

CHAPTER 4

*Monitoring the compliance of
certain issuers' periodic financial
reporting with relevant reporting
frameworks*

Monitoring the compliance of certain issuers' periodic financial reporting with relevant reporting frameworks

1. Introduction

This Chapter provides a summary of the activities undertaken by the Authority during the year in seeking to achieve its mission to support and enhance public confidence in financial reporting through the exercise of effective, independent oversight of constituent entities' statutory financial reporting. The Authority's activities in this regard are concerned principally with its role as the designated competent authority in the State for examining the compliance of certain entities' periodic financial reporting with relevant reporting frameworks, i.e. applicable accounting standards (in the main IFRS³⁸ and Irish GAAP³⁹) and relevant legislation. Other activities include co-operation with EU counterparts, primarily for the purpose of promoting the consistent enforcement of IFRS across the EU, and the statutory function of co-operating in the development of accounting standards. The remainder of this Chapter discusses each of these activities in further detail (other than the Authority's co-operation with others in the development of accounting standards, which is elaborated upon in Chapter 5 of this Report).

2. Monitoring the compliance of issuers' periodic financial reporting with relevant reporting frameworks

2.1 Legislative context

As the context for the Authority's legislative function

of monitoring the compliance of certain entities' periodic financial reporting with relevant reporting frameworks was set out in detail in the Authority's 2007 Annual Report⁴⁰, it is not reproduced in this Report. In summary, the Transparency (Directive 2004/109/EC) Regulations, 2007 ('the Transparency Regulations') provide that '*IAASA shall examine [annual and half-yearly financial reports] for the purpose of considering whether such information is in accordance with the relevant reporting framework*'⁴¹. Throughout the remainder of this Chapter, those entities coming within the Authority's remit under the Transparency Regulations are referred to as 'issuers'.

2.2 The Authority's remit

Table 17 sets out, in approximate terms, as at 31 December, 2009, the scale of the review constituency as notified to the Authority by the Irish Stock Exchange ('ISE') on behalf of the Financial Regulator⁴². This data excludes certain issuers whose home Member State is Ireland but whose securities are traded on an EU regulated market outside of the State, in respect of which accurate data is not currently available to the Authority.

Table 17: Authority's financial reporting review constituency as at 31 December, 2009

Issuer Category	Number of issuers in category	Half-yearly financial reports issued	Annual financial reports issued	Total number of periodic financial reports issued
Equity	31	31	30	61
Fund	45	45	39	84
Debt	92	67	92	159
Total	168	143	161	304

³⁸ International Financial Reporting Standards

³⁹ Generally Accepted Accounting Principles, which, in an Irish context, includes the accounting standards and related interpretations as issued by the UK Accounting Standards Board ('ASB').

⁴⁰ Available at http://www.iaasa.eu/publications/Annual_Report2007.pdf

⁴¹ Regulation 42(2) refers.

⁴² The Financial Regulator has chosen to delegate certain of its functions under the Regulations to the Irish Stock Exchange.

2.3 Purpose and objective of review activity

The Authority's review activity comprises two principal elements, i.e.

- i. monitoring the compliance of issuers' periodic financial reporting with relevant reporting frameworks; and
- ii. taking appropriate enforcement measures in response to identified infringements.

The purpose of the Authority's review activity is to:

- protect and promote the interests of the users of issuers' periodic financial reports;
- promote public confidence in the quality and reliability of issuers' statutory financial reporting; and
- contribute to the achievement of the objective of the consistent application of accounting standards across EU regulated financial markets.

The scope of enforcement extends to the whole reporting framework applicable to issuers, including national GAAP when applied to company individual financial statements (as opposed to consolidated financial statements where the use of IFRS is mandated) and extends to third countries' accounting standards where non-EU issuers are concerned. Consequently, the Authority is responsible for the enforcement of IFRS, Irish GAAP and certain codes of third country GAAP depending on the financial reporting framework used by the affected issuer.

2.4 Approach towards selecting issuers' periodic financial reports for review

When determining which issuers' periodic financial reports will be the subject of a detailed examination, the Authority uses a risk based approach, which is supplemented by rotational selections (the purpose of the latter being to provide coverage of issuers that might otherwise be unlikely to be selected for examination on a purely risk-based approach).

Further details of the considerations affecting risk assessment and the Authority's selection process can be found in the publication entitled *'A Guide to the Financial Reporting Requirements of the EU Transparency Directive and IAASA's role under the Directive'*⁴³.

The Authority has entered into Memoranda of Understanding with the Financial Regulator and the Office of the Director of Corporate Enforcement. From time to time the Authority receives referrals from these and other parties. The receipt of a referral from another statutory body is treated as a risk factor and is, therefore, incorporated into the Authority's risk assessment and selection processes.

2.5 Categories of review

Depending upon risk factors identified and other relevant considerations, examinations undertaken by the Authority during the year can be broadly categorised as being:

- a. Full Scope Reviews – these reviews comprise an examination of all aspects of the selected financial report for compliance with the recognition, measurement, classification, presentation and disclosure requirements of relevant standards, legislation and regulations;

⁴³ Available at http://www.iaasa.ie/publications/IAASA_TD_Guide.pdf. In summary, IAASA's risk-based approach to the selection of financial reports for review has regard to the risk of material misstatement in issuers' financial reports and the potential impact of such a misstatement on the users of financial reports. Risk factors considered in assessing the relative risk of an incidence of material misstatement in an issuer's financial report include (i) financial structure and business/economic trends, (ii) financial position and ratios, (iii) industry specific issues, (iv) audit qualifications and related issues, (v) corporate governance and control environment issues, (vi) incidence of related party transactions, (vii) incidence of business combinations and/or disposals, (viii) administrative, court and/or regulatory actions, and (ix) third party signals (e.g. complaints received by IAASA, press reportage etc.). Where previous instances of non-compliance have been identified, the potential for an issuer's future periodic financial reports to be reviewed increases.

- b. Focused Reviews – this type of review involves the examination of a particular aspect (or aspects) of the selected financial report (e.g. where the selected issuer has undertaken a business combination during the period under review); and
- c. Follow-up Reviews – these are reviews which examine a previously reviewed issuer for the purpose of assessing the issuer's responses to previously raised matters (e.g. with a view to determining whether an issuer's directors have honoured undertakings previously provided to the Authority).

2.6 Approach towards issues arising from reviews of periodic financial reports

Where, having undertaken a review of an issuer's periodic financial report, it appears to the Authority that there are issues arising in respect of which further information and/or clarification is required, the Authority corresponds with those charged with the issuer's governance, i.e. the directors (the Authority corresponds with the directors as opposed to, for example, management as, under company law, it is the directors that are legally responsible for the financial statements). In such correspondence, the matters arising are set out in detail and the issuer's directors are requested to respond in writing, providing any information, clarification and/or explanations considered necessary (including, for example, details of the directors' rationale or the basis for their judgements in certain respects).

Where directors' responses do not fully address the issue(s) raised or, as is frequently the case, directors' responses require further elaboration or clarification, the Authority typically enters into further correspondence with the directors until such time as all information, clarifications and/or explanations necessary to enable an assessment to be made as to whether the periodic financial report is in compliance with the relevant reporting framework have been

obtained. Where considered necessary or otherwise likely to assist in the satisfactory resolution of issues arising, Authority staff members meet with issuers' representatives.

It is important to note that not all matters raised with issuers' directors are suggestive of potential non-compliance with the relevant reporting framework. Rather, as considered necessary, the Authority seeks further information and/or clarification from issuers' directors for the purpose of enabling it to better understand the basis for certain of their accounting judgements in preparing periodic financial reports, including their judgements relating to recognition, measurement, classification, presentation and disclosure.

As reported on previous occasions, based on experiences to date, the Authority has found that those issuers that are most forthcoming with the requisite information, clarifications and explanations are those that bring their contacts with the Authority to a successful conclusion in the most efficient and expeditious manner.

2.7 Periodic financial reports received during the year

Set out in Table 18 are details of the number of periodic financial reports received by the Authority from the ISE during the year ended 31 December, 2009, together with comparative data in respect of the previous year.

Table 18: Periodic financial reports received from the ISE

Issuer category	2009			2008		
	Annual reports	Half-yearly reports	Total	Annual reports	Half-yearly reports	Total
Equity	30	31	61	6 ⁴⁴	36	42
Fund	39	45	84	22	61	83
Debt ⁴⁵	92	67	159	28	87	115
Total	161	143	304	56	184	240

As can be seen from the above Table, the volume of reports received during 2009 represented an increase of 27% on the previous year.

2.8 Overview of review activity during the year

Set out in the Table below are summary details of the Authority's review activity during the year.

Table 19 Summary of review activity – 2009

Reviews which were, by year end, at an advanced stage or had been completed

	Equity	Fund	Debt ⁴⁵	Total
Half-yearly reviews at an advanced stage or completed by year end	8	6	8	22
Annual reviews at an advanced stage or completed by year end	10	7	9	26
Total number of reviews at advanced stage or completed by year end	18	13	17	48

2.9 Issuers reviewed

Set out in the Table overleaf is a list of issuers whose periodic financial reports were reviewed during the year and whose reviews were, by year end, at an advanced stage or had been completed.

In respect of the reviews completed during 2009, a total of 229 matters were raised with issuers' directors. The average number of matters raised with issuers in respect of full scope reviews was 8, with the number of matters being raised with several issuers exceeding this average – for example, in the case of one equity issuer, the Authority had cause to raise queries in respect of 17 separate matters pertaining to its annual financial statements.

