IAASA

Irish Auditing & Accounting Supervisory Authority

Financial Reporting Decisions

20 June 2018

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MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

1. Background & introduction

In accordance with its *Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings*, IAASA publishes this compendium of financial reporting decisions with the aim of promoting high quality financial reports.

The financial reporting decisions included in this compendium deemed by IAASA to be 'significant' as they met one or more of the publication criteria namely:

(a) refers to financial reporting matters with technical merit;

(b) has been discussed at EECS[1] as an emerging issue;

(c) has been submitted to the EECS Decision Database;

(d) will be of interest to other European accounting enforcers;

(e) indicates to IAASA that there is a risk of significantly different financial reporting treatments being applied by issuers;

(f) is likely to have a significant impact on other Irish or European issuers;

(g) is taken on the basis of a provision not covered by a specific financial reporting standard; or

(h) otherwise meets IAASA's mission of promoting high quality financial reporting.

[1] The European Securities and Markets Authority (ESMA)-sponsored European Enforcers Co-ordination Sessions, a forum that brings together all EU national accounting enforcers

Issuer	Aryzta AG
Report type	Annual financial statements
Reporting period	Year ended 31 July 2017
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 7 *Financial Instruments: Disclosures* IAS 1 *Presentation of Financial Statements* IAS 18 *Revenue* IAS 36 *Impairment of Assets*

Summary
The issuer had not complied, in full, with the disclosure requirements of financial reporting standards.

Background
The issuer is incorporated in Zurich, Switzerland and is a global food business with a focus on speciality bakery.

IAASA performed an unlimited scope examination of the issuer's 2017 annual financial statements.

Outline of findings made by IAASA
IAASA concluded that the issuer had not complied, in full, with selected disclosure requirements of IFRSs.

The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements regarding the following:

(a) IAS 36 *Impairment of Assets*
During the year, the issuer recognised material goodwill impairment charges. Paragraph 134(f) of IAS 36 requires an entity to disclose additional information for each cash-generating unit ('CGU') if a reasonably possible change in a key assumption would cause the unit's carrying amount to exceed its recoverable amount. Those disclosures shall include disclosure of:

- the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
- the value assigned to the key assumptions; and
- the amount by which the value assigned to the key assumption must change, in order for the unit's recoverable amount to be equal to its carrying amount.

The directors provided an undertaking that future financial statements would disclose, in tabular format, any headroom for CGUs which are sensitive to changes in the key assumptions, along with the associated sensitivities, as required by IAS 36.134(f).

(b) IAS 18 *Revenue* and IAS 1 *Presentation of Financial Statements*
Paragraph 35(a) of IAS 18 requires that an entity shall disclose the accounting policies adopted for the recognition of revenue. Paragraph 117(b) of IAS 1 states that entities shall disclose the significant accounting policies that are relevant to an understanding of the financial statements.

IAASA concluded that the notes to the financial statements did not disclose, in full, the accounting policy for rebates and discounts with customers in the financial statements.

The directors provided an undertaking that future financial statements would enhance the disclosure of its revenue recognition and rebate/discounts and allowances policy in accordance with the requirements of IAS 18.35(a) and IAS 1.117.

(c) IFRS 7 *Financial Instruments: Disclosures*
During the year, the issuer breached one of the terms of its borrowing agreements (i.e. the net debt/EBITDA ratio). However, the issuer was not in default. IAASA concluded that the notes to the financial statements did not disclose, in full, the information required by IFRS 7.19 related to the breach of lending terms.

The directors provided an undertaking that future financial statements would comply, in full, with the disclosure requirements of paragraphs 18 and 19 of IFRS 7.

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Issuer	Dalata Hotel Group plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2016
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 13 *Fair Value Measurement*

Summary
The issuer, Dalata Hotel Group plc, operates a portfolio of hotels across Ireland and the UK.

This decision concerns the disclosure of quantitative data regarding significant unobservable inputs (Level 3) used in the fair value measurement of the issuer's Property, Plant and Equipment ('PPE'), comparative Level 3 quantitative data and additional qualitative description of the PPE valuation process.

