2019

Statutory Reporting Quality

Financial Reporting Decisions

IAASA
Irish Auditing & Accounting Supervisory Authority

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

Contents

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 were 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 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.

2. UDG Healthcare plc – IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Issuer	UDG Healthcare plc
Report type	Annual financial statements
Reporting period	Year ended 30 September 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Summary
This financial reporting decision concerns the disposal of an operating segment by the issuer and whether or not the disposed operating segment should be presented as a discontinued operation under IFRS 5.

Background
The issuer is a global operator in healthcare advisory, communications, commercial, clinical and packaged services.

IAASA performed a focussed examination of the issuer's annual financial statements for the year ended 30 September 2018.

Outline of financial reporting treatment applied by the issuer
The issuer disposed of one of its then three operating segments during year ended 30 September 2018. The issuer disclosed in its 2018 financial statements that:

> *'The operating results of* [the disposed business] *… are not considered to be a separate major line of business or geographical area of operations and therefore has not been separately presented in the Group Income Statement as a discontinued operation.'*

It was not readily apparent to IAASA as to why the disposal of this operating segment was not considered to be a (material) discontinued operation as it:

(a) was one of the issuer's then three operating segments;

(b) was one of the issuer's Cash Generating Units; and

(c) accounted for a significant operating loss of $87.4m (i.e. including exceptional items) for the year. The operating profit of the two remaining operating segments were $53.3m and $39.6m respectively.

Outline of findings made by IAASA
IAASA requested the issuer to provide a more detailed explanation as to why the disposal of the operating segment was not considered to be a separate major line of business or geographical area of operations

In response, the issuer indicated that the operating segment was a non-core business and that it did not meet the quantitative threshold under IFRS 8 *Operating Segments* to require separate disclosure as an operating segment. The issuer indicated that this segment was presented separately as an operating segment as its operations were not considered sufficiently similar to the operations of the two remaining operating segments.

The issuer considered it appropriate to consider the quantitative benchmarks for determining reportable segments as the basis to determine whether a disposed component should be presented as a separate major line of business. That is, the reported revenue, profit (i.e. the issuer considered adjusted operating profit to be its key metric) or total assets are 10% or more of the combined operations of the issuer.

The issuer indicated that it did not consider that profit after exceptional items (such as impairment of goodwill and loss on disposal) should be included in the quantitative measure of determining whether a component is a major line of business. The impairment of goodwill and loss on disposal are non-recurring items and not indicative of the significance of a component to the issuer. In this regard, the issuer considered that adjusted operating profit is the relevant profit benchmark as it is the key measure utilised by the issuer in assessing performance.

During FY 18, the disposed segment accounted for 6% of the issuer's revenue (2017: 8%), 2% of adjusted operating profit (2017: 5%) and at the date of disposal the disposed segment's total assets accounted for 3% of the total assets of the issuer (2017: 8%)

The issuer indicated that in applying its judgement on the quantitative criteria for determining whether a component of the issuer is a separate major line of business it concluded that the disposed segment was not sufficiently significant to be considered a separate major line of business.

With regard to whether the disposed segment represented a geographical area of operations, the issuer indicated that it continues to have operations in the key geographies where the disposed segment operated, for example in the United Kingdom. The issuer concluded that the disposed segment did not represent a significant geographical area of operations.

The issuer concluded that the disposed segment did not meet the criteria for classification as a discontinued operation under IFRS 5 as the segment did not represent a separate major line of business or geographical area of operations.

IAASA notes that IFRS 5 does not define what is meant by *'separate major line of business or geographical area of operations'*

In addition, IAASA considered the guidance outlined in paragraph IFRS 5.BC69 which states:

> *'The Board reconsidered the issue in light of the comments received and concluded that the size of unit that could be classified as discontinued in accordance with SFAS 144 as too small, with the result that the information provided by separately presenting discontinued operations may not be as useful as it could be …'*

Outline of corrective actions undertaken or to be undertaken
IAASA agreed with the issuer's rationale that the disposed segment did not meet the criteria for classification as a discontinued operation on the basis that IFRS 5 does not provide definitions and/or sufficient guidance as to the meaning of '*separate major line of business or geographical area of operations'.*

3. Willow No. 2 (Ireland) plc (debt issuer)

Issuer	Willow No. 2 (Ireland) plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2017
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	• IFRS 13 *Fair Value Measurement* • IFRS 7 *Financial Instruments: Disclosures* • IAS 24 *Related Party Disclosures* • IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Summary and background
Willow No. 2 (Ireland) plc ('the issuer') is a special purpose entity whose principal activity is the raising of money by issuing multiple series of Secured Limited Recourse Notes backed by Funds, Securities, derivatives, fixed and floating rate instruments.

