

2018

IAASA'S OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

YEARS ENDING ON OR AFTER 31 DECEMBER 2018

SEPTEMBER 2018

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

IAASA publications referred to in this *Observations* document are available on IAASA's website at www.iaasa.ie/publications

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1 INTRODUCTION

1.1 Financial reporting review remit of IAASA

IAASA, Ireland's accounting enforcer, has responsibility for the examination and enforcement of certain listed entities' periodic financial reporting ('issuers').

As such, IAASA examines the annual and half-yearly financial reports of certain equity, debt and closed-ended fund issuers with securities admitted to trading on an EU regulated market for compliance with the relevant reporting framework.

The relevant reporting framework for the purposes of this document is limited to those issuers preparing their financial statements under International Financial Reporting Standards ('IFRS') and financial reporting standards issued by the Financial Reporting Council in the UK ('domestic GAAP'). Therefore, although IAASA's review activity may extend to periodic financial reports prepared under other financial reporting standard frameworks (e.g. Luxembourg GAAP and US GAAP), the observations offered in this document are limited to the requirements as they apply to IFRS and domestic GAAP issuers.

The matters raised in this document derive from a combination of:

- (a) financial reporting matters identified during IAASA's examinations and surveys undertaken during 2018;
- (b) matters identified in the course of IAASA's work, but not raised with specific issuers;
- (c) IAASA's expectations of issuers regarding the upcoming financial reporting season; and
- (d) financial reporting matters discussed at the [European Securities and Markets Authority](#) ('ESMA') sponsored European Enforcer Co-ordination Sessions ('EECS') meetings at which IAASA is an active participant.

1.2 Purpose of this *Observations* document

Consistent with earlier years, the purpose of this *Observations* document is to assist issuers' management and those charged with governance in the preparation of high quality financial reports by offering observations on selected financial reporting topics to coincide with the preparation of issuers' 2018 financial statements. It is also intended that some of the matters set out in this document will be subject to detailed scrutiny as IAASA conducts its 2019 programme of examinations of issuers' financial reports.

The primary audience for this document continues to be those involved in the preparation, approval and/or review of issuers' financial reports. This includes issuers' management, Audit Committees and Boards, providers of audit and other assurance services, legal advisors, listing agents and, where applicable, fund administrators and/or other relevant service providers.

This *Observations* document may also help the primary users of financial statements to understand the significant judgements made by issuers' directors in preparing financial statements and highlight those matters on which they may wish to focus when using those financial statements. In that context, IAASA encourages the widest possible transmission of this document.

1.3 Continued applicability of matters raised in previous years

This is the 11th *Observations* document for year-end financial reporting published by IAASA and some of the matters raised in previous years' *Observations* documents have continued applicability in the upcoming financial reporting season. This document should be read in conjunction with those earlier years' documents, which are available on the [publications section of the IAASA website](#).

1.4 Financial reporting environment

1.4.1 Economic backdrop

Issuers continue to be faced with the challenge of incorporating medium and long-term forecasts into their financial statements in a climate of mixed economic signals. Although there are many positive economic indicators for the Irish economy and international markets, there are also negative and unknown threats facing domestic and multinational entities.

Economic activity in Ireland is projected to remain robust, but to ease gradually. Abstracting from volatile activities of multinational enterprises (MNEs), domestic demand will remain robust with solid employment growth and consumption. As the labour market tightens, wage pressures will be strong, feeding into higher inflation. Business investment will slow after its strong rebound, while the construction sector will retain its momentum.

The stance of fiscal policy will be mildly contractionary in both 2018 and 2019. The government should remain committed to improving the fiscal position, thus making room to use fiscal policy against potential negative shocks, notably that of Brexit. The implementation of a new development plan aiming at economic, environmental and social progress should be conditional on this commitment to improve the fiscal position, requiring projects to be carefully prioritised.

[Ireland – Economic forecast summary \(May 2018\), OECD](#)

The [National Competitiveness] Council is concerned that the sustainability of growth could be threatened by our heavy dependence on the performance of a narrow base of firms and economic sectors. At the same time our indigenous exporting base exports a narrow range of products and services, and relies on a small number of export markets. Brexit has exposed how Irish export markets are geographically concentrated and the range of products and services exported has become increasingly narrow.