Background
The value of the issuer's PPE at 31 December 2016 reflected the open market valuation of the PPE as determined by independent external property valuers. The carrying value of land and buildings, which are revalued annually, is 84% of total non-current assets or 120% of total equity.

IAASA performed an unlimited scope examination of the issuer's 2016 annual financial statements.

Outline of financial reporting treatment applied by the issuer
The notes to the financial statements stated the principal valuation model used to fair value PPE reflected the present value of net cash flows to be generated from the properties over a ten year period (with an assumed terminal value at the end of Year 10). The expected net cash flows were discounted using risk adjusted discount rates. The significant unobservable inputs identified in the notes to the financial statements were forecast EBITDA, risk adjusted discount rates and terminal capitalisation rates. The discount rates and terminal capitalisation rates used were quantified (as a range of percentages) on an aggregated basis for the Irish hotel properties and on an aggregated basis for the UK hotel properties.

The PPE note to the financial statements did not disclose:

(a) quantitative data for all the significant unobservable inputs to PPE; or

(b) comparative prior year data (2015) for all significant Level 3 inputs.

IAASA regarded the determination of the fair value of PPE as a significant judgement in the preparation of the issuer's financial statements. Paragraph 93(d) of IFRS 13 states that an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement for fair value measurements categorised within Level 3 of the fair value hierarchy.

The issuer confirmed that the primary valuation technique applied to PPE was the profits method of valuation using a discounted cash flow model (underpinned by EBITDA forecasts). The resulting valuation is then compared with traditional investment methods (e.g. all risk yield methods, direct capital value per room, and net initial yield bases) and may be adjusted accordingly.

The notes to the financial statements disclosed limited quantitative data for Level 3 inputs, namely, discount rates and the capitalisation rates (terminal growth rates). Quantitative data for forecast EBITDA [IFRS 13.93(d) refers] and comparative data [IAS 1.38 refers] for any of the three significant unobservable inputs was not disclosed.

IAASA noted that the purpose of disclosing Level 3 unobservable inputs is not to enable users of the financial statements to replicate the entity's pricing models, but to provide enough information for users to assess whether the entity's views about inputs differed from their own and, if so, to decide how to incorporate the entity's fair value measurements into their decisions [IFRS 13.BC192 and 193 refer]. IFRS 13.BC192 states that disclosure will facilitate comparison of the inputs used over time and between entities with similar assets.

Furthermore, IAASA noted that IFRS 13.93(d) requires disclosure of quantitative information about the significant unobservable inputs for each '*class*' of asset. An entity shall determine appropriate classes of assets in accordance with IFRS 13.94 [IFRS 13.BC193].

Outline of decision by IAASA
IAASA concluded that relevant unobservable data of forecast EBITDA is significant to the fair value measurement of the issuer's PPE [IFRS 13.93(d) refers] and is reasonably available to the issuer.

The enforcer concluded that the issuer had not disclosed, in full, by class of asset [IFRS 13.93 and 94 refer]:

(a) quantitative data of the significant unobservable inputs (Level 3) used in the fair value measurement of PPE [IFRS 13.93(d) refers];

(b) comparative Level 3 quantitative data [IAS 1.38 refers]; and

(c) additional qualitative description of the PPE valuation process.

The issuer asserted that, in their view, they had complied in full with the requirements of IFRS 13.93(d); however, they agreed that future financial statements would disclose further Level 3 data and proposed the following format would be included in future periodic financial statements:

	2016	2016	2016	2016	2015	2015	2015	2015
	Class 1	Class 2	Class 3	Total	Class 1	Class 2	Class 3	Total
Number of hotels	XX	XX	XX	XX	XX	XX	XX	XX
RevPAR*								
<€xx/£xx	XX	XX	XX	XX	XX	XX	XX	XX
€xx-€xx/£xx-£xx	XX	XX	XX	XX	XX	XX	XX	XX
>€xx/£xx	XX	XX	XX	XX	XX	XX	XX	XX
	XX	XX	XX	XX	XX	XX	XX	XX
Capitalisation rate								
<x%	X	X	X	X	X	X	X	X
x%-xx%	X	X	X	X	X	X	X	X
>xx%	X	X	X	X	X	X	X	X
	X	X	X	X	X	X	X	X
****Price per key**								
<€xx/£xx	XX	XX	XX	XX	XX	XX	XX	XX
xx/x€xxx/£xxx-£xxx	XX	XX	XX	XX	XX	XX	XX	XX
>€xxx/£xxx	XX	XX	XX	XX	XX	XX	XX	XX
	XX	XX	XX	XX	XX	XX	XX	XX

* RevPAR refers to revenue per available room.
** Price per key refers to the total valuation divided by the number of keys/rooms.

The issuer will also disclose the discount rate separately in the PPE note to the financial statements.

The issuer proposed to expand the description of the valuation process for PPE and agreed to include comparative data for Level 3 inputs to the fair valuation.

Outline of corrective actions undertaken or to be undertaken
Future financial statements will provide additional quantitative and qualitative disclosures of the Level 3 valuation of PPE.

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Issuer	Greencore Group plc
Report type	Annual financial statements
Reporting period	Year ended 29 September 2017
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 1 *Presentation of Financial Statements*

Summary
This financial reporting decision concerns the omission by the issuer to disclose:

(a) all of the judgements, 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 [IAS 1.122 refers]; and

(b) 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 [IAS 1.125 refers].

Background
The issuer is an international manufacturer of convenience foods supplying a range of chilled, frozen and ambient foods to the retail and food service customers in the UK and the US.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 29 September 2017.

Outline of financial reporting treatment applied by the issuer

Significant/key accounting judgements
IAS 1.122 states that:

'*An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), 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 …*'

The following matters are disclosed as significant/key judgements in the notes to the annual financial statements:

(a) recognition of deferred tax assets;

(b) provisions;

(c) provision for income taxes and deferred taxes; and

(d) expected return on the defined benefit plan assets.

It was not apparent to IAASA as to why the expected return on the defined benefit plan assets was considered by the issuer to be a significant/key accounting judgement.

The annual financial statements disclosed that the '*estimation of the carrying amount of goodwill*' was a '*key judgmental estimate'.* It was, therefore, not apparent to IAASA as to whether the carrying value of goodwill was a significant/key accounting judgement or a source of estimation uncertainty or both.

Source of estimation uncertainty
The issuer disclosed in the annual financial statements that:

'*Group management makes estimates and assumptions concerning the future in the preparation of the Group's financial statements, which can significantly impact the reported amounts of assets and liabilities. The significant estimates and assumptions used in the preparation of the Group's Financial Statements are outlined in the relevant notes …*'

The issuer referred to various estimates in the financial statements. However, the matters that management considered to be sources of estimation uncertainty were not apparent to IAASA from the disclosures provided in the annual financial statements.

Outline of findings made by IAASA
IAASA concluded that additional information was necessary to enable users of the annual financial statements to gain a better understanding of the issuer's disclosures regarding significant/key accounting judgements and sources of estimation uncertainty.

Significant/key accounting judgements
IAASA requested the issuer to:

(a) explain why the matters identified as 'key judgements' are the significant/key judgements that management have made in the process of applying the issuer's accounting policies and that have the most significant effect on the amounts recognised in the financial statements [IAS 1.122 refers];

(b) clarify whether there were any other matters which management considered to be significant/key accounting judgements; and

(c) clarify whether or not the carrying value of goodwill is a significant/key accounting judgement or a source of estimation uncertainty.

In response, the issuer indicated why three of the four matters identified as significant/key judgements met the criteria of IAS 1.122 and clarified that the expected returns on the defined benefit plan assets is **not** a significant/key judgement in applying the issuer's accounting policies as no critical judgements have been made with regard to this latter matter.

The issuer also indicated that (a) accounting for acquisitions, and (b) exceptional items should have been disclosed as key/significant accounting judgements.