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

IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of a number of financial reporting standards. The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements.

Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA

Set out below is an outline of the financial reporting treatment applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
1. IFRS 13 *Fair Value Measurement*	
The issuer had issued multiple and varied types of Notes (liabilities) underpinned by different asset classes including, but not limited to, debt securities, loans, corporate funding instruments, and Government bonds. However, the notes to the financial statements presented all investment classes and derivatives as investment securities. This aggregated presentation did not provide	IAASA concluded that the financial statements omitted to or failed to adequately disclose the following information by class of asset and liability as required by IFRS 13: (a) the fair value measurement as required by IFRS 13.93(a);

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
information by class of asset and liability as required by IFRS 13.93.	(b) the level of the fair value hierarchy as required by IFRS 13.93(b); (c) for assets and liabilities categorised as Level 3: (i) a description of the valuation technique(s) and the input(s) used in the fair value measurement of selected financial instruments; and (ii) quantitative information about the significant unobservable inputs as required by IFRS 13.93(d). (d) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs as required by IFRS 1393(h)(i); and (e) if a change in one or more unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly as required by IFRS 13. 93(h)(ii). The directors provided undertakings to IAASA that future financial statements would comply, in full, with the aforementioned requirements of IFRS 13.
2. IFRS 7 *Financial Instruments: Disclosures* – credit risk disclosure	
The issuer had stated that the Company (as distinct from Noteholders) is not subject to significant credit risk. The issuer stated that credit risk is continuously monitored and the directors receive quarterly reports. However, there was limited disclosure of the specific credit risk policies (i.e. qualitative information) provided in the financial statements. There was also a lack of information explaining the lowering of the credit quality of some investments.	IAASA concluded that the disclosures in the issuer's financial statements did not comply, in full, with the qualitative disclosure requirements of IFRS 7.33 (b) and (c) in terms of credit risk disclosure. The directors provided undertakings to IAASA that future financial statements would comply, in full, with the qualitative disclosure requirements of IFRS 7.33 (b) and (c) in terms of credit risk disclosure.
3. IFRS 7 *Financial Instruments: Disclosures* – interest rate risk disclosures	
The issuer's financial statements disclosed that the Company does not bear interest rate risk under the series of Notes issued and all interest rate risk is borne by Noteholders.	IAASA observed that Noteholders are the principal providers of finance to the Company and are exposed to interest rate risk either directly and/or indirectly through holding underlying investments and/or through swap counterparties.

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
However, limited quantitative data about interest rate risk disclosures was disclosed in the notes to the financial statements.	IAASA concluded that the notes to the financial statements lacked quantitative data about interest rate risk and did not comply, in full, with the quantitative disclosure requirements of IFRS 7.34(a). The directors provided undertakings to IAASA that future annual financial statements would comply, in full, with the quantitative disclosure requirements of IFRS 7.34(a).
4. IFRS 7 *Financial Instruments: Disclosures* – other price risk disclosures	
The issuer stated that no significant other price risk exists for the Company. The notes to the financial statements stated that Noteholders bear the full losses if the value of the collateral decreases.	IAASA concluded that for the Index Linked Notes the primary risk appears to be the market price movement rather than, for example, interest rate risk. The disclosure of the swap counterparties' participation in the exposure to other price risk does not explain the nature of other price risk for Index Linked Notes and how that risk arises. IAASA concluded that the disclosures in the notes to the financial statements was not sufficient to explain, in qualitative terms, the exposure to other price risk and how it arises for the Index Linked Notes in accordance with the disclosure requirements of IFRS 7.33. The directors provided undertakings to IAASA that future annual financial statements would comply, in full, with the disclosure requirements of IFRS 7.33.
5. IFRS 7 *Financial Instruments: Disclosures* – sensitivity analysis	
The issuer did not disclose a sensitivity analysis for the following risks: (a) interest rate risk on interest bearing assets; (b) other price risk; and (c) currency risk in accordance with the requirements of IFRS 7.40.	IAASA concluded that the issuer had not disclosed a sensitivity analysis for interest rate risk, other price risk or currency risk in accordance with the requirements of IFRS 7.40. The directors provided undertakings to IAASA that future annual financial statements will disclose a sensitivity analysis for each type of risk to which users are exposed and will comply, in full, with the disclosure requirements of IFRS 7.40.
6. IAS 24 *Related Party Disclosures*	
IAS 24.18 requires disclosure of the nature of related party relationships and, the amount of outstanding balances including commitments to related parties.	IAASA concluded the issuer had incorrectly determined that related parties were limited to its directors and had not identified all related parties as defined by IAS 24. Therefore, the

