Financial Reporting Decisions

14 February 2018

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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.

Readers should note that the financial reporting decisions included in this compendium 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 ('action decisions'); and

(b) IAASA concurred with or did not disagree with the financial reporting treatment applied by the issuer and, consequently, no corrective actions are required ('non-action decisions').

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

The following three Decisions comprise decisions where the issuers have voluntarily provided undertakings to IAASA to enhance their financial reporting treatment and/or disclosures in future financial statements to address matters identified in the course of IAASA's examinations

Issuer	Paddy Power Betfair plc	
Report type	Annual financial statements	
Reporting period	Year ended 31 December 2016	
Financial reporting framework	IFRS-EU	
Applicable financial reporting standards	IAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*

Summary
This financial reporting decision concerns the omission by the issuer to disclose in full, the policies applied and practices adopted in the application of its accounting policy for 'separately disclosed items'.

Background
The issuer is an international betting and gaming group.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2016.

Outline of financial reporting treatments applied by the issuer
In its 2016 annual financial statements, the issuer disclosed the following accounting policy for 'separately disclosed items':

'The Group applies an income statement format which seeks to highlight items within Group profit or loss for the period. Separately disclosed items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either on the face of the consolidated income statement or in the notes thereto ….'

IAASA sought from the issuer a detailed description of the criteria applied in determining whether an item warranted classification as a 'separately disclosed item'.

In its response, the issuer outlined the following criteria that it applies when determining whether an item merits classification as a 'separately disclosed item':

(a) items that require disclosure by virtue of their size and would aid the user in readily understanding the performance of the issuer;

(b) more material items warranting separate disclosure;

(c) material non-recurring items to allow the user assess their impact on the performance of the issuer; and

(d) material items not related to the normal trading activities of the issuer.

Outline of findings made by IAASA
IAASA concluded that the issuer had not included in its accounting policy for 'separately disclosed items' any indication as to how size and incidence were determined. Paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is of relevance and defines Accounting Policies as '*… the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.*'

These two matters (i.e. size and incidence) appear to be the practices applied by the issuer in preparing and presenting its financial statements.

Outline of corrective actions undertaken or to be undertaken

The issuer undertook to expand its accounting policy for ‘separately disclosed items’ in future financial statements to include both the size criterion and the incidence criterion which it applies in determining whether an item warrants classification and presentation as a ‘separately disclosed item’.

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Issuers	CRH plc, Glanbia plc and Kerry Group plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2016
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 1 IAS 12

Summary
This financial reporting decision concerns the disclosure of income taxes/taxation as a source of estimation uncertainty and whether material amounts for uncertain tax positions (UTPs) should be separately disclosed in financial statements.

Background
This financial reporting decision relates to three issuers:

(a) CRH plc, a leading global diversified building materials group;

(b) Glanbia plc, a global nutrition group; and

(c) Kerry Group plc, a global leader in taste and nutrition serving the food and beverage industries.

IAASA performed examinations of each of the three issuers' annual financial statements for the year ended 31 December 2016.

Outline of financial reporting treatments applied by the issuers
In their 2016 annual financial statements, the three issuers disclosed income taxes/taxation as a major source of estimation uncertainty. Within these disclosures, each issuer referred to the uncertainty of ultimate tax outcomes.

Following engagement with IAASA, each issuer confirmed:

(a) that the effect of UTPs was reflected in the recognition of the applicable current income tax liability which was included within the line item 'current income tax' in the statement of financial position; and

(b) the amount recognised for UTP liabilities.

Paragraph 125 of IAS 1 *Presentation of Financial Statements* 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) …

(b) their carrying amount as at the end of the reporting period …'

IAASA sought from each issuer a detailed rationale for not disclosing the carrying amounts of the UTPs in their respective 2016 financial statements.

Following engagement with IAASA, two of the three issuers indicated that the disclosures set out under IAS 1.125 did not apply for the year ended 31 December 2016 as the assumptions made about the measurement of UTPs did not have a significant risk of resulting in a material adjustment to the carrying amounts of current income tax liability within the next financial year. The remaining issuer indicated that the current tax liability is a source of estimation uncertainty.

Outline of findings made by IAASA

IAASA concluded that additional information was necessary to enable users of the financial statements to gain a better understanding of each issuers' disclosures regarding income tax/taxation which is disclosed as a source of estimation uncertainty.

Outline of corrective actions undertaken or to be undertaken

Each issuer undertook to provide additional clarifying disclosures in their respective future periodic financial statements.

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Issuer	Hibernian REIT plc
Report type	Annual financial statements
Reporting period	Year ended 31 March 2016
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 13 *Fair Value Measurement*

Summary
Hibernia REIT plc (the 'issuer') is engaged in property investment (primarily commercial) in Ireland (primarily Dublin) with a view to maximising its shareholders' returns.

IAASA performed a focused examination of the issuer's 2016 annual financial statements.

IAASA concluded that the issuer has not complied, in full, with the disclosure requirements of IFRS 13.93. The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements regarding:

(a) a quantification of the Estimated Rental Value ('ERV') assumption for development properties (unobservable input) in the notes in full compliance with IFRS 13.93(d); and

(b) information regarding the sensitivity of fair value measurements to changes in the ERV for each class of property in accordance with the requirements of IFRS 13.93(h).