⁴⁴ Due to the timing of the implementation of the Regulations, issuers' financial statements came within the Authority's remit on a phased basis. Therefore, there were a limited number of annual financial reports under remit during 2008.

⁴⁵ Debt issuers admitted to trading on a regulated market in a Member State before 1 January, 2005 are exempt from the requirements to produce half-yearly financial reports with effect for 10 years from 1 January, 2005. Therefore, there are a lower number of half-yearly financial reports published by debt issuers under remit than annual financial reports.

Table 20: List of issuers reviewed – 2009

Issuer	Financial report type	Issuer type	Review type	Period end	Correspondence issued ⁴⁶
Aer Lingus Group plc	Half-yearly	Equity	Full	30/06/2009	Yes
Allied Irish Banks plc	Annual Half-yearly	Equity	Full Focussed	31/12/2008 30/06/2009	Yes Yes
Anglo Irish Bank Corporation plc	Half-yearly Annual Half-yearly	Equity Debt ⁴⁷ Debt	Follow-up Full Follow-up	31/03/2008 30/09/2008 31/03/2009	Yes Yes No
The Governor & Company of the Bank of Ireland	Annual	Equity	Full	31/03/2009	Yes
C&C Group plc	Annual	Equity	Focussed	28/02/2009	Yes
CRH plc	Annual Half-yearly	Equity	Full Follow-up	31/12/2008 30/06/2009	Yes No
FBD Holdings plc	Annual Half-yearly	Equity	Full Follow-up	31/12/2008 30/06/2009	Yes Yes
Glanbia plc	Annual	Equity	Full	03/01/2009	Yes
Grafton Group plc	Annual	Equity	Full	31/12/2008	Yes
Greencore Group plc	Annual	Equity	Full	26/09/2008	Yes
Irish Life & Permanent plc	Half-yearly Annual Half-yearly	Equity	Focussed Full Focussed	30/06/2008 31/12/2008 30/06/2009	Yes Yes Yes
Kingspan Group plc	Half-yearly	Equity	Follow-up	30/06/2009	No
Ryanair Holdings plc	Annual	Equity	Follow-up	31/03/2009	Yes
Argon Capital plc	Annual	Debt	Full	31/12/2008	Yes
Banesto Financial Products plc	Half-yearly	Debt	Full	30/06/2009	Yes
Cloverie plc	Half-yearly	Debt	Full	30/06/2009	Yes
Green Island Capital Securities plc	Half-yearly	Debt	Full	30/06/2009	Yes
iBond Securities plc	Half-yearly	Debt	Full	30/06/2009	Yes
Kalvebod plc	Annual Half-yearly	Debt	Full Follow-up	31/07/2008 31/01/2009	Yes Yes
Land Securities Capital Markets plc	Annual	Debt	Full	31/03/2009	No
Mermaid Repackaging plc	Annual	Debt	Full	31/05/2008	Yes
Porsche International Financing Group plc	Annual Half-yearly	Debt	Full Follow-up	31/07/2008 31/01/2009	Yes No
Profile Finance plc	Annual	Debt	Full	30/04/2009	Yes
Signum Finance II plc	Annual	Debt	Full	31/12/2008	Yes
Tube Lines (Finance) plc	Half-yearly	Debt	Full	30/06/2009	No
Xenon Capital plc	Annual	Debt	Full	31/12/2008	Yes
Aldermanbury Structured Returns plc	Half-yearly	Fund	Follow-up	30/09/2008	Yes
Carador plc	Annual	Fund	Follow-up	31/12/2008	No
DWS Vietnam Fund Limited	Half-yearly	Fund	Full	30/06/2009	Yes

Table 20: continued

Issuer	Financial report type	Issuer type	Review type	Period end	Correspondence issued ⁴⁶
Faraday Investments 21 plc	Annual	Fund	Focussed	07/11/2008	No
Hamilton Lane Private Equity Fund plc	Half-yearly	Fund	Full	31/08/2009	No
PXP Vietnam Fund Ltd	Annual	Fund	Follow-up	30/09/2008	No
Raffles-Asia Investment Company (Delisted 5 May 2009)	Annual Half-yearly	Fund	Full Follow-up	30/06/2008 31/12/2008	Yes Yes
Signet Global Fixed Income Strategies Limited	Half-yearly	Fund	Full	30/06/2009	Yes
Special Value Opportunities Feeder Fund	Annual	Fund	Full	31/12/2008	Yes
SWIP Private Equity Fund of Funds II plc	Annual	Fund	Full	31/12/2008	Yes
Vietnam Lotus Fund Limited	Annual	Fund	Focussed	31/12/2008	No
York Enhanced Strategies Feeder Fund (Cayman) Ltd	Half-yearly	Fund	Follow-up	30/06/2009	No

2.10 Response to matters arising from reviews of periodic financial reports

In addressing matters arising from reviews, the Authority has a range of options at its disposal, including:

- i. securing undertakings from an issuer's directors, i.e. to the effect that instances of non-compliance or other deficiencies in periodic financial reporting will be rectified and/or will not recur in future reports. Such undertakings may, depending on the nature and significance of the non-compliance/deficiency, be either:
 - a. applied prospectively, i.e. whereby amendments are made to future reports without the requirement to restate any previously reported amounts; or
 - b. applied retrospectively, i.e. whereby amendments are required to previously reported amounts in the comparatives in the next financial statements and resultant disclosures are required in accordance with International Accounting Standard ('IAS')⁴⁸ or Financial Reporting Standard ('FRS')⁴⁹ and FRS 18⁵⁰ ;
- ii. agreeing to the voluntary issuing of revised financial information by an issuer's directors e.g. *via* the publication of revised financial statements; and
- iii. invoking the Authority's statutory powers as provided for by the Transparency Regulations and under which the Authority can:

⁴⁶ When reading the 'Correspondence issued' column in the above Table, it is important to note that the fact that issues have been raised with an issuer's directors does not necessarily indicate non-compliance on the part of that issuer with the relevant reporting framework. Rather, as considered necessary, the Authority seeks further information and/or clarification from issuers' directors for the purpose of enabling it to better understand the basis for certain of the directors' accounting judgements in preparing periodic financial reports, including judgements relating to recognition, measurement, classification, presentation and disclosure.

⁴⁷ Anglo's share listing on the ISE's Main Market was cancelled on 21 January, 2009 following the nationalisation of the company. Certain of its debt securities remain listed on the ISE Main Market and, consequently, Anglo remains within the scope of the Regulations.

⁴⁸ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

⁴⁹ FRS 3 *Reporting financial performance*.

⁵⁰ FRS 18 *Accounting policies*.

- a. certify to the High Court an issuer's (or certain other relevant parties') failure to provide requested information and/or explanations; and
- b. in certain circumstances, direct an issuer's directors to prepare and publish a revised periodic financial report, publish notice of that direction and direct the issuer to pay costs incurred by the Authority in examining the report.

In determining the most appropriate manner in which to address matters arising from its reviews the Authority has regard to the circumstances of each case and seeks to pursue a course of action that is proportionate to the underlying matters and their potential impact on the users of the relevant financial report. Accordingly, the Authority will only consider the provision of directors' undertakings in respect of future periodic financial reports to be an appropriate and proportionate response in certain instances. In cases of more significant non-compliance or other deficiency, the Authority will encourage the directors to publish an amended report (i.e. including amended financial statements) in the interests of the users of that report. In circumstances where, having afforded an issuer's directors the opportunity to offer their comments and observations, the Authority considers that the publication of an amended report is the most appropriate corrective action in users' interests and the issuer's directors do not share that analysis, the Authority considers whether it is necessary to take formal enforcement action under the Transparency Regulations.

During the year the Authority continued successfully to secure outcomes that were proportionate and in users' interests. As a result, the Authority completed the year's review activity without having to resort to the exercise of statutory enforcement powers. Whilst the Authority will not hesitate to exercise such powers as and when considered necessary, the Authority continues to hold the view that the current approach, which is considerably less costly and, therefore, more efficient than statutory enforcement actions, should, to the extent practicable, remain the principal means of ensuring high quality statutory financial reporting. The extent to which this approach will continue to be practicable over the coming years will, however, be largely contingent upon issuers' continued willingness to engage positively with the Authority and to take the necessary steps to address adequately issues arising.

Set out in the Table across is a summary of issuers' responses to issues arising from reviews completed during the year.

Table 21: Issuers' responses to matters arising from reviews

Issuer category	No. of reviews where issuers' directors provided undertakings in respect of future periodic financial reports	No. of reviews where issuers' directors agreed to the voluntary publication of amended half-yearly financial reports	No. of reviews where issuers' directors agreed to the voluntary publication of amended annual financial reports	No. of issuers whose directors published non-voluntary amended financial reports
Equity	13	n/a	n/a	n/a
Fund	10	3	n/a	n/a
Debt	10	3	2	n/a
Total	33	6	2	n/a

Details of some of the items in respect of which issuers' directors provided undertakings in respect of future periodic financial reports, together with details of other matters raised with issuers' directors, can be found in section 3 of this Chapter. Readers should also note that the above Table reflects the number of issuers who took remedial action on the basis of Authority activities, rather than the number of individual financial reporting matters arising. For example, in the case of one equity issuer included in the above Table, the directors provided undertakings to effect improvements in future reports in respect of 13 separate matters.

The remainder of this Chapter elaborates on the Authority's financial reporting review activity during the year under the following headings:

- matters arising from the Authority's 2009 reviews, including selected Case Studies (Section 3);
- review activity in respect of the financial reporting of financial institutions and other issuers primarily engaging in financial services (Section 4); and
- activities relating to the enforcement of IFRS across the European Union (Section 5).