Financial reporting treatment applied by the issuer	Outline of decision made by IAASA and corrective action to be undertaken by the issuer
The issuer did not identify all related parties in the financial statements. The issuer had determined that related parties were limited to its directors and had excluded a provider of key management personnel services from the related parties note.	Company had not complied, in full, with the disclosure requirements of IAS 24. The directors provided undertakings to IAASA that future annual financial statements would comply, in full, with the disclosure requirements of IAS 24.
7. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors:* the disclosure of new financial reporting standards that has been issued but are not yet effective – IFRS 9	
IAS 8.30 requires that where an entity has not applied a new IFRS that has been issued but is not yet effective, it shall disclose: (a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. The issuer's financial statements stated that the Company performed a high-level impact assessment of IFRS 9 and expected no significant impact on the Statement of Financial Position from the implementation of IFRS 9. The issuer confirmed to IAASA that 12 month expected credit losses were expected to increase the impairment charges for investments/loans/ debentures/debt linked to Series 42 and 43; however, these were not considered significant.	It was a matter of concern to IAASA that the first disclosure of the quantitative impact of IFRS 9 would not be disclosed until 12 months after the initial effective date of IFRS 9. This was inconsistent with the requirements of IAS 8.30 in terms of disclosing the impact of new standards in issue and not yet effective. IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of IAS 8.30 in terms of disclosure of the expected impact of IFRS 9 and the requirement to disclose known or reasonably estimable information. The directors provided an undertaking to IAASA that, in preparing future financial statements, they would comply, in full, with the disclosure requirements of IAS 8.30 in terms of the disclosure of the expected impacts of new IFRSs (i.e. quantitative and qualitative information).

4. Vespucci Structured Financial Products plc (debt issuer) – IAS 24 *Related Party Disclosures*

Issuer	Vespucci Structured Financial Products plc
Report type	Annual financial statements
Reporting period	Year ended 30 April 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 24 *Related Party Disclosures*

Summary
This financial reporting decision deals with the disclosure of an entity as a related party if a subsidiary of that entity provides key management personnel services ('KMP') to the issuer.

Background
The issuer, a debt issuer, is a public limited company incorporated in Ireland and established as a special purpose vehicle for the purposes of issuing the debt instruments ('the Loan Notes).

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 30 April 2018.

Outline of financial reporting treatments applied by the issuer

The issuer disclosed entity A as a related party as the issuer concluded that entity A provided KMP services to the issuer during the financial year, specifically investment management and administration services.

IAS 24.9 defines key management personnel as:

'*… those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.*'

Entity A is a subsidiary of entity B; entity B provided banking and custodian services to the issuer.

The issuer did not disclose entity B as a related party on the basis that the services provided by entity B to the issuer related to normal course of business services and did not constitute KMP services in accordance with IAS 24.9.

Outline of findings made by IAASA
IAASA agreed with the issuer's conclusion that entity B did not provide KMP services to the issuer. However, IAASA disagreed with the issuer's conclusion that entity B was not a related party.

IAS 24.9(b)(viii) states that an entity is related to a reporting entity if:

> '*The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.*'

Arising from the requirements in IAS 24.9(b)(viii), IAASA concluded that entity B qualified as a related party to the issuer as a result of a subsidiary of entity B (i.e. entity A) providing KMP services to the issuer.

IAS 24 requires disclosure of related party relationships, transactions and outstanding balances for all related parties.

Following its engagement with IAASA, the issuer confirmed that it would provide additional disclosures in future financial statements which will treat entity B as a related party and provide disclosure of transactions with entity B as related party transactions.

Outline of corrective actions undertaken or to be undertaken
The issuer undertook to include additional disclosures in future periodic financial statements which will specifically state entity B as a related party and disclose transactions with entity B as related party transactions.

5. Vespucci Structured Financial Products plc (debt issuer) – IFRS 7 *Financial Instruments: Disclosures*

Issuer	Vespucci Structured Financial Products plc
Report type	Annual financial statements
Reporting period	Year ended 30 April 2018
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IFRS 7 *Financial Instruments: Disclosures*

Summary
This financial reporting decision concerns the issuer's classification of Loan Notes (i.e. financial liabilities) in the liquidity maturity analysis table required by IFRS 7 as 'greater than five years'.

Background
The issuer, a debt issuer, is a public limited company incorporated in Ireland and established as a special purpose vehicle for the purposes of issuing the debt instruments ('the Loan Notes').

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 30 April 2018.