In addition, the issuer confirmed that the carrying value of goodwill is a significant/key accounting judgement and not a major source of estimation uncertainty. The issuer indicated that judgement is required in testing the carrying value of goodwill for impairment, forecasting cash flows, terminal growth rates and discount rate.

Source of estimation uncertainty
IAS 1.125 states 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 …*'

IAASA requested the issuer to specify those matters that were the major sources of estimation uncertainty as at the end of the reporting period.

In response, the issuer confirmed that post retirement benefits was a major source of estimation uncertainty in the preparation of the financial statements as there is a significant risk of a material adjustment to the carrying amounts of the pension liability within the next financial year.

The issuer confirmed that no other sources of estimation uncertainty were identified as no other matter had a significant risk of resulting in a material adjustment to the carrying amounts of the asset or liability to which they relate.

IAASA instructed the issuer to disclose post retirement benefits as a source of estimation uncertainty in future periodic financial statements in accordance with IAS 1.125.

Outline of corrective actions undertaken or to be undertaken
The issuer undertook to:

(a) include the accounting for acquisitions and exceptional items as significant/key accounting judgements and to remove the expected return on defined benefit plan assets as a significant/key accounting judgement in future periodic financial statements;

(b) disclose the estimation of the carrying amount for goodwill as a significant/key accounting judgement in future periodic financial statements and to remove the reference to *'judgemental estimate'*; and

(c) include post retirement benefits as a source of estimation uncertainty in future periodic financial statements in accordance with IAS 1.125.

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Issuer	Haitong Investment Ireland plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2016
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 7 *Financial Instruments: Disclosures* IFRS 8 *Operating Segments* IFRS 13 *Fair Value Measurement* IAS 1 *Presentation of Financial Statements* IAS 7 *Statement of Cash Flows*

Summary
The issuer had not complied, in full, with the disclosure requirements of financial reporting standards and the Regulations.

Background
The issuer, a subsidiary of Haitong Bank SA, is an Irish incorporated company engaged in trading on its own account, the extension of credit and investing in financial instruments.

IAASA performed an unlimited scope examination of the issuer's 2016 annual financial statements.

Outline of findings made by IAASA
IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of IFRSs and Regulation 5(4)(c)(ii) of the Transparency Directive.

The directors provided IAASA with undertakings to provide additional disclosures in future financial statements regarding:

(a) IFRS 13 *Fair Value Measurement*
Disclosure of the fair value valuation techniques and the inputs applied related to valuation techniques for assets and liabilities, together with Credit value adjustments (CVA), debit value adjustments (DVA) and own credit adjustments (OCA) in relation to derivatives and borrowings.

The directors provided undertakings that future financial statements would provide a description of the valuation techniques and the inputs used in the fair value measurement of assets and liabilities by class in accordance with IFRS 13.93(d).

(b) IFRS 7 *Financial Instruments: Disclosures*
Disclosure of the credit quality of selected financial assets that are neither past due nor impaired together with an explanation of any changes in credit risk during the year.

The directors provided an undertaking that future financial statements would disclose the credit quality of assets that are neither past due or impaired, the credit risk measurement methods and policies and any changes in the credit risk together with comparative data in accordance with the requirements of IFRS 7.33, IFRS 7.36(c) and IAS 1.38.

(c) IAS 7 *Statement of Cash Flows*
Presentation of cash inflows and outflows from issuing and redeeming debt securities on a gross basis (rather than on a net basis) in the Statement of Cash Flows.

The directors provided an undertaking that future financial statements would disclose the information required by IAS 7.21 (i.e. the gross presentation of major classes of receipts and cash payments).

(d) IAS 1 *Presentation of Financial Statements*
Disclosure of the accounting policies in a manner that provides relevant, reliable, comparable and understandable information [IAS 1.17 refers] in relation to:

- hedge accounting policy;
- derivatives accounting policy applicable to selected derivatives: and
- the key terms of syndicated loans.