3. Matters arising from the Authority's 2009 reviews

3.1 Preface

With a view to providing readers with a flavour of the types of issues that arose during the course of examinations of periodic financial reports during the year, and of the Authority's responses to those issues, the following section sets out a number of Case Studies.

Some of the issues highlighted in the Case Studies that follow arose in the case of specific issuers while others were found to be a feature of two or more issuers' periodic financial reports. Whilst the identities of issuers that were reviewed during the year have been provided earlier in this Chapter, it is not considered necessary for the promotion of public confidence in statutory financial reporting to link these Case Studies to named issuers. However, as indicated in previous reports, the Authority will continue to assess the level of disclosure necessary to achieve its aim of promoting public confidence in statutory financial reporting.

It should be noted that the following Case Studies are, for the purposes of concise reporting, highly summarised and simplified versions of what were, in some cases, protracted engagements with issuers on, often, quite complex issues. Moreover, it is important to note that, for the purposes of illustration, Case Studies may reflect the amalgamation of a number of

similar cases.

3.2 Selected Case Studies

Case Study 1

Related party transactions - inconsistencies in covered institutions' interpretations as to what the term 'Government' includes

Background

In September, 2008, and in the context of the then prevailing turmoil in global financial markets, the Government announced its decision to introduce a Guarantee Scheme under which the Government guaranteed all deposits and other specified liabilities of certain credit institutions operating in Ireland ('covered institutions') until 29 September, 2010.

In October, 2008 the seven covered institutions⁵¹ completed the steps necessary to enable them to participate in the Guarantee Scheme. In January, 2009 Anglo Irish Bank Corporation Limited was taken into State ownership. In the following March, the Government provided recapitalisation funding to Bank of Ireland (in the form of €3.5bn in return for preference stock) and, in May, 2009, the Government similarly provided recapitalisation funding to Allied Irish Banks plc (through an investment of €3.5bn in return for preference shares). As a consequence of these events, the Government is a related party to each of the covered institutions.

Of the seven covered institutions, four come within the Authority's financial reporting supervisory remit (i.e. Allied Irish Banks plc, Anglo Irish Bank Corporation Limited, Bank of Ireland and Irish Life & Permanent plc) by virtue of their listings on the

ISE) ('relevant covered institutions').

Authority's response

Given the significance of these events, the Authority considered it appropriate to examine certain of the relevant covered institutions' periodic financial reports issued subsequent to September, 2008 with a view to assessing those institutions' compliance with the disclosure requirements of IAS 24 *Related Party Disclosures*.

Where there have been transactions with related parties during a reporting period, IAS 24 requires disclosure in the reporting entity's financial statements of the:

- nature of the reporting entity's relationship with related parties;
- the amount of the transactions undertaken with related parties during the reporting period;
- the reporting entity's period end balances with related parties (i.e. details of amounts owed to and/or by related parties); and
- information necessary for an understanding of the potential effects of the related party relationship on the financial statements.

The Authority's examination of relevant covered institutions' periodic financial reports identified inconsistent interpretations amongst those institutions regarding their relationship with Government, with the result that differing levels of disclosures were provided to users of the financial statements.

⁵¹ The institutions covered by the Scheme are:

- (i) Allied Irish Banks, plc. and its subsidiaries AIB Mortgage Bank, AIB Bank (CI) Limited, AIB Group (UK) plc and Allied Irish Banks North America Inc.;
- (ii) Anglo Irish Bank Corporation plc and its subsidiary Anglo Irish Bank Corporation (International) plc;
- (iii) The Governor and Company of the Bank of Ireland and its subsidiaries Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited;
- (iv) EBS Building Society and its subsidiary EBS Mortgage Finance;
- (v) Irish Life & Permanent plc and its subsidiary Irish Permanent (IOM) Limited;
- (vi) Irish Nationwide Building Society and its subsidiary Irish Nationwide (IOM) Limited; and
- (vii) Postbank Ireland Limited.

Whilst all four institutions identified the Government as a related party, either by virtue of the Guarantee or by virtue of recapitalisation, their interpretations as to what the term ‘Government’ constitutes varied as follows:

- i. all Government Departments, Consulates, Embassies, NAMA and the Post Office Savings Bank;
- ii. Government, its Departments and the Semi-State companies;
- iii. Government and other entities owned or sponsored by the Irish Government; and
- iv. Government (without further elaboration as to what this term constitutes).

Inconsistencies, deficiencies and other matters observed in the disclosures provided included:

- i. a failure to define adequately the term ‘Government’, with a consequent absence of disclosures regarding transactions and balances with Government entities;
- ii. an inconsistency of approach at individual institution level, e.g. it was observed that one institution considered all other covered institutions to be related parties while, in a subsequent report, the same institution took a contrary view;
- iii. the identification of the Minister for Finance and the National Pensions Reserve Fund Commission (‘NPRFC’) as related parties by virtue of the recapitalisation of an institution;
- iv. the provision of a disclosure to the effect that, although the Government is a related party, the directors considered it impracticable to disclose

the amount of transactions with Government due to the volume and diversity of such transactions; and

- v. disclosure of the existence of transactions with State bodies without the provision of details as to the amount of such transactions.

Outcome

In view of the range of interpretations observed and the resultant inconsistency in the information provided to users (both across institutions and at institution level over time), the Authority corresponded with the relevant covered institutions’ directors with a view to obtaining a better understanding of their respective rationales.

That engagement resulted in the Authority receiving undertakings from certain of those institutions in respect of their future periodic financial reports, such undertakings being in the nature of commitments to provide additional and enhanced disclosures in respect of related party transactions and balances with Government in future reporting periods.

In view of the foregoing, this is a topic that is likely to be revisited by the Authority in the context of its 2010 financial reporting review activities.

Case Study 2 Failure to prepare consolidated financial statements

Background

The debt issuer, a parent company, owning 100% of the share capital of a subsidiary, did not prepare a set of consolidated financial statements for the group. The Authority considered the argument that it was exempt from publishing consolidated financial statements on the basis that:

- the impact of not consolidating the only

subsidiary was not material, based on the percentage of the investment in the subsidiary over total assets; and

- it disclosed within the financial statements its ultimate parent company and the smallest/largest group in which it was consolidated.

Required accounting treatment

IAS 27 *Consolidated and Separate Financial Statements* requires, subject to certain exemptions, a parent company to prepare consolidated financial statements in which all subsidiaries are consolidated.

Outcome

Based on information provided by the issuer, consolidation of the investment in the subsidiary would have increased total equity and profit before tax by a significant proportion. Materiality requires an assessment of both the qualitative and quantitative aspects of the item, including consideration of both the size and nature of an item, judged in the surrounding circumstances.

The Authority did not accept the issuer's rationale that the impact on the financial statements (i.e. of not consolidating) was not material. Also, given that the issuer's securities had been admitted to trading on a public market, the issuer did not meet the criteria necessary to avail of the exemption from the requirement to prepare consolidated annual financial statements. Following correspondence with the issuer, the directors agreed with the Authority's assessment and prepared and published consolidated annual financial statements in accordance with the requirements of IAS 27. The directors also undertook to prepare consolidated financial statements for future reporting periods.

Case Study 3

Failure to provide various disclosures (including disclosures relating to financial instruments)

Background

The debt issuer presented its financial statements in accordance with Irish GAAP. Upon examination, several apparent instances of non-compliance with applicable accounting standards were identified in the issuer's financial statements, involving varying degrees of non-compliance. The principal accounting issues upon which the Authority corresponded with the issuer included, but were not limited to:

- the apparent omission of disclosures required by FRS 29 (*IFRS 7*) *Financial instruments: disclosures*;
- the apparent omission of selected accounting policy disclosures;
- clarification being considered necessary following an examination of the classification and presentation of selected items within the primary statements (Balance Sheet and Cash Flow Statement); and
- the apparent omission of disclosures required following reclassifications of selected comparative amounts.

Required accounting treatment

The objective of FRS 29 is to ensure that issuers provide disclosures in financial statements that enable users to evaluate the significance of financial instruments in the context of the reporting entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed, including how the entity manages those risks.

Outcome

An examination of the financial statements identified

that a number of disclosures required by FRS 29 had been omitted including, but not limited to, details of the following:

- the methods applied in determining fair values;
- the amount best representing the issuer's maximum exposure to credit risk; and
- details of the issuer's concentration risk⁵².

Furthermore, following correspondence with the Authority, the issuer acknowledged that several errors had occurred in the preparation of the financial statements.

Based on the findings of the review, the Authority concluded that the issuer had failed to comply in full with the requirements of FRS 29 as well as with a number of other accounting standards. As a consequence of the Authority's correspondence with the issuer, the directors prepared and published revised annual financial statements.

Case Study 4 **Failure to properly account for gains and losses on foreign currency translation**

Background

The issuer, a closed ended fund, included a note in its financial statements to the effect that the presentation currency of the financial statements was sterling, while the functional currency was euro. Foreign exchange gains and losses arising on translation from euro to sterling for the purposes of the compilation of the financial statements were recognised in the Income Statement.

Required accounting treatment

IAS 21 *The Effects of Changes in Foreign Exchange Rates* provides that an issuer may present its financial

statements in any currency ('presentation currency'). However, if the presentation currency differs from the functional currency (i.e. the currency of the primary economic environment in which it operates), the Standard requires that the financial statements, as prepared in the functional currency, must be translated into the presentation currency in accordance with the following procedure:

- assets and liabilities shall be translated at the closing rate of exchange (i.e. at the reporting date);
- income and expenses shall be translated at exchange rates at the dates of the transactions (i.e. at exchange rates throughout the year); and
- any resulting exchange differences shall be recognised as a separate component of equity (i.e. they shall not be recognised in the Income Statement).

