (1) shall be a balanced and comprehensive analysis of –*
>
> *(a) the development and performance of the business of the company during the financial year, and*
>
> *(b) the assets and liabilities and financial position of the company at the end of the financial year,*
>
> *consistent with the size and complexity of the business.*
>
> *(3) …*
>
> *(4) The directors' report shall, where appropriate, include additional explanations of amounts included in the statutory financial statements of the company.*
>
> *(5) …*
>
> *(6) In relation to a group directors' report, this section has effect as if the references to the company were references to the company and its subsidiary undertakings included in the consolidation …*

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