Background
The issuer is a Dublin-focused Real Estate Investment Trust ('REIT') which owns and develops property in Dublin, and primarily in city centre offices. The issuer has four classes of investment properties: Office assets, Industrial assets, Residential assets and Development assets.

The fair value of Development assets amounted to 17% of the total fair value of all investment properties. The enforcer noted that the increase in the fair value of Development assets during the year amounted to 45% of the total increase in the fair value of all investment properties for the year.

Outline of financial reporting treatments applied by the issuer
Paragraph 93(d) of IFRS 13 requires entities with fair value measurements categorised within Level 3 of the fair value hierarchy to disclose:

> ' *… quantitative information about the significant unobservable inputs used in the fair value measurement.*'

All classes of investment properties were classified as Level 3 in the fair value hierarchy. The financial statements disclosed, in tabular format, the unobservable inputs used for the determination of the fair value of each class of investment property.

The unobservable input for Development assets was limited to a quantification of the Equivalent Yield (%). The ERV was not disclosed for Development assets.

The issuer confirmed that ERV is a significant unobservable input for the fair value measurement of Development assets and the ERVs for Development assets were not disclosed because, in the issuer's view, disclosing the yield and sensitivity of yield was sufficient to show the impact on fair value of market movements.

IAASA noted that:

(a) all significant unobservable inputs used in the fair value measurement of investment properties are specifically required to be disclosed by IFRS 13.93(d);

(b) the yield assumption is not the only significant unobservable assumption used by the issuer in determining the fair value of Development assets;

(c) the Business Review accompanying the financial statements falls outside the audited financial statements and, therefore, was not audited;

(d) a reconciliation of ERV data in the Business Review to the notes to the financial statements was not provided; and

(e) ERVs included in the Business Review were not cross-referenced to the relevant fair value note to the financial statements.

IAASA's view is that the disclosure of the ERV assumptions (together with any other unobservable inputs e.g. yields) is necessary to gain an understanding of the fair valuation judgements of Level 3 Development assets in accordance with IFRS 13. IAASA considers this information as particularly important information for REITs.

IAASA also noted that the financial statements did not disclose a sensitivity of fair values to changes in ERV's.

Outline of findings made by IAASA
IAASA concluded that the issuer had not disclosed in full:

(a) quantitative information about the significant unobservable inputs used in the fair value measurement of Development assets [IFRS 13.93(d)]; and

(b) the sensitivity of the fair value measurements to changes in the ERVs.

The issuer asserted that, in their view, they had complied in full with the requirements of IFRS 13.93(d) and IFRS 13.93(h); however, they agreed that future financial statements would disclose:

(a) ERV for each class of investment property, including Development assets; and

(b) the sensitivity of the fair value measurement to changes in the ERV.

Outline of corrective actions undertaken or to be undertaken
Future financial statements would provide additional disclosure of the ERV for Development assets and information regarding the sensitivity of the fair value to changes in the ERVs.

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The following two Decisions (relate to instances where IAASA concurred with or did not disagree the financial reporting treatment applied by the issuer and, consequently, no corrective actions were required

Issuer	DCC plc	
Report type	Annual financial statements	
Reporting period	Year ended 31 March 2017	
Financial reporting framework	IFRS-EU	
Applicable financial reporting standards	IAS 12	*Income Taxes*

Summary
This financial reporting decision considers whether or not the tax reconciliation required by paragraph 81(c) of IAS 12 should, in the case of an issuer with discontinued operations, be presented based:

(a) solely on the accounting profit before tax from continuing operations; or

(b) on the aggregated accounting profit before tax for continued and discontinued operations.

No action was required of the issuer as a consequence of this Decision as IAASA did not disagree with the issuer's financial reporting treatment.

Background
The issuer is an international sales, marketing and support services group operating through four divisions: LPG, Retail & Oil, Healthcare and Technology.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 March 2017.

Outline of financial reporting treatments applied by the issuer
In the current financial year, the issuer disposed of one of its divisions.

In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* this business constituted a discontinued operation. Accordingly, the issuer disclosed a single amount in its Income Statement comprising the total of the post-tax profit of discontinued operations and the post-tax gain recognised on the disposal of disposal group constituting the discontinued operation. The issuer presented, in accordance with IFRS 5, the following amounts on the face of its Income Statement:

	2017 Stg£'000	**2016 Stg£'000**
1. Profit before tax – continuing operations	XX	XX
2. Income tax expense	(XX)	(XX)
3. Profit for the year from continuing operations	XX	XX
4. Profit for the year from discontinued operations	XX	XX
5. Profit after tax for the financial, year	XX	XX

The reconciliation of the effective tax rate is shown in the notes to the financial statements. That reconciliation reconciles the 'Profit before tax – continuing operations' line (item 1 above) to the 'Income tax expense' line item (line 2 above).

A reconciliation of the effective tax rate is not disclosed for either the tax expense arising on the 'Profit for the year from discontinued operations' (item 4 above) or for the aggregated profit from continuing and discontinued operations.