Outcome

Having queried the issuer's accounting treatment of foreign currency exchange, the Authority concluded that the treatment did not comply with the requirements of IAS 21 in that the foreign exchange difference should not have been recognised in the Income Statement. Following correspondence on the matter, the issuer amended its treatment of this item in its subsequent financial statements. The restatement of the comparative amount resulted in a material increase in the reported loss for the comparative period.

Case Study 5 **Presentation of items outside 'Operating profit'**

Background

The equity issuer presented, on the face of its Income

⁵² Concentration risk refers to the extent to which the reporting entity is reliant on a particular class of investment for returns or liquidity, or reliant on a limited number of sources of finance/counterparties for funding.

Statement, a subtotal entitled 'Operating profit', below which a large expense item was presented, followed by finance income and expenses and the issuer's share of associates' profits. The sum of the above figures reconciled to 'Profit or loss for the period'. The Authority queried the nature of the large expense and, specifically, whether it was appropriate to classify it outside 'Operating profit'.

Required accounting treatment

Whilst IFRS neither requires nor precludes the disclosure of a subtotal of the results of operating activities on the face of the Income Statement (such as, for example, 'Operating profit'), IAS 1 *Presentation of Financial Statements* states that, where an issuer discloses such an amount, any such amount should be representative of activities that would normally be considered to be 'operating' in nature. The Standard further states that it would be misleading and would impair comparability if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice.

Outcome

Given the prominence of a line item entitled 'Operating profit' on the face of an issuer's Income Statement and the focus placed on such a measure of performance by users of financial statements, the Authority queried the presentation of this item outside 'Operating profit'. Specifically, the nature of the abovementioned expense was queried, i.e. with a view to ascertaining whether it was operating in nature.

Having considered the rationale put forward by the issuer's directors for the accounting treatment set out above, it was concluded that the accounting treatment adopted was not in compliance with the requirements of IAS 1. This conclusion was based on the assessment that the costs concerned, whilst exceptional in nature and therefore meriting separate disclosure, arose from the issuer's operating activities.

Following correspondence with the issuer, the directors undertook to amend the classification and presentation of the item concerned in future financial reports and in the comparative amounts in respect of the period reviewed.

Case Study 6

Related party transactions – failure to provide required information in respect of the compensation of key management personnel

Background

The notes to the equity issuer's financial statements stated that key management personnel comprised of the executive team reporting to the Board and disclosed a single aggregated remuneration amount. It was further stated that the majority of this amount comprised short term employee benefits. No further analysis was provided.

Required accounting treatment

IAS 24 *Related Party Disclosures* 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*'. The Standard requires that key management personnel's compensation be both (i) disclosed in total; and (ii) analysed under various headings (i.e. short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payments).

The materiality threshold for related party disclosures is not determined solely by quantitative comparison to primary statement totals, but, rather, is dependent on the size and nature of the transaction, judged in the particular circumstances of its omission or misstatement. In particular, information provided for stewardship and accountability purposes, such as disclosures of directors' remuneration and other related party disclosures are usually assessed primarily

on the basis of qualitative considerations. Thus, while such amounts may be relatively insignificant in comparison with the overall results of the entity, they may, nonetheless, be highly qualitatively material to a user seeking to assess the performance of management and the appropriateness of their continued stewardship of the issuer.

Outcome

Following correspondence with the issuer, the directors undertook to provide the required information in subsequent reports. As a result, the issuer's report in respect of the subsequent period provided details of:

- both executive and non-executive directors' remuneration; and
- share based payments to key management personnel.

Total remuneration was further analysed between basic salaries and bonuses, pension contributions, share based compensation expenses and executive directors' fees and expenses. The comparative amounts for the prior year were restated accordingly.

As a consequence, disclosed total remuneration of key management personnel was restated to include remuneration to all members of key management personnel, including executive directors. As a result, the reported remuneration increased by approximately 200%.

Case Study 7

Omission of segment disclosures in half-yearly financial reports

Background

The issuer, a closed-ended fund, invested directly and indirectly through other funds in emerging markets. The interim financial statements provided none of the disclosures required by IFRS 8 *Operating*

Segments and, accordingly, it was not readily apparent as to whether the issuer had adopted IFRS 8 for the period.

Required accounting treatment

IFRS 8 specifies how an entity should report information about its operating segments in annual financial statements and IAS 34 *Interim Financial Reporting* outlines the consequential information required for half-yearly financial reports. Furthermore, entity-wide disclosures concerning revenue derived from product and services, geographical information and selected information about major customers is required to be reported by all entities subject to IFRS 8 including those entities that have a single reportable segment.

In reviewing the financial statements, the Authority considered the following:

- the issuer's Board of directors is charged with the overall governance of the issuer in accordance with the issuer's bye laws and the prospectus, and changes to the investment strategy outside the prospectus must be approved by the Board and by the shareholders;
- the fund manager is responsible for decisions in relation to resource allocation, asset allocation and the delegation of any investment decisions to any sub-fund managers; and
- the issuer operates a single operating segment, being the investing of resources – directly or indirectly – in entities exposed to emerging markets, with all investment resources being managed at issuer level.

Outcome

The issuer accepted the Authority's assessment that IFRS 8 applied and provided undertakings to the Authority to comply in full with IFRS 8 in future periodic financial statements, i.e. to provide the

minimum entity-wide disclosures applicable to an entity subject to IFRS 8 with a single reportable segment.

3.3 Summary of certain other issues arising from reviews conducted during the year

In addition to the matters detailed in the preceding Case Studies, the following are some of the matters in respect of which issuers' directors provided undertakings to the Authority in respect of future periodic financial reports.

Table 22: Issues arising from reviews conducted

Summary of matters arising	Outcomes
<p>Financial instruments disclosures</p> <p>Requirements IFRS 7 <i>Financial Instruments: Disclosures</i>⁵³ requires issuers' financial reports to include disclosures of the categories of assets and liabilities held (as defined by IAS 32 <i>Financial Instruments: Presentation</i>⁵⁴) and disclosure of entities' objectives, policies and procedures for the measurement and management of risks (in qualitative and quantitative terms). Such disclosures should be based on information provided to key management personnel. It should also be user-specific and should not obscure important information.</p> <p>Findings The Authority's examinations identified varying degrees of non-compliance with these requirements. The Authority has noted that instances of non-compliance have been observed more frequently amongst fund and debt issuers as compared to equity issuers.</p>	<p>The nature of undertakings provided by issuers' directors for the purpose of enhancing future periodic financial reports included undertakings to provide enhanced disclosures regarding:</p> <ul style="list-style-type: none"> ■ exposure to concentration risk (both assets and funding); ■ counterparty risk; ■ credit risk and credit quality; ■ collateral received and pledged as security; ■ liquidity risk; and ■ sensitivity analysis.
<p>Fair value of financial instruments (including the use of valuation techniques)</p> <p>Requirements IAS 39 <i>Financial Instruments: Recognition and Measurement</i>⁵⁵ sets out how issuers should determine the 'fair value' of financial instruments (i.e. financial assets and liabilities). IFRS 7 sets out the information issuers are required to disclose in their periodic financial reports.</p> <p>Findings The Authority has noted an increase in the use of valuation techniques applied in determining the fair value of financial instruments recognised in issuers' periodic financial reports. In addition, issuers (and, in particular, debt issuers) have employed a range of formulations to describe the approach to valuing financial instruments, such as the use of 'arranger prices', 'third party prices' and 'broker prices'.</p> <p>The illiquidity in markets for financial instruments has focussed attention on the sources of fair values and, in particular, the basis for the determination of fair values which may include the use of valuation techniques (based wholly or partly on unobservable inputs).</p> <p>The determination of fair values and, in particular, those based on valuation techniques can be impacted significantly by judgements exercised by the directors (e.g. regarding the assumptions and techniques used), which are specific to the circumstances of the individual issuer and specific to a point in time.</p>	<p>The nature of undertakings obtained from issuers' directors included undertakings to effect improvements in the following areas:</p> <ul style="list-style-type: none"> ■ providing enhanced descriptions as to how issuers have determined fair value, e.g. based on quoted bid/ask price, recent transactions in the same instrument, transactions in a similar instrument (adjusted price), prices based on discounted cash flows, or other valuation techniques; ■ providing enhanced descriptions of the principal valuation techniques used; and ■ providing greater elaboration in respect of the significant assumptions underlying each valuation technique. <p>Where considered relevant and significant to the valuation technique being applied, issuers, and, in particular, debt issuers, were requested to include the following disclosures in future periodic financial statements:</p> <ul style="list-style-type: none"> ■ interest rates; ■ credit spreads; ■ cash flow estimates; ■ discount rates; ■ probability of default; and ■ volatility rates.

⁵³ FRS 29 (*IFRS 7 Financial Instruments: Disclosures*) is the equivalent Irish GAAP pronouncement.

⁵⁴ FRS 25 is the equivalent Irish GAAP pronouncement.

⁵⁵ FRS 26 (*IAS 39 Financial Instruments: Recognition and Measurement*) is the equivalent Irish GAAP pronouncement.