[NCC Competitiveness Bulletin 18-2: Economic Concentration 2018. \(August 2018\) National Competitiveness Council](#)

Despite recent softening, global economic growth will remain robust at 3.1 percent in 2018 before slowing gradually over the next two years, as advanced-economy growth decelerates and the recovery in major commodity-exporting emerging market and developing economies levels off ...

[The World Bank, Press release \(5 June 2018\)](#)

Issuers face unknown economic, political and social threats and uncertainties because of Brexit and heightened protectionist policies, particularly in the USA¹.

1.4.2. Accounting enforcement at EU level

IAASA's national enforcement priorities, policies and methodologies are aligned with the enforcement priorities set by ESMA. ESMA continues to take an increasingly interventionist role in ensuring greater convergence of enforcement activity by EU national accounting enforcers.

ESMA has issued the following Guidelines:

- (a) [ESMA Guidelines on enforcement of financial information](#) (July 2014). ESMA has undertaken peer reviews of these Guidelines to assess the extent of compliance by national accounting enforcers; and
- (b) [ESMA Guidelines on Alternative Performance Measures](#) (October 2015).

ESMA has also published a Paper, [Peer Review on Guidelines on Enforcement of Financial Information](#) (July 2017) to which all national enforcers, including IAASA, contributed.

In addition, ESMA sets annual Europe-wide common enforcement priorities, which are topics which EU national enforcers must incorporate into their examination programmes. The 2018 ESMA common

¹ The USA is now Ireland's biggest export market by country at €33.197bn compared to the UK at €16.416bn. (Source: <https://www.cso.ie/en/releasesandpublications/er/gei/goodsexportsandimportsdecember2017/>)

enforcement priorities are expected to be published in the final quarter of 2018 and will be available on the ESMA and IAASA websites once published.

Issuers can continue to expect IAASA's enforcement activity to reflect both national and European common enforcement priorities. A practical consequence of this is that issuers may be questioned by IAASA on their financial reporting treatments in relation to items that are an ESMA enforcement priority.

1.4.3 Brexit

The UK is leaving the European Union on 29 March 2019.

The details of any Brexit agreement may be clearer by the time that issuers are finalising their 2018 annual financial reports during Q1 2019.

Depending on the terms of any Brexit agreement, issuers' ability to conduct business on existing terms may be disrupted (e.g. supply chain, access to the single market, access to the customs union, the impact of cross-border and cross-channel trade, and the impact of euro-Sterling exchange rate volatility).

Against this continuing uncertainty, issuers must closely monitor and consider the financial reporting consequences that Brexit arrangements will have on their future financial performance, financial position, cash flows and forecasts. Issuers should ensure that their annual and half-yearly reports clearly disclose:

- (a) the impact that Brexit will have on their activities; and
- (b) an entity specific description of the sources of estimation uncertainty based on the specific facts and circumstances applying.

IAASA reminds issuers to ensure that they apply medium and long-term assumptions that reflect changes in the current market expectations for the products, services, markets and countries in which they operate or on which they rely. It may be the case that issuers' medium and long-term key assumptions need to reflect on-going market uncertainty and possible future market disruption².

² In July 2016 IAASA prepared an Information Note titled [Consideration of the impact of Brexit for issuers' half-yearly financial reports](#) which raised financial reporting topics many of which remain relevant today including for the preparation of both annual and half-yearly reports

2 OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

2.1 New accounting standards

2.1.1 New accounting standards effective 1 January 2018

IFRS 9 *Financial Instruments*

IFRS 9 sets out the requirements regarding the recognition, measurement and impairment of financial assets, financial liabilities and general hedge accounting.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018.

Financial institutions

Issuers are reminded of the requirement to disclose the impact of the initial application of IFRS 9. IFRS 7 *Financial Instruments: Disclosure* sets out the disclosures that are required in the period of initial application [IFRS 7.42I – 42S]. These include the requirement to disclose:

- (a) reclassification of financial assets and financial liabilities upon the initial application of IFRS 9; and
- (b) a reconciliation of the impairment allowances under IAS 39 *Financial Instruments: Recognition and Measurement* as of 31 December 2017 and opening impairment allowances under IFRS 9 as of 1 January 2018 disaggregated by measurement category.