Outline of financial reporting treatments applied by the issuer

The issuer had Loan Notes in issue all of which had a legal or contractual maturity date in 2040. However, both the noteholders and the issuer could exercise an early redemption option. The issuer had the option to 'call' the Loan Notes by giving an irrevocable notice to the noteholders within a period, not shorter than 5 business days. The noteholders had a 'put' option to early redeem the Loan Notes before the maturity date by providing notice within a period, not shorter than 10 business days. However, and in addition, the issuer disclosed that all noteholders had signed a waiver that waived the noteholders' right to exercise the option to early redeem for at least 12 months from the year-end date.

IFRS 7.39(a) states that an entity shall disclose:

'*a maturity analysis for non-derivative financial liabilities … that shows the remaining contractual maturities*.'

Furthermore, IFRS 7.B11C(a) states that, regarding IFRS 7.39(a):

'*when a counterparty has a choice of when an amount is paid, the liability is allocated to the to the earliest period in which the entity can be required to pay …*'

The issuer disclosed the contractual maturities of the entire Loan Note liability as maturing in the 'greater than five years' category in the maturity analysis table.

IAASA noted that the Statement of Cash Flows disclosed material redemptions of Loan Notes occurring in the current and previous two years.

Outline of findings made by IAASA
IAASA requested the issuer to explain why redemptions had occurred consistently considering the noteholders had waived their right to exercise the option to early redeem for a period of at least 12 months.

The issuer provided the following information to IAASA:

(a) the noteholders had waived their right to exercise the option to early redeem and confirmed in writing for at least 12 months from the year end date;

(b) the redemptions that occurred each year are part of the normal course of business for the issuer and are driven by the liquidity needs of the noteholders;

(c) every two weeks the noteholders can subscribe for or redeem Loan Notes; and

(d) no redemptions processed were due to an exercising of the early redemption option by any of the noteholders.

In addition, IAASA requested the issuer to explain the reason why they concluded that 'greater than five years' was considered to be the earliest contractual maturity date.

The issuer stated that:

(a) as the Loan Notes redeemed could be re-purchased (i.e. the issuer can re-issue the Loan Notes), there is no direct link between the maturity of the Loan Notes and the noteholder;

(b) the options to early redeem by exercising the 'put' option and through the bi-weekly process by the noteholders were only a possibility. At the same time, the issuer had the option to 'call' the Loan Notes but they stated that the possibility of exercising this option was highly unlikely; and

(c) the liability was required to be classified when the entity can be required to pay. There is no party who could contractually require the issuer to redeem the Loan Notes; the redemptions could only occur by mutual consent

IFRS 7.BC57 states that:

'*The Board decided to require disclosure of a maturity analysis for financial liabilities showing the remaining earliest contractual maturities (paragraph 39(a) and paragraphs B11–B16 of Appendix B) … The Board decided to require disclosure based on the earliest contractual maturity date because this disclosure shows a worst case scenario …*'

IAASA believed that the issuer was presenting the maturity analysis as a best-case scenario, i.e. greater than five years, and that this did not reflect the true position of the issuer. This conclusion was based on the following:

(a) the recurring level of cash flow redemptions of the Loan Notes. It was clear that material redemptions were occurring each year through the bi-weekly liquidity process of the noteholders; and

(b) the fact that the noteholders had an option to early redeem before the final maturity date by providing notice greater than 10 working days. IAASA acknowledged that a written agreement, signed by each noteholder, was in place that waived the noteholders' right to exercise the option to early redeem for a period of at least 12 months after the year-end date. However, this only covered the period of up to 12 months after the year-end date so did not provide security for greater than five years.

IAASA noted that the noteholder could request a redemption; however, such request was not binding on the issuer. Therefore, a request was not a contractual obligation for the issuer. Furthermore, the waiver on the early redemption option opened the possibility to defer the payment for more than 12 months after the year end date.

Taking all these factors into consideration, IAASA concluded that all the Loan Notes should be classified in the liquidity maturity analysis table as maturing in '*greater than one year*'. The waiver in relation to the noteholder's right to exercise the option to early redeem for at least 12 months from the year end date prohibited the requirement for the issuer to pay the liabilities for at least 12 months. The waiver provided liquidity security for this 12 month period; however, there was a possibility, even if remote, that after this 12-month period the noteholders may not renew the waiver and could seek full redemption. In this worst case scenario, the noteholders would not need the issuer's consent and the issuer would be required to pay on demand.

Outline of corrective actions undertaken or to be undertaken
The issuer undertook to classify the Loan Notes in the earlier category of *'greater than one year'* in the maturity analysis table in future financial statements.

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