Summary of matters arising	Outcomes
<p>Related party disclosures</p> <p>Requirements IAS 24⁵⁶, company law and the Transparency Rules require disclosure of certain related party information.</p> <p>Findings The Authority's review activities identified, amongst others, the following examples of non-compliance with the relevant requirements:</p> <ul style="list-style-type: none"> ■ omission of related party notes entirely from financial reports. In particular, the interim financial reports of fund and debt issuers were observed to have omitted such detail; ■ failure to comprehensively identify related parties, including directors, service providers, material shareholders, and individuals connected with affiliated companies with whom the issuer had transactions; and ■ instances where, although related parties were identified, the nature of the related party relationship, the amount of transactions with those related parties and/or the amounts outstanding at the reporting date were not disclosed. 	<p>Undertakings were provided by a range of issuers as a consequence of interactions with the Authority to remedy deficiencies identified. These undertakings included, amongst others, undertakings to restate previously reported amounts in respect of key management personnel remuneration in future financial statements.</p>
<p>Explanatory notes</p> <p>Requirements IAS 1, IAS 34 and the ASB's Statement on Half-yearly Financial Reports ('the ASB Statement') require that issuers' financial reports include information that is relevant to an understanding of entities' financial position and financial performance.</p> <p>Findings Significant deficiencies in the level of compliance with the above requirements were identified during the course of the Authority's reviews.</p>	<p>As a consequence of the Authority's examination of issuers' half-yearly financial reports, the following are examples of instances of non-compliance with accounting standards in respect of which issuers' directors undertook to improve future half-yearly reports:</p> <ul style="list-style-type: none"> ■ omission of relevant explanatory notes and disclosures expected where significant movements on items presented on the balance sheet occurred during the six-month period; ■ absence of reference to the fact that a significant amount of an issuer's liabilities/funding fell due to be repaid during the next 12 months despite the issuer's stated ability to maintain a similar level of activity as reported in the Directors' Report accompanying the half-yearly financial report; ■ failure to disclose an accounting policy regarding financial instruments recognised in the half-yearly report, e.g. derivatives, hedging policy etc.; ■ the half-yearly financial report of selected debt issuers noted 'credit events' both in prior period financial reports and during the current half-yearly period. However, notwithstanding that the issuers had written credit protection potentially exposing the issuers to defined loss events, it was not readily apparent that the half-yearly financial reports complied in full with the requirements of IAS 10 <i>Events after the Reporting Period</i>⁵⁷; ■ in many instances it was not apparent as to whether selected issuers' half-yearly reports were intended to be a full set of financial statements, and thereby subject to the requirement to comply with full IFRS/FRS, or, alternatively, whether reports were intended to constitute condensed reports, which require to be prepared in compliance with IAS 34 or the ASB Statement.

⁵⁶ FRS 8 *Related Party Disclosures* is the equivalent Irish GAAP pronouncement.

⁵⁷ FRS 21 *Events After the Balance Sheet Date* is the equivalent Irish GAAP pronouncement.

Summary of matters arising	Outcomes
	<p>In addition, instances were noted in which it was not apparent as to whether:</p> <ul style="list-style-type: none"> ■ the same accounting policies had been applied in half-yearly financial reports as had been applied in the last annual financial statements; ■ any new accounting policies had been applied during the six month period; ■ a description of the changes in accounting policies had been disclosed; ■ the reasons for a change in accounting policy were disclosed; ■ when new accounting standards had been issued, but were not yet effective, whether a description of the impact on future financial reports had been provided; and ■ the comparative data presented in the Income Statement, Statement of Changes in Equity and the Cash Flow Statement had been presented for the correct comparative period. This was more prevalent in the case of fund and debt issuers.
<p>Offsetting of assets and liabilities</p> <p>Requirements A financial asset and financial liability, or income and expense should not be offset unless required or permitted by IFRS⁵⁸, except in circumstances where offsetting reflects the substance of the transaction. Offsetting detracts from the ability of users of financial reports to understand transactions and to assess future cash flows.</p> <p>Findings During the course of a review of a debt issuer's financial statements, the Authority identified that the issuer had disclosed within the explanatory notes, selected financial assets and financial liabilities gross. However, on the face of the Balance Sheet both current and comparative amounts were presented net.</p>	<p>Following correspondence with the issuer, the Authority obtained an undertaking from the directors that they would, in future reports, present the financial instruments in question gross on the Balance Sheet (and disclose the reason for the change in the presentation).</p>
<p>Hedge accounting</p> <p>Requirements IAS 39 specifies the accounting treatment to be applied in respect of cash flow hedges and fair value hedges in financial statements. IAS 39 specifies the conditions that must all be met in order for a hedging relationship to qualify for hedge accounting. Failure to meet these conditions could potentially have a major impact on the timing of the recognition of gains and losses and thus on the reported profit or loss of an issuer. IFRS 7 requires reporting entities to disclose information on the impact of certain hedging transactions.</p> <p>Findings Instances of non-compliance with the required accounting treatment, and particularly related disclosures, were identified in a number of cases subject to review by the Authority during the year.</p>	<p>As part of its review activity, the Authority sought additional explanations from issuers' directors regarding the use of hedge accounting – up to and including requesting the production of hedge documentation for a more detailed examination.</p> <p>As a result of the Authority's review activity, a number of issuers undertook to improve their standard of compliance with the disclosure requirements of paragraphs 22 to 24 of IFRS 7.</p> <p>An undertaking was secured from one issuer's directors to the effect that the periods when cash flows are expected to occur and when they are expected to affect profit or loss would be provided for users' benefit in future reports.</p> <p>Another issuer's directors undertook to disclose separately the ineffectiveness recognised in profit or loss that arises from cash flow hedges.</p>

⁵⁸ Paragraph 32 of IAS 1 *Presentation of Financial Statements* and paragraph 42 of IAS 32/FRS 25 refer.

Summary of matters arising	Outcomes
<p>Events after the reporting period</p> <p>Requirements IAS 10 requires the disclosure of the nature of non-adjusting events after the reporting period and their potential impact on the financial reports.</p> <p>Findings Examination of issuers' financial reports identified instances in which the disclosure of material non-adjusting events as required by IAS 10 had not been provided.</p>	<p>Undertakings obtained from issuers related to the disclosure in future financial reports of the nature of non-adjusting events after the reporting period and their potential impact on the financial reports (e.g. in the case of debt issuers, credit events impacting debt issued by the issuer and indicators of impairment on assets arising after the reporting date).</p>
<p>Reclassifications</p> <p>Requirements IAS 1 provides that specified information shall be provided in instances where comparative amounts are reclassified.</p> <p>Findings During the year, the Authority noted that a number of issuers' financial reports indicated that certain comparative data presented in either the primary statements and/or in the explanatory notes had been restated without providing an explanation of the particular circumstances that in the directors' judgement necessitated the restatement and/or lacked details of the amounts or class of line items affected.</p>	<p>The Authority received undertakings from issuers' directors to enhance disclosures in future financial reports relating to changes in the presentation or classification of items in the financial reports.</p>
<p>Statements of Cash Flows</p> <p>Requirements IAS 7⁵⁹ sets out the requirements for the presentation of Cash Flow Statements.</p> <p>Findings Instances of non-compliance with the requirements of the above Standard were identified from the Authority reviews.</p>	<p>Undertakings were obtained from issuers' directors relating to:</p> <ul style="list-style-type: none"> ■ the presentation of comparative information in future Cash Flow Statements; ■ the reporting of the impact of unrealised gains/losses arising from changes in exchange rates; and ■ the basis for the aggregation or netting of cash flows within Cash Flow Statements.
<p>Classification and presentation of assets and liabilities (as either current or non-current)</p> <p>Requirements In determining whether to classify financial instruments (assets and liabilities) as current or non-current, issuers' directors should have regard to the criteria described in paragraphs 66 to 76 of IAS 1. Assets that are expected to be realised within twelve months after the reporting date, sold, consumed, held for trading, or, are otherwise effectively unrestricted cash or cash equivalents are classified as current assets. All other assets should be classified as non-current. Similar criteria apply to the classification of current/non-current liabilities (paragraphs 69 to 76 of IAS 1 refer).</p> <p>Findings Instances were identified from reviews undertaken during the year where financial statements failed to provide sufficient information or failed to properly classify assets and liabilities.</p>	<p>Issuers' directors provided undertakings to enhance the quality of future periodic financial reports by giving increased levels of consideration to the classification and presentation of financial instruments and, where necessary, reclassifying comparative amounts and providing appropriate disclosures.</p>

⁵⁹ FRS 1 *Cash Flow Statements* is the equivalent Irish GAAP pronouncement.