Paragraph 81(c) of IAS 12 requires an issuer to provide '*an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:*

(i) *a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or*

(ii) *a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.*'

The disclosures required by paragraph 81(h) of IAS 12 ['*… in respect of discontinued operations, the tax expense relating to: (i) the gain or loss on discontinuance; and (ii) the profit or loss from the ordinary activities of the discontinued operation for the period …*'] have been provided.

The issuer has asserted that no reconciliation of profit from discontinued operations at the standard rate of tax to the actual tax rate is specifically required by IAS 12.

Outline of findings made by IAASA

IAASA acknowledge that paragraph 81(c) of IAS 12 makes no reference to continuing/discontinuing activities and noted that paragraph 84 of IAS 12 focussed on users' needs.

IAASA concluded that the wording in paragraph 81(c) of IAS 12 is open to interpretation. IAASA noted diversity in practice in that certain other issuers with discontinued operations have provided the tax reconciliation for the aggregated profit from continuing and discontinued operations.

IAASA accepted the view that the users of financial statements are better served by having the tax from continuing operations reconciled than having tax from discontinued operations reconciled as such discontinued activity will not recur in the future.

For these reasons, IAASA did not disagree with the issuer's treatment.

Outline of corrective actions undertaken or to be undertaken

No action required as IAASA did not disagree with the issuer's financial reporting treatment.

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Issuer	DCC plc
Report type	Annual financial statements
Reporting period	Year ended 31 March 2017
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 33 *Earnings per Share* IAS 1 *Presentation of Financial Statements*

Summary
This financial reporting decision considers whether or not Earnings per Share (EPS) measures (other than basic and diluted EPS measures) required by IAS 33 may be presented on the face of the Income Statement in addition to being presented in the notes.

No action was required of the issuer as a consequence of this Decision as IAASA did not disagree with the issuer's financial reporting treatment.

Background
The issuer is an international sales, marketing and support services group operating through four divisions: LPG, Retail & Oil, Healthcare and Technology.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 March 2017.

Outline of financial reporting treatments applied by the issuer
In the current financial year, the issuer disposed of one of its divisions.

The issuer presented a number of EPS measures on the face of its Income Statement:

	2017 **Stg£ - p**	**2016** **Stg£ - p**
Earnings per ordinary share		
1. Basic earnings per ordinary share	X.XX	X.XX
2. Diluted earnings per share	X.XX	X.XX
3. Basic adjusted earnings per share	X.XX	X.XX
4. Diluted adjusted earnings per share	X.XX	X.XX
Earnings per ordinary share – continuing operations		
5. Basic earnings per ordinary share	X.XX	X.XX
6. Diluted earnings per share	X.XX	X.XX
7. Basic adjusted earnings per share	X.XX	X.XX
8. Diluted adjusted earnings per share	X.XX	X.XX

Basic earnings per ordinary share (# 1) and Basic earnings per ordinary share – continuing operations (# 5) are presented on the face of the Income Statement in compliance with paragraph 9 of IAS 33.Diluted earnings per share (# 2) and Diluted earnings per share – continuing operations (# 6) are presented on the face of the Income Statement in compliance with paragraph 30 of IAS 33.

Basic adjusted earnings per share (# 3) and Basic adjusted earnings per share – continuing operations (#4) and Diluted adjusted earnings per share (# 7) and Diluted adjusted earnings per share – continuing operations (# 8) are not IAS 33-mandated EPS measures.

The issuer contends that no reference is made in IAS 33 as to presentation on the face of the Income Statement. The issuer also asserts that the Standard is unclear as to whether or not presentation of adjusted EPS both in the notes and on the face of the Income Statement is permitted. The issuer contends that IAS 33 does not expressly prohibit the presentation of the adjusted EPS measures on the face of the Income Statement.

The issuer also noted that it considers 'adjusted EPS' to be an Alternative Performance Measure and has provided its definition of Adjusted EPS as being 'basic EPS adjusted for the impact of net exceptional items and amortisation of intangible assets'.

Outline of findings made by IAASA

Paragraph 73 of IAS 33 states that: '*If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than one required by* [IAS 33] *… basic and diluted amounts relating to such a component shall be disclosed … in the notes.*'

Paragraph BC103 of IAS 1 states that: '*… the Board* [IASB] *… decided that the wording for paragraph* 73 [of IAS 33] *could be improved to clarify that alternative measures should be shown 'only in the notes'. This will be done when IAS 33 is revisited or as part of the annual improvements process*'.

IAASA concluded that the requirement in paragraph 73 of IAS 33 that amounts per share using a reported component of the statement of comprehensive income other than one required by IAS 33 be presented in the notes is open to be interpreted as meaning 'presented **only** in the notes' or as meaning 'presented **also** in the notes'.

IAASA notes that the IASB's view expressed in paragraph BC103 of IAS 1 that the information should be shown 'only in the notes' has not been reflected as an actual amendment to IAS 33 to date despite the BC103 wording having been made a number of years ago.

Outline of corrective actions undertaken or to be undertaken

No action required as IAASA did not disagree with the issuer's financial reporting treatment.

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