The directors provided undertakings to IAASA that future financial statements would disclose the following information:

- more understandable information related to the use or non-use of hedge accounting in a more transparent and understandable manner;
- more transparent and understandable information related to the accounting policy of selected derivatives; and
- the key terms of syndicated loans including: the currency of the loans, details of interest rate(s) (e.g. fixed or floating rates), the maturity date(s) of loans, and the security, if any, pledged in connection with syndicated loans.

(e) IFRS 8 *Operating Segments*
The directors provided an undertaking that future financial statements would disclose the information required by IFRS 8.22 and IFRS 8.32 to 34.

(f) *Management Report*
Disclosure of a fair review of the business.

The directors provided undertakings that future financial statements would disclose an analysis of the performance of the issuer and would include specific key performance indicators (KPIs) in accordance with the requirements of Regulation 5(4)(c)(ii) and Rule 6.1 of the Transparency Rules of the Central Bank of Ireland[2].

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[2] Available at http://www.centralbank.ie/regulation/marketsupdate/Documents/161104%20Transparency%20Rules%20-%20PDF.pdf

Issuer	Stratus Capital plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2016
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 7 *Financial Instruments: Disclosures* IAS 1 *Presentation of Financial Statements* IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Summary
The issuer had not complied, in full, with the disclosure requirements of IFRSs.

Background
The issuer is a company incorporated in Ireland engaged in the issuance of limited recourse debt instruments and in acquiring and holding a range of securities and financial instruments.

IAASA performed an unlimited scope examination of the issuer's 2016 annual financial statements.

Outline of findings made by IAASA
IAASA concluded that the issuer had not complied, in full, with selected disclosure requirements of IFRSs.

The issuer provided IAASA with undertakings to give additional disclosures in future financial statements regarding the following:

(a) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements*
In 2015, the issuer recognised a Note (i.e. liability) together with the corresponding investment assets linked with that Note.

However, in 2016 the issuer concluded that the Note did not meet the recognition criteria of paragraphs 17 to 19 of IAS 39 *Financial Instruments: Recognition and Measurement* (i.e. it was determined that the Note was a pass-through instrument). As a result, the Note and the investments linked to the Note were de-recognised in the 2016 financial statements and comparative information was re-stated to reflect the de-recognition.

The directors confirmed to IAASA that the Note met the de-recognition criteria of IAS 39.17 to IAS 39.19 since inception.

IAASA concluded that the de-recognition of the Note (and related investment assets) in the 2016 financial statements constituted the correction of a prior period error as defined by IAS 8.5 and that the financial statements did not disclose, in full, the information required by IAS 8.49 and IAS 1.41.

The directors provided undertakings that future financial statements would comply, in full, with the disclosure requirements of IAS 8.49 and IAS 1.41 and would disclose:

- an enhanced description of similar pass-through Notes issued in subsequent annual and half-yearly financial statements; and
- a re-statement of the comparative amounts in the 2017 half-yearly report.

(b) IFRS 7 *Financial Instruments: Disclosures*
IFRS 7.33 states that for each type of risk arising from financial instruments, an entity shall disclose the exposures to risk and any changes in risk from the previous period.

The 2016 financial statements set out a table of the credit quality of investment securities. It was noted that there is a significant deterioration in the credit quality of investment securities and the amount of investment securities classed as not-rated significantly increased during 2016. In addition, the financial statements referred to credit events (linked to credit default swap agreements) having occurred during the year. It was not readily apparent from the financial, statements as to what was the reason for the deterioration in the credit quality of the investments or as to what was the nature and impact, if any, of the credit events.

IAASA concluded that the financial statements did not comply, in full, with the disclosure requirements of IFRS 7.31 and IFRS 7.33(c) on the basis that they did not disclose, in full:

- qualitative information that enables users to evaluate the nature and extent of risks arising; and

- the reasons for changes in credit risk from the previous period (i.e. qualitative information including for example credit events).

The directors provided undertakings that future financial statements would comply, in full, with the disclosure requirements of IFRS 7.31 and IFRS 7.33.

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