Summary of matters arising	Outcomes
<p>Judgements, significant assumptions and key sources of uncertainty</p> <p>Requirements In preparing financial reports, judgements are made by directors that can have a significant effect on the amounts recognised in the financial statements (paragraph 122 of IAS 1 refers). Furthermore, paragraph 125 requires issuers to disclose information about the assumptions and other key sources of uncertainty that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year.</p> <p>Findings The Authority identified instances in which disclosures regarding areas involving a high degree of judgement or complexity and where assumptions or estimates are significant to the amounts recognised in the financial reports could be enhanced in users' interests.</p>	<p>In response to its engagement with relevant issuers' directors, the Authority has obtained undertakings from issuers to enhance the quality of future reports by improving disclosures in areas involving a high degree of judgement or complexity and where assumptions or estimates are significant to the amounts recognised in the financial reports. Specific areas in respect of which undertakings were obtained included:</p> <ul style="list-style-type: none"> ■ uncertainties and judgements concerning the valuation of investments; ■ impairment of goodwill; ■ the classification and presentation of investments (e.g. at fair value through profit or loss or available for sale); ■ the consolidation or non-consolidation of investment in subsidiaries or Special Purpose Entities; ■ accounting for defined benefit pension obligations; and ■ accounting for provisions and intangible assets.
<p>Management/Directors' Report</p> <p>Requirements Management Reports/Directors' Reports are required by section 13 of the Companies (Amendment) Act, 1986 and Regulations 4 to 8 of the Transparency Regulations to present a 'fair review' of the period and to be a 'balanced and comprehensive' analysis of the period.</p> <p>Findings Certain issuers were noted to have failed to provide a comprehensive analysis of the period in their Management Reports/Directors' Reports. It was further noted that certain issuers omitted Responsibility Statements from their periodic reports – such Statements being a requirement under Regulation 3(c).</p>	<p>Undertakings were obtained from issuers to:</p> <ul style="list-style-type: none"> ■ enhance the information to be provided in such reports in future periods; and ■ to include Responsibility Statements in future reports.
<p>Retirement benefit obligations</p> <p>Requirements IAS 19 <i>Employee Benefits</i> requires disclosure of a narrative description of the basis used to determine the overall expected return on plan assets, including the effect of the major categories of plan assets.</p> <p>Findings A number of equity issuers were noted to have omitted to provide the required disclosures.</p>	<p>Issuers undertook to enhance the narrative disclosure of the basis used to determine the overall expected return on plan assets, including the effect of the major categories of plan assets (paragraph 120A(l) of IAS 19 refers).</p>
<p>Key performance indicators ('KPIs')</p> <p>Requirements Transparency Rule 6.1⁶⁰ requires the inclusion in annual financial reports of a fair review of the development, performance and position of the business using key performance indicators, both financial and non-financial.</p> <p>Findings A significant number of issuers were noted as having provided non-GAAP performance measures which were not clearly defined, and, where amounts used to calculate such KPIs had been adjusted from those shown in the financial statements, without provision of reconciliations to aid users' understanding.</p>	<p>The Authority continues to encourage issuers using such KPIs to ensure that such measures are clearly explained, and where amounts used to calculate such KPIs have been adjusted from those shown in the financial statements, to provide reconciliations necessary to aid users' understanding.</p>

⁶⁰ Section 13 of the Companies (Amendment) Act 1986 contains a similar requirement in relation to the information to be included in the Directors' Report.

4. Review activity in respect of the financial reporting of financial institutions and other issuers primarily engaging in financial services

4.1 Background and associated risk considerations

Consequent to the global financial crisis precipitated by the sub-prime crisis in the US, the subsequent collapse of Lehman Brothers and the failure of Icelandic banks, the financial reporting risks attaching to financial institutions and other issuers primarily engaging in financial services have increased significantly in recent times.

These global factors impacted significantly on Irish financial services issuers and were accompanied by a number of domestic factors, including a slowdown in domestic economic activity, a fall in property values and the deterioration of the public finances. As a response to this combination of events, the Government introduced the Guarantee Scheme, appointed public interest directors to the Boards of certain institutions, nationalised Anglo Irish Bank Corporation Limited ('Anglo')⁶¹, introduced capital into Allied Irish Banks plc ('AIB') and The Governor and Company of the Bank of Ireland ('BoI') and enacted legislation during 2009 for the purpose of establishing the National Asset Management Agency ('NAMA').

Moreover, these general economic factors, combined with a number of issuer specific matters - most significantly those in respect of Anglo - have had the effect of elevating public concern and heightening the risks associated with the financial reporting practices of certain Irish financial institutions. As a result, and in accordance with its risk-based selection process, the financial reporting of financial institutions and other issuers primarily engaging in financial services became a significant focus for the financial reporting

supervision activities of the Authority during 2009.

The remainder of this section summarises the Authority's response to the aforementioned heightened risks. Specifically:

- three financial reporting issues which required consideration arising from information about certain transactions and events which came into the public domain regarding Anglo and Irish Life & Permanent plc ('IL&P') are considered; and
- the Authority's financial reporting review activities in respect of other financial reporting matters relevant to the main domestic financial institutions within remit (namely, AIB, Anglo, BoI and IL&P)⁶² and other issuers principally engaging in financial services are outlined.

Whilst the Authority's enquiries in respect of certain matters were ongoing at year end, the following aims to provide readers with a broad understanding of the Authority's approach to the matters arising.

4.2 Specific matters of relevance to Anglo and IL&P

In December, 2008 and February, 2009 respectively, information concerning certain transactions and events at Anglo, some of which having occurred over a number of years, came into the public domain. Certain of these transactions also involved IL&P. These transactions and events, which include significant corporate governance, company law and financial reporting dimensions, attracted significant regulatory attention during 2009. As a consequence, these transactions are currently the subject of a number of investigations, including investigations initiated by An Garda Síochána, the Financial Regulator and the Office of the Director of Corporate Enforcement as well as having given rise to the appointment of a Special Investigator by

⁶¹ Anglo Irish Bank Corporation plc re-registered as a private company following its nationalisation in January, 2009.

⁶² Readers may find it useful to note that the Educational Building Society and the Irish Nationwide Building Society are outside the scope of the Authority's financial reporting supervisory remit.

the ICAI's Complaints Committee (see Chapter 3, section 5 for further details on the latter).

Having regard to its statutory remit and functions, the focus of the Authority has been on any implications that these transactions and events may have had for the statutory financial reporting of the issuers concerned and, specifically, on whether the transactions and events concerned have been appropriately recognised, measured, presented and disclosed in the affected issuers' relevant periodic financial reports.

In that regard, the accounting components of the following transactions and events were examined by the Authority during the year:

- i. inter-institutional transactions between Anglo and IL&P around each institution's reporting dates;
- ii. the temporary refinancing of certain Anglo loans with Irish Nationwide Building Society at certain of Anglo's reporting dates; and
- iii. the advancing of loans by Anglo to certain customers and directors, where the security consisted of shares in the company.

In addition to its examination of the above transactions and events, the Authority also engaged with Anglo and IL&P in respect of certain other financial reporting matters common across the domestic financial institutions. Sections 4.7 to 4.11 provide a more detailed discussion of these issues.

The relevant periodic financial reports which became the particular focus of attention in the Authority's examinations of these matters were as follows:

- Anglo's half-yearly financial report for the six months ended 31 March, 2008 ('Anglo's 2008 HY Report'), which was published on 7 May, 2008;

- Anglo's annual financial report for the year ended 30 September, 2008 ('Anglo's 2008 FY Report'), which was published on 20 February, 2009; and
- IL&P's half-yearly financial report for the six months ended 30 June, 2008 ('IL&P's 2008 HY Report'), which was published on 27 August, 2008.

As the Authority's remit over issuers' financial reporting extends only to periodic financial reports for financial years commencing on or after 20 January, 2007, the annual and half-yearly financial reports of Anglo and IL&P in respect of 2007 and earlier do not come within the Authority's scope and, accordingly, the Authority has no statutory entitlement to seek information in respect of same.

4.3 Inter-institutional transactions

In February, 2009 both Anglo and IL&P made public disclosures setting out the details of certain transactions between the two institutions which occurred across each institution's reporting dates as follows:

- on 31 March, 2008 IL&P, through its non-bank subsidiary Irish Life Assurance plc ('ILA'), deposited €750m with Anglo overnight on receipt of €1bn by Permanent TSB from Anglo;
- at 30 June, 2008 Anglo provided approximately €3.4bn in interbank deposits to IL&P through a security repurchase agreement. IL&P's total outstanding amount for security repurchase agreements at that date was €7.73bn;
- during September, 2008 IL&P, through its non-bank subsidiary ILA, deposited a total of €3.45bn with Anglo, with Anglo placing a corresponding €3.45bn with Permanent TSB. These transactions matured in early October, 2008; and

- on 30 September, 2008 IL&P, through its non-bank subsidiary ILA, deposited a total of €4bn with Anglo overnight on receipt of €4 billion into Permanent TSB. These transactions matured on 1 October, 2008.

The principal accounting issues which required consideration in respect of these transactions related to presentation and disclosure and, in particular, as to whether, in accordance with relevant accounting pronouncements:

- each placement and corresponding deposit should have been presented separately as assets and liabilities respectively ('gross presentation') in the relevant institutions' Balance Sheets or whether the asset and liability should have been set-off against each other with any residual balance presented as a single asset or liability as appropriate ('net presentation');
- the amounts received and placed (and, in particular, amounts received by Anglo from ILA) were classified and presented as funding from either a bank or customer counterparty as appropriate;
- the disclosure of the details of the transactions in Anglo's and IL&P's 2008 HY and FY Reports was sufficient to provide users with an understanding of the impact of the transactions on the entity; and
- there were any further transactions of a similar nature with the same or other counterparties, which should have been disclosed either in respect of the current year, or the comparative period.

For the purposes of evaluating the accounting treatment applied to these transactions by Anglo in its 2008 HY and FY Reports, the following information was requested from Anglo's directors during the year:

- i. copies of agreements, contracts, term sheets and similar documentation pertaining to the transactions with IL&P;
- ii. details of the cash flows pertaining to these transactions and, in particular, the sequence of each individual cash flow movement;
- iii. an explanation as to the commercial and/or other rationale for these transactions in that particular form and at that particular time;
- iv. in the context of Anglo stating that it had sought these funds from IL&P against the background of a global liquidity crisis and the mutual provision of support, an explanation as to how, in the directors' assessment, these transactions assisted Anglo with its liquidity and/or other objectives;
- v. confirmation as to whether Anglo had requested that a deposit be placed with it *via* a non-bank affiliate of IL&P;
- vi. details as to how the transactions were settled, with an explanation of the cash flows arising (together with a request for any documentary records of the request from IL&P that the transactions be settled net); and
- vii. details as to whether any transactions which could be considered analogous to those referred to above had been entered into at, or around, the year end of 30 September, 2007 (i.e. in the context of the comparative amounts in the Report), and if so, full details of any such transactions.