In accordance with the requirements of IFRS 7.35D disclosures should be sufficiently detailed and disaggregated. Issuers need to carefully consider whether users of the financial statements need additional explanations in order to evaluate the quantitative information disclosed on initial transition to IFRS 9.

Issuers should give careful consideration to the judgements required by IFRS 9 that include, but are not limited to:

- (a) assessing a Significant Increase in Credit Risk ('SICR');
- (b) incorporating forward looking information into lifetime Expected Credit Losses ('ECL') models;
- (c) the impact of IFRS 9 on the measurement of credit-impaired financial assets;
- (d) the Solely Payment of Principal and Interest test ('SPPI'); and
- (e) disclosure of the transition impacts of IFRS 9 and disaggregation required in disclosures.

Corporate entities

Issuers are reminded that the ECL model applies to trade receivables, contract assets and lease receivables and, therefore, non-financial institutions may also be impacted by the implementation of IFRS 9. It is IAASA's expectation that corporate issuers will provide the required entity-specific disclosures where the impact of initial application of IFRS 9 is quantitatively or qualitatively material.

Hedge accounting

Issuers' attention is drawn to the disclosures required by IFRS 7 in relation to hedge accounting [IFRS 7.21A – 24F]. These disclosure requirements are required of all issuers, including those electing to continue to apply the existing hedge accounting requirements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes the principles that an issuer shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. To recognise revenue under IFRS 15, an issuer applies a single, principles based five-step model to all contracts with customers.

IFRS 15 is effective for accounting periods beginning on or after 1 January 2018. IAASA reminds all issuers that entities are required by IFRS 15 to disclose more information about contracts with customers

than was previously required under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and IFRICs 13, 15 and 18 and SIC 31. IFRS 15 requires entities to disclose more disaggregated information about revenue.

Issuers should give careful consideration to disclosures surrounding the judgements required by IFRS 15 including:

- (a) a reconciliation of the initial transition impacts and explanation of same;
- (b) a description of the transition method applied;
- (c) the identification and unbundling of contracts/performance obligations and the allocation of the transaction price to multiple performance obligations;
- (d) principal versus agent assessments;
- (e) disclosure of the significant IFRS 9 judgements;
- (f) impact on alternative performance measures ('APMs'); and
- (g) disaggregation of revenue.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should clearly disclose the impact transition to IFRS 9 and IFRS 15 have on the financial position, financial performance and cash flows of the issuer.

2.1.2 New accounting standards issued not yet effective

IFRS 16 *Leases* sets out how an issuer shall recognise, measure, present and disclose leases.

IFRS 17 *Insurance Contracts* sets out the principles for the recognition, measurement, presentation and disclosures of insurance contracts.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of an impending change in accounting policies when an issuer has yet to implement a new IFRS that has been issued but not yet come into effect (irrespective of whether or not that IFRS has been endorsed by the EU). IAS 8.30 – 31 requires disclosure of '*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.*'

IAASA expects that, as the application date of the new standards nears, issuers will provide increasingly more qualitative and quantitative information about the impact of the application of the new accounting standards in their periodic financial statements.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should carefully consider the level of disclosure provided regarding IFRSs issued and not yet adopted.

Disclosures should avoid a 'boilerplate' repetition of the new accounting standards. Issuers should provide progressively more entity specific information of the impact of the new accounting standards in quantitative and qualitative terms.

2.2 Distinguishing between significant judgements and sources of estimation uncertainty

Significant judgements (or critical accounting judgements)

Paragraph 122 of IAS 1 *Presentation of Financial Statements* 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 ...'

Sources 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 ...'*

Issuers' should note that the disclosures required by IAS 1.125 are reserved for assumptions and estimates that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The disclosures are, therefore, more detailed and burdensome than the disclosures required for significant judgements (critical accounting judgements) or other sources of estimation uncertainty where there is not at risk of resulting in a material adjustment within the next financial year.

IAASA identified instances where issuers either:

- (a) did not clearly identify the accounting matters which they considered as significant judgements (critical accounting judgements) or sources of estimation uncertainty or both; or
- (b) included matters as significant judgements (or critical accounting judgements) and/or sources of estimation uncertainty which did not meet the IAS 1 criteria for inclusion as such.

Such practices lead to either boilerplate disclosure in financial statements, or, in some instances, a lack of clarity as to which matters are actually sources of estimation uncertainty.

IAASA has received undertakings from issuers to improve disclosures in future financial statements on these particular IAS 1 requirements.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should ensure that:

- the financial statements clearly identify the accounting matters considered to be significant judgements (critical accounting judgements) and those considered to be sources of estimation uncertainty; and
- the disclosures comply in full with the requirements of IAS 1 and, particularly, IAS 1.122 and 125.

2.3 Accounting for complex customer and supplier arrangements

Some entities may enter complex arrangements with their customers including, for example, deferred recognition of income from customers, customer promotions, rebates, discounts granted to customers or other atypical financial arrangements. Similarly, arrangements with suppliers might involve the receipt of income in the form of rebates and other amounts, including product and marketing support.

During 2018, IAASA examined the customer and supplier arrangements in a selection of issuers' financial statements in terms of their:

- (a) nature/type; and
- (b) the amounts recognised in the financial statements.

IAASA examined the key accounting judgements in accounting for customer and supplier arrangements including recognition, measurement, level of estimation uncertainty, presentation and disclosure in the financial statements. IAASA observed that there was room for improvement in some issuers' disclosures of these arrangements in terms of the:

- (a) nature of the arrangements; and
- (b) level of estimation uncertainty associated with the arrangements.

A number of issuers provided undertakings to IAASA to enhance the disclosure of the accounting policies for customer and supplier arrangements in future financial statements. IAASA will continue to monitor issuers' future financial statements in accounting for complex customer and supplier arrangements.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should ensure that the disclosure of any complex customer and/or supplier arrangements enable users to gain a complete understanding of the impact of these arrangements on the entity's performance, financial position and cash flows.

2.4 Accounting for Receivables Purchase Agreements ('RPAs')

It is noted that some issuers may manage credit risk and/or cash flows from trade receivables through the use of RPAs. The accounting for RPAs can depend upon the specific terms of individual contracts including whether or not substantially all the risks have been transferred to the RPA counterparty. Issuers also need to carefully consider the classification of cash flows arising from RPAs as either operating cash flows or financing (which depends upon the facts and circumstances in each instance). These judgements may have a significant impact on the presentation of issuers' cash flows and cash-linked APMs.

IFRS 7.42B(b) states that an entity shall disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. IFRS 7.42E – 42G set out additional detailed disclosures which apply to entities where transferred financial assets are derecognised in their entirety but the entity has continuing involvement in them.

During 2018, IAASA examined issuers' accounting for RPAs in terms of:

- (a) a quantification of the amounts RPAs utilised by selected issuers during the year and the amounts derecognised;
- (b) the nature of the RPAs utilised i.e. recourse/limited/or non-recourse RPAs with some partial default risk exposure;
- (c) a description of issuers' accounting policy applied to RPAs (i.e. full or partial derecognition) and the presentation in the Statement of Financial Position and in the Statement of Cash Flows;

- (d) the key terms of the entity's particular RPA contracts; and
- (e) the basis on which it was concluded that RPAs resulted in a transfer of substantially all the risks (default risk) or whether the terms of RPAs resulted in the issuer retaining any risks.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should carefully evaluate the key accounting judgements that have been applied to accounting for RPAs (i.e. recognition, measurement, presentation and disclosure) and ensure that the presentation of cash flows reflects the substance of RPA contracts.

2.5 Recognition of identifiable intangible assets – separability v. the contractual-legal criterion

Paragraph B31 of IFRS 3 *Business Combinations* states that:

'The acquirer shall recognise separately from goodwill, the identifiable intangible asset acquired in a business combination. An intangible asset is identifiable if it meets the separability criterion or the contractual-legal criterion.'

For those issuers examined, IAASA determined that intangible assets arising from business combinations were recognised based on the contractual-legal criterion of IFRS 3; no intangible assets were recognised based on the separability criterion.

IAASA reminds issuers that in accordance with IFRS 3.B33 an intangible asset that the acquirer would be able to sell, license, or otherwise exchange for something else of value meets the separability criterion.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should ensure that in applying IFRS 3 they carefully consider whether or not intangible assets should be separately recognised and disclosed on the basis of the separability criterion of IFRS 3.

2.6 Alternative performance measures ('APMs') – an update

The [ESMA Guidelines on Alternative Performance Measures](#) have been applicable since 2016.

IAASA's examinations have revealed that some issuers have either recalculated their APMs, by including or removing some components from the APM calculation, or have stopped disclosing a particular APM. It is conceivable that issuers may change the calculation of APMs or stop using certain APMs following the introduction of new accounting standards or as the circumstances of the business change.

In this context, IAASA reminds issuers of the requirements of paragraphs 41 to 42 of the [ESMA Guidelines on Alternative Performance Measures](#) where issuers should explain the changes to the calculation/definition of the APM and the reasons why such amendments result in more reliable and relevant information. In addition, if an issuer stops disclosing an APM, the issuer should explain the reason for considering that this APM no longer provides relevant information.

Issuers should also carefully consider:

- (a) assigning meaningful labels to APMs [paragraph 22]; and
- (b) providing a clear definition of each APM used [paragraph 20].

It is also IAASA's expectation that issuers will continue to ensure compliance to the fullest extent possible with the [ESMA Guidelines on Alternative Performance Measures](#).

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should carefully consider the disclosure requirements of the [ESMA Guidelines on Alternative Performance Measures](#) and ensure compliance to the fullest extent possible with those Guidelines

2.7 Consistency of the key assumptions used to measure intangible assets

ESMA's [European common enforcement priorities for 2017 IFRS financial statements](#) document urged issuers to ensure consistency between the key assumptions used for the fair value measurement of intangible assets in a business combination and the intangible asset impairment testing assumptions, as well as for determining useful lives used for amortisation calculations.

Key assumptions include, but may not be limited to:

- (a) revenue and expected revenue growth;
- (b) the useful life of individual material assets;
- (c) the expected duration of the cash flows;
- (d) terminal value (if applicable); and
- (e) discount rates, customer attrition rate and other significant key assumptions.

There are a number of reasons as to why differences in the foregoing intangible asset value assumptions may arise; however, there is also a need to ensure broad consistency of key asset assumptions (where relevant) throughout the financial statements. In one instance IAASA observed significant variances in intangible asset fair value assumptions compared with subsequent assumptions used in the impairment testing and the useful lives of assets (for amortisation).

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should 'sense-check' the consistency between the key assumptions used for the fair value measurement of intangible assets acquired in a business combination with the subsequent intangible asset assumptions used elsewhere in the financial statements.

2.8 IAS 38 Intangible Assets

IAS 38.122(b) states that:

'An entity shall also disclose:

- (a) ...
- (b) *a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements ...'*

IAASA has engaged with issuers on this IAS 38 requirement.

Those issuers with material individual intangible assets are reminded of the disclosure requirements in this regard. IAASA has received undertakings on this IAS 38 requirement to improve disclosures in future financial statements.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees of those issuers with material individual intangible assets should ensure that the disclosure requirements of IAS 38.122(b) are provided in full.

2.9 Other matters including matters raised in earlier years having continued applicability

Included below are other matters including matters which were included in earlier years' *Observations* documents which are of continuing relevance and applicability. In each instance, management, Directors and Audit Committees of impacted issuers are invited to continue to assess the extent to which they need to comply with the applicable requirements.

2.9.1 Separately disclosed items, exceptional items and non-recurring items

This topic has been included in our *Observations* documents for 2012, 2013 and 2017.

IAS 8.5 defines accounting policies as:

'... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.'

IAASA continues to enforce against issuers which fail to disclose, or fail to disclose in sufficient detail, their accounting policies for separately disclosed items, exceptional items and non-recurring items. Given the flexibility offered in IAS 1 as to the presentation of the Income Statement, the judgmental nature of separately disclosed items, exceptional items and non-recurring items presented and the differing approaches applied by issuers, the disclosure of an accounting policy aids users' understanding of the financial statements.

It is IAASA's expectation that issuers shall disclose a comprehensive accounting policy for these items which reflect the specific principles, bases, conventions, rules and practices applied by the issuer in preparing and presenting financial statements. In particular, reference by issuers to items being separately disclosed on the grounds of their size and nature may be lacking in entity specific detail and, accordingly, may require additional entity specific context (e.g. quantification as to what are the entity specific size criteria applied).

In 2018, IAASA has received undertakings in this regard for improvements in future financial reports from a number of issuers.

2.9.2 Impairment testing

The degree of issuers' compliance with IAS 36 *Impairment of Assets* has been a recurring topic for European enforcers and for IAASA for a number of years. Our *Observations* documents for 2012, 2013, 2014 and 2017 have each referred to this topic. In November 2017, IAASA published the results of a desktop survey [*Impairment testing in Irish listed companies' 2016/17 annual financial statements*](#).

Our survey found that the impairment disclosures made by a significant minority of the issuers demonstrated a combination of:

- (a) incomplete information;
- (b) boiler-plate disclosures lacking entity-specific information (*vis-à-vis* qualitative and quantitative disclosures); and
- (c) inappropriately aggregated disclosures rather than disclosures at individual (significant) cash generating unit ('CGU') level.

The survey also found instances of high quality disclosures of the impairment testing processes undertaken by selected issuers including where issuers had clearly disaggregated disclosures at a 'significant' CGU level.

During the current year, IAASA examined the key impairment judgements and related disclosures for a number of issuers. IAASA has received undertakings from issuers to comply, in full, with the disclosure requirements of IAS 36 in future financial statements. Impairment testing is likely to remain a recurring

theme in future IAASA examinations. IAASA also identified omissions of certain IAS 36 disclosures where the recoverable amount is the fair value less cost to disposal.

2.9.3 IFRS 3 Business Combinations – initial accounting for a business combination

IFRS 3.B67 states that:

‘... the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

(a) if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally:

(i) the reasons why the initial accounting for the business combination is incomplete;

(ii) the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and...

Issuers’ are reminded that IFRS 3.45 states that the measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. During the measurement period, the acquirer shall recognise adjustments to the provisional amounts.

IAASA has identified instances where issuers failed to disclose the reasons why the initial accounting for some acquisitions was incomplete as at the reporting date. In some instances the reasons provided to IAASA suggested that the measurement period had expired and amounts were no longer provisional. It is IAASA’s expectation that issuers will provide in full the information required by IFRS 3.B67(a)(i) and (ii) in their financial statements. IAASA has received undertakings to this effect.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should consider whether or not assets and liabilities initial value remain provisional and issuers should ensure that the disclosure requirements of paragraphs IFRS 3.B67(a)(i) and (ii) are disclosed in the financial statements.

2.9.4 Employee benefits: pension liability – asset-liability matching strategies

Paragraph 146 of IAS 19 *Employee Benefits* states that:

‘An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk ...’

IAASA has challenged issuers on their asset-liability matching strategies used by their defined benefit plans. IAASA has received undertakings for improvements in future financial reports. This matter was raised in our [Observations on selected financial reporting issues issuers’ financial years ending on or after 31 December 2016](#) document [item 2.4.2]. IAASA has again identified instances of issuers not disclosing the description of the asset-liability matching strategies used by their pension plans.

2.10.5 Employee benefits: pension deficit funding arrangements

IAS 19.147 states that, in order to provide an indication of the effect of the defined benefit plan on the entity’s future cash flows, an entity shall disclose ‘a description of any funding arrangements and funding policy that affect future contributions’.

IAASA identified an instance where an issuer failed to sufficiently disclose details of, and variations in, the deficit funding arrangements across a number of its pension schemes during the year. This omission limited users’ ability to understand the amounts, timing and future cash flows associated with the proposed deficit funding arrangements.

3 DEBT & CLOSED-ENDED-FUND ('CEF') ISSUERS – FINANCIAL REPORTING QUALITY

As at 31 December 2017, a total of 76 closed-ended fund and debt issuers were within IAASA's financial reporting supervision remit.

The matters included in Section 2 above apply to all categories of issuers – equity, CEF and debt. The matters set out in this Section are of particular relevance to CEF and debt issuers.

IAASA recognises that the majority of those issuers devote significant time and resources to produce high quality financial reports. However, there remains a minority of such issuers where the quality of the financial reporting continues to fall below that which is expected. This has led to recurring instances of:

- (a) protracted correspondence with certain issuers to establish the facts and circumstances;
- (b) IAASA receiving multiple undertakings to comply with the relevant reporting framework (largely IFRS) in future financial statements; and
- (c) the publication of enforcement decisions by IAASA.

IAASA's published financial reporting decisions on debt and CEF issuers can be found on the [publications section of the IAASA website](#).

The following are instances of common areas of recurring non-compliance by debt issuers:

- (a) valuation technique disclosures required by IFRS 13 *Fair Value Measurement* either not being provided or inadequate disclosures provided;
- (b) failure to disclose sufficient qualitative and quantitative risk disclosures including, but not limited to omission of credit quality of selected assets [IFRS 7 refers];
- (c) boiler plate disclosures are often provided and significant transactions or changes in market conditions or fair value movements are not sufficiently explained;
- (d) incorrect classification of cash flows as operating, investing or financing, inappropriate netting of major sources of cash flows and/or non-disclosure of significant non-cash transactions;
- (e) recognition of and disclosures associated with judgements regarding "pass-through" transactions [IAS 32 refers]; and
- (f) management report failing to include a complete description of the principal risks and uncertainties that the issuer faces [Regulation 5(4)(c)(ii) of the Transparency (Directive 2004/109/EC) Regulations 2007 refers].

New accounting standards

CEF and debt issuers should ensure that they clearly disclose the impact of new accounting standards in their annual and half-yearly reports. Issuers should also disclose the impact of new accounting standards issued and not yet effective in accordance with the requirements of IAS 8.30.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees of CEFs and debt issuers ensure that adequate time and resources are invested in the financial statement preparation process to enable the production of high quality reports in compliance with the relevant reporting framework.

4 GLOSSARY OF TERMS

APM(s)	Alternative Performance Measure(s)
CEF	Closed-ended fund
CGU	Cash generating unit
ECL	Expected credit losses
EECS	European Enforcement Coordination Sessions
ESMA	European Securities and Markets Authority
EU	European Union
GAAP	Generally Accepted Accounting Principles
IAASA	Irish Auditing & Accounting Supervisory Authority
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IFRIC	International Financial Reporting Standard Interpretations Committee
Issuer	An entity coming within IAASA's financial statement examination remit under the Transparency Regulations
RPA(s)	Receivables Purchase Agreement(s)
SIC	Standing Interpretations Committee
SICR	Significant Increase in Credit Risk
SPPI	Solely Payment of Principal and Interest

APPENDIX I – IAASA’S FINANCIAL REPORTING RELATED PUBLICATIONS

Readers may find it helpful to refer to other IAASA financial reporting related publications, available on the IAASA website at <http://www.iaasa.ie/Publications/FRSU>, including:

Category	Document
Observations documents	<u>Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2017</u>
	<u>Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2016</u>
	<u>Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2015</u>
	<u>Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2014</u>
	<u>Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2013</u>
Financial reporting decisions	<u>Financial Reporting Decisions (June 2018)</u>
	<u>Financial Reporting Decisions (February 2018)</u>
	<u>Financial Reporting Decisions (July 2017)</u>
	<u>Financial Reporting Decisions (March 2017)</u>
	<u>Financial Reporting Decisions [2] (January 2017)</u>
	<u>Financial Reporting Decisions [1] (January 2017)</u>
	<u>Financial Reporting Decisions (March 2016)</u>
	<u>Financial Reporting Decisions (January 2016)</u>
	<u>Financial Reporting Decisions (December 2015)</u>
<u>Financial Reporting Decisions (November 2015)</u>	
Surveys and commentaries	<u>IAASA desktop survey: Impairment testing in Irish listed companies' 2016/17 annual financial statements(November 2017)</u>
	<u>OPERATING SEGMENTS – THEMATIC SURVEY (October 2017)</u>
	<u>ALTERNATIVE PERFORMANCE MEASURES – THEMATIC SURVEY (September 2017)</u>
	<u>Desktop survey – Disclosures of the New Accounting Standards in issuers' 2016 annual financial statements (July 2017)</u>
	<u>Survey on the application of IFRS 13 Fair Value Measurement by Irish Companies (November 2016)</u>
	<u>SHARE-BASED PAYMENTS – a survey (October 2016)</u>

Category	Document
	<p>RECOGNITION OF INTANGIBLE ASSETS AND SCALE OF ACQUISITION ACTIVITY – a survey (September 2016)</p> <p>SURVEY OF ISSUERS' DEFINED BENEFIT PENSION SCHEME ASSUMPTIONS (August 2016)</p> <p>OPERATING LEASE COMMITMENTS - A Survey of Operating Lease Commitments by Irish Equity Issuers (July 2016)</p> <p>Survey of Directors' Critical Accounting Judgments and Auditors' Assessed Risks of Material Misstatement (November 2015)</p> <p>Alternative Performance Measures – A Survey of their Use together with Key Recommendations: An Update (January 2015)</p> <p>Review of the application of IAS 7 <i>Statement of Cash Flows</i> by selected Irish equity issuers (October 2014)</p> <p>Commentary on the application of certain aspects of IAS 1 <i>Presentation of Financial Statements</i> by selected Irish equity issuers (October 2013)</p> <p>Review of the application of accounting standard requirements in respect of the disclosure of key management personnel compensation by Irish equity issuers (June 2013)</p>
Policy Paper	Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings (June 2016)
Information Notes	Consideration of the impact of Brexit for issuers' half-yearly financial reports (July 2016)
Annual Reports	<p>2017 Annual Report</p> <p>2016 Annual Report</p> <p>2015 Annual Report</p> <p>2014 Annual Report</p> <p>2013 Annual Report</p>

APPENDIX II – USEFUL LINKS

	Link
Legislation	
Companies Act 2014	http://www.irishstatutebook.ie/eli/2014/act/38/enacted/en/html
Companies (Accounting) Act 2017	http://www.irishstatutebook.ie/eli/2017/act/9/enacted/en/html
Companies (Amendment) Act 2017	http://www.irishstatutebook.ie/eli/2017/act/13/enacted/en/html
Central Bank of Ireland	
	http://www.centralbank.ie/Pages/home.aspx
<i>Transparency Rules</i> (November 2016)	https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/securities-markets/transparency-regulation/regulatory-requirements-guidance/transparency-rules-2016.pdf?sfvrsn=2
European Financial Reporting Advisory Group (EFRAG)³	
	http://www.efrag.org/
Endorsement status	http://www.efrag.org/Endorsement
European Securities and Markets Authority	
	https://www.esma.europa.eu/
<i>Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs)</i> (July 2017)	https://www.esma.europa.eu/press-news/esma-news/esma-publishes-new-qa-alternative-performance-measures-guidelines
<i>ESMA Guidelines on Alternative Performance Measures</i> (October 2015)	https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf
<i>ESMA Guidelines on enforcement of financial information</i> (October 2014)	https://www.esma.europa.eu/sites/default/files/library/2015/11/2014-esma-1293en.pdf
<i>20th Extract from the EECS's Database of Enforcement Decisions</i> (January 2017)	https://www.esma.europa.eu/press-news/esma-news/esma-publishes-extract-enforcement-decisions-financial-statements-0
<i>19th Extract from the EECS's Database of Enforcement Decisions</i> (July 2016)	https://www.esma.europa.eu/sites/default/files/library/2016-1208_19th_extract.pdf
International Accounting Standards Board	
	http://www.ifrs.org/Pages/default.aspx

³ EFRAG provides technical expertise to the European Commission concerning the use of IFRS within Europe