In addition to requesting information, explanations and clarifications from the directors, given that Anglo is regulated by the Financial Regulator, the Authority also engaged with the Financial Regulator on these matters during the year. Specifically, the Authority made a number of information requests to the

Financial Regulator for the purpose of establishing whether any information in the Regulator's possession might have a bearing on the Authority's consideration of the financial reporting issues under review. At year end, the Authority was in ongoing communication with the Financial Regulator with a view to concluding consideration of these matters as expeditiously as possible.

In respect of IL&P's 2008 HY Report, IL&P's directors were requested to provide information and clarifications concerning the accounting treatment of the relevant transactions at 30 June, 2008, including details of the following:

- i. the component parts of the asset and liability of €7.73bn;
- ii. the counterparties in respect of each component transaction;
- iii. the term, maturity dates, and security provided in respect of each component transaction;
- iv. the rationale for each component transaction;
- v. the accounting treatment adopted, including details of the Balance Sheet line items in which each component was included;
- vi. details of any additional transactions with the same counterparties, or of similar value, duration or maturity;
- vii. the accounting treatment adopted in respect of significant transactions, including those of short term duration, undertaken near to the reporting date; and
- viii. the nature of any significant transactions which reversed in the days/weeks following the reporting date, including the rationale for entering into such transactions in the first

instance.

As a result of the Authority's enquiries, IL&P's directors have undertaken to enhance future half-yearly reports by providing disclosures in respect of inter-institution transactions in those half-yearly reports similar to those provided in their annual financial reports.

It is important to note that the Authority's consideration of these matters was limited to an examination of the relevant issuers' annual and half-yearly financial reports and did not extend to an examination of those issuers' preliminary announcements, over which the Authority has no statutory remit. Consequently, while circumstances may arise from time to time in which public confidence in the quality and reliability of statutory financial reporting may sustain damage as a result of actual or perceived deficiencies in preliminary announcements, the Authority has no statutory authority to make enquiries of directors regarding such announcements or to take enforcement action in respect of same.

4.4 Temporary refinancing of loans

In December, 2008 Anglo announced that the, then, Chairman and another director had resigned from the Board arising from the fact that, over a period of up to eight years to 2007, loans which they had obtained from Anglo had been temporarily transferred to another financial institution prior to Anglo's financial year end date, which Anglo noted was, from a transparency point of view, inappropriate.

The principal financial reporting issue which required consideration in this context related to whether the financial statements contained the disclosures required by IAS 24 *Related party disclosures* concerning the nature of the transactions and balances, together with details of their amounts, terms and conditions, security and guarantees given or received, provisions

and expenses for doubtful debts, as well as the required company law disclosures.

On publication of Anglo's 2008 FY Report (as detailed above, the Authority has no remit over issuers' preliminary announcements), the Authority conducted an examination of the directors' accounting treatment of transactions with key management personnel, and in particular in respect of directors' loans. That examination, which was also informed by certain information received from the Financial Regulator, concluded that the 2008 FY Report provided the required information regarding loans advanced to, and loan repayments received from, key management personnel, including directors as well as comparative amounts in respect of 2007. That report also provided further details regarding the nature of the transactions and period end balances. On that basis, the examination led to the conclusion that, in all material respects, the information required by IFRS had been provided in that report.

The Authority further queried Anglo's directors regarding the HY 2008 Report. As a result, the directors undertook to provide detailed related party disclosures (including comparative amounts) in respect of matters that had not been included in the previous half-yearly financial report, including the disclosure that, as at 31 March, 2008, loans outstanding to the former Chairman stood at €119.8m. These undertakings resulted in Anglo's half-yearly financial report for the six months ended 31 March, 2009 providing information in respect of related parties in a form and level of detail consistent with that provided in its 2008 FY Report.

While the 2008 FY Report contained, in all material respects, the disclosures required by IFRS, it should be noted that there remains a question, from a financial reporting perspective, as to whether the non-disclosure of these transactions in the financial reporting periods to 30 September, 2007 and

previously, represent non-compliance with the, then, applicable financial reporting standards. However, as outlined earlier, given that these periodic financial reports do not come within the Authority's statutory financial reporting supervisory remit, the Authority is not empowered to make enquiries of the directors in respect of those reports, nor in respect of any earlier version of the 2008 FY Report which was not made public pursuant to the requirements of the Transparency Regulations.

4.5 Loans secured on Anglo shares

Anglo's FY 2008 Report disclosed that loans had been extended to a number of Anglo's customers (the so-called 'Maple 10' loans), with the security for such loans consisting of shares in the bank. That Report further disclosed, as a non-adjusting post balance sheet event, that the impairment charge for the six months ending 31 March, 2009 would include a charge in respect of losses incurred on lending where the security consisted of shares in Anglo as, following the nationalisation of Anglo on 21 January, 2009, the value of collateral held against such loans had been significantly reduced.

The principal accounting issue requiring consideration in respect of this matter related to whether an impairment charge should have been recognised in the 2008 FY Report. In that regard, the following information was requested from Anglo's directors during the year:

- i. details of the directors' rationale for determining that there was no indication that the asset was impaired at the reporting date; and
- ii. details of the impairment calculations and workings performed at 30 September, 2008 in respect of loans secured on shares in Anglo.

In response to those requests, the directors provided the Authority with details of their rationale for determining that, by virtue of the combination

of the value of the shares held as collateral as at 30 September, 2008 and the additional recourse against the individual borrowers' personal assets, there was no evidence, as at 30 September, 2008, of impairment on these loans. At year end, the Authority's evaluation of this matter was ongoing in the context of its consideration of impairments more generally, which is further elaborated upon in section 4.8 below.

The scope of the Authority's examination did not extend to consideration of the appropriateness or legality of Anglo advancing funds to finance the purchase of shares in Anglo, which are matters that are outside the Authority's remit.

4.6 Co-operation with third parties

As referred to above, certain of the abovementioned transactions and events have resulted in the initiation of enquiries by other statutory Bodies, including An Garda Síochána, the Financial Regulator and the Office of the Director of Corporate Enforcement. In that context, and in addition to receiving certain information from the Financial Regulator, during the year the Authority shared certain information regarding these matters with the:

- Financial Regulator; and
- Office of the Director of Corporate Enforcement.

In addition, the Authority also shared certain information with the Special Investigator appointed by the ICAI to investigate the role played by certain of that Institute's members in events at the bank (the Special Investigator's appointment and role are discussed in further detail in Chapter 3 of this Report).

Post year end, and prior to the approval of this Report by the Board, the Authority also shared certain information relating to these matters with An Garda Síochána.

While the Authority has, as set out above, made a substantial volume of enquiries of those issuers' directors and has sought information, explanations and clarifications of the directors consistent with its statutory mandate, it is important to recognise that the Office of the Director of Corporate Enforcement and An Garda Síochána, both of whom have criminal investigative mandates, may have acquired other insights arising from:

- original and copy documents acquired under criminal investigative powers (e.g. through the exercise of search warrants); and
- their evaluation of such documentation in the context of issuers' broader legislative and other requirements.

Accordingly, the above discussion of the events and transactions in question cannot, and does not purport to, represent a definitive conclusion on the relevant issuers' compliance with all applicable legislative requirements much of which, including all matters relating to criminal law, are outside the Authority's statutory remit.

4.7 Other matters relating to the financial reporting of financial institutions and other issuers primarily engaging in financial services

In response to the heightened risk factors attaching to financial institutions and other issuers primarily engaging in financial services, and in addition to the examinations detailed above and the Authority's routine review activity, the Authority engaged as considered necessary with domestic financial institutions under its remit⁶² and with fund and

debt issuers for the purpose of assessing practice in respect of certain financial reporting issues common to such issuers. Set out in the following paragraphs is a summary of the principal matters raised in that context.

4.8 Impairments

The approach to impairment of financial assets as prescribed under existing accounting standards is an ‘incurred loss’ model⁶³. Under this model, loans may be written down (impaired) only when evidence is available that a loan or portfolio of loans will not be repaid in full. Such evidence (a ‘trigger event’) may be specific to an individual loan (e.g. a bankruptcy) or an event that is likely to lead to defaults across a portfolio of loans (e.g. an increase in unemployment and a downturn in the property market may lead to an increase in mortgage defaults). Under the incurred loss model expected future credit losses are not permitted to be recognised until a trigger (loss) event has occurred. This has resulted in the incurred loss model being criticised during the global financial crisis for recognising expected losses too late, i.e. by not permitting issuers to recognise expected losses but, rather, only permitting them to recognise losses when they have been incurred.

When a loan is extended, the risk of default is included in the lender’s calculation of the applicable interest rate. However, the currently required accounting treatment assumes that the loan will be repaid in full unless, at some point during the loan’s life, evidence is provided to the contrary. Therefore, under the incurred loss model, until a trigger event occurs the full contractual interest is recognised as revenue. When a trigger event occurs the impairment is recorded, resulting in an abrupt adjustment in the Income Statement. This pattern occurs even if the

amount of that loss had always been expected (e.g. reflects historical experience). The high recognition of interest revenue until actual evidence of a trigger event occurs has been criticised for not reflecting that future credit losses are expected across a portfolio of loans. Additionally, in practice, issuers may use different trigger events or assess the same trigger events differently.

In November 2009, and against the backdrop of the international financial crisis, the IASB published proposals to alter the current accounting requirements to an ‘expected loss’ impairment method⁶⁴.

The proposed expected loss model would, if adopted, require issuers to:

- determine the expected credit losses on a financial asset when that asset is first obtained;
- recognise contractual interest revenue, less the initial expected credit losses, over the life of the instrument;
- build up a provision over the life of the instrument for the expected credit losses;
- at each reporting date, reassess the expected credit loss; and
- recognise immediately the effects of any changes in credit loss expectations.

However, for the period under review, the incurred loss model was, and indeed still is, that which issuers were required to apply under the accounting standards in force. Therefore, issuers were, and are,

⁶³ Paragraph BC 109 of IAS 39 states that ‘impairment losses should be recognised only if they have been incurred’, and paragraph BC 110 states that ‘for a loss to be incurred, an event that provides evidence of impairment must have occurred after initial recognition of the financial asset... Possible or expected future trends that may lead to a loss in the future ... do not provide objective evidence of impairment ...’

⁶⁴ Exposure Draft ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* (November, 2009). This is the second instalment of a three-part IASB project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The three parts deal with: (i) classification and measurement; (ii) amortised cost and impairment (loan loss provisions); and (iii) hedge accounting.

currently permitted to account for credit losses on financial assets only if:

- an event (or a combination of events) has occurred that has a negative effect on future cash flows; and
- that effect could be reliably estimated.

Consequently, issuers were, and still are, not permitted to consider the effects of future expected losses in their financial statements.

Against the backdrop of the foregoing, matters in respect of which the Authority requested information, explanations and clarifications from issuers' directors included:

- the threshold amounts used in determining whether financial assets were considered as being '*individually significant*' for the purposes of determining whether objective evidence of impairment existed;
- the proportion of financial assets that were (i) considered '*individually significant*'; and (ii) assessed for impairment, on an individual basis, for the reporting period;
- clarification as to whether there were any changes to the threshold amounts and proportions in the current reporting period;
- details of the significant assumptions used in assessing each of:
 - the cashflows that may result from foreclosure; and
 - the costs associated with obtaining and disposing of collateral;
- elaboration, in both narrative and quantitative terms, on the key assumptions and parameters

underlying estimations of the present value of future cash flows for each portfolio of loans collectively evaluated for impairment and the level of the IBNR⁶⁵ provision (e.g. interest rates, price trends, bankruptcy trends, unemployment rates, loss experience, level of arrears, migration rates, timing and amount of the realisation of collateral etc.);

- elaboration as to how such key assumptions and parameters, based on historic loss experience, had been adjusted to reflect current observable data, including the nature of such data and the type of adjustment(s) arising, together with the basis on which those adjustments had been determined;
- elaboration as to the factors giving rise to a decrease/increase in the coverage ratio of the impairment provision to impaired loans;
- with regard to renegotiated loans, details of the rationale for the directors' judgement that:
 - there was no objective evidence of impairment in relation to any of these renegotiated loans; or
 - that there was no loss arising on any of these loans when the carrying amount was measured against the present value of estimated future cash flows discounted at the original effective interest rate;
- clarification as to whether the issuer had any loans whose terms and conditions had been amended and on which an impairment loss had been recognised in the current reporting period, and if so, the aggregate amount of any such loans and the impairment charge for the period;
- details of issuers' methodologies in identifying the need for the subsequent re-classification of renegotiated loans as 'impaired';

- the total amount outstanding in respect of renegotiated loans as at the reporting date which had been classified as being of performing status which, in the absence of renegotiation, would otherwise have been classified as impaired;
- the amount, if any, of interest rolled up into renegotiated loans during the relevant period;
- details of the criteria applied by issuers in determining whether to upgrade loans from impaired to performing status, together with details of issuers' review processes in this regard; and
- details of all adjusting and non-adjusting post balance sheet events that were considered by issuers' directors in assessing and arriving at impairment provisions. In respect of each adjusting and non-adjusting post balance sheet event identified, issuers' directors' conclusions as to the adjusting/non-adjusting nature of the events concerned was also sought, together with details of the rationale underpinning each conclusion.

In addition to seeking certain information, explanations and clarifications from relevant issuers' directors on the subject matter of impairments during the year, the Authority also initiated contact with the Financial Regulator for the purpose of establishing whether the Financial Regulator might be in a position to assist the Authority in its evaluation of the basis on which impairment provisions in one particular financial institution had been determined. The Authority's examination of certain domestic financial institutions' impairments, and its associated

engagement with the Financial Regulator, was ongoing at year end.

4.9 Valuations

The markets for the pricing of selected financial instruments were characterised by ongoing illiquidity during the year. In that context, the requirements in respect of the measurement and disclosure of the fair value of financial instruments are laid down in IAS 39 (paragraphs 48 and 48A refer) and in IFRS 7 respectively. In response to the valuation difficulties resulting from illiquid markets, the IASB issued a number of amendments to IAS 39 and IFRS 7 during 2008 and 2009 concerning, amongst other matters, the reporting of valuations of financial instruments⁶⁶.

Pursuant to IAS 39, if the market for a financial instrument is not active, the reporting entity establishes fair value by using a valuation technique (which may be based in whole or in part upon unobservable prices/inputs). Valuation techniques are subjective in nature and, accordingly, the amounts recognised in financial statements can be impacted by the judgements made by the directors in arriving at valuations. Similarly, the valuations recognised in issuers' financial statements are affected by the significant assumptions underpinning the valuation techniques applied (changes in assumptions to reasonably possible alternatives can significantly impact the fair value calculated by valuation techniques).

Against this backdrop the Authority considered it appropriate to devote resources towards examining certain issuers' approaches to the valuation of selected financial instruments. In that context,

⁶⁵ Incurred But Not Reported – 'An entity should recognise an impairment on a group of loans if its loss expectation at initial recognition of the loans had not changed but the entity could estimate reliably, on the basis of the past, that loss events occurred after initial recognition, but before the reporting date ... An entity should recognise such an incurred impairment loss that is supported by objective evidence, which might not have been reported before the entity's reporting date. However, an impairment loss could not be recognised if relevant events had not been recognised' (IFRIC – items not added to the agenda, October, 2004).

⁶⁶ Reclassification of Financial Assets (issued October, 2008 and effective 1 July, 2008), Reclassification of Financial Assets - Effective date and Transition (issued November, 2008 and effective 1 July, 2008) and Improving Disclosures about Financial Instruments (issued March, 2009 and effective 1 January, 2009).

matters in respect of which the Authority sought information, explanations and clarifications included:

- details of the methods and, where a valuation technique was employed, assumptions applied in determining fair values for each class of financial assets and financial liabilities;
- details of the changes in fair value recognised in profit or loss (and amounts recognised on issuers' Balance Sheets) that were estimated using a valuation technique based on assumptions that were not:
 - supported by prices obtained from observable current market transactions in the same instrument; and
 - based on available observable market data;
- details of the effect (expressed in monetary terms) on fair values of changing one or more of those assumptions to reasonably possible alternatives;
- details regarding the accounting policy adopted in relation to repossessed assets (including the measurement thereof); and
- details of the fair value gains or losses on the financial assets (reclassified financial assets) recognised in profit or loss in that reporting period and in the previous reporting period.

In response to these enquiries, certain issuers provided undertakings to provide enhanced disclosures in future periodic financial reports regarding the basis on which selected financial instruments have been valued.

4.10 Related party disclosures

Consequent upon the introduction of the Guarantee Scheme, the appointment of public interest directors to certain institutions' Boards, the nationalisation

of Anglo and the recapitalisation of AIB and BoI, the State is now a related party to the affected institutions.

In this context, and in the context of the requirements of IAS 24 *Related Party Disclosures*, company law requirements and amendments thereto during the year, the Authority engaged with the domestic financial institutions under its remit⁶² on their respective approaches towards accounting for related party transactions and balances with the Government. This engagement was informed by the, apparent, differing levels of disclosure provided by the issuers concerned in their 2009 half-yearly reports. Readers should refer to Case Study 1, which deals with this matter further.

As a result of the Authority's enquiries in this regard, a number of undertakings were received from issuers' directors, including:

- undertakings to disclose transactions with related parties (including the Government) in accordance with paragraphs 16 and 17 of IAS 34 (i.e. transactions with related parties) sufficient to *'provide an explanation of events and changes that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'*⁶⁷ in future half-yearly financial reports;
- undertakings to disclose the following in future financial reports (including information in respect of comparative amounts):
 - a. the nature of the related party relationship;
 - b. details of the amounts of transactions with related parties;
 - c. the amount of outstanding balances, their terms and conditions and details of any guarantees given or received;

- d. provisions for doubtful debts relating to amounts outstanding; and
 - e. expense recognised in respect of bad or doubtful debts due from related parties.
- undertakings to review related party disclosures with a view to enhancing and clarifying those disclosures in future periodic financial statements; and
 - undertakings to include the Government as a related party in future periodic financial statements and to provide the required disclosures, including comparative amounts.
- repossessed assets;
 - retirement benefits;
 - lease disclosures;
 - contingent liabilities;
 - investment properties;
 - reinsurance contracts;
 - segmental reporting;
 - deferred tax on temporary differences; and
 - joint ventures.

Certain issuers were also reminded that, while the IASB has agreed amendments to IAS 24, those amendments have not been endorsed by the EU and, consequently, the revised IAS 24 does not form part of the relevant reporting framework at this time.

4.11 Other financial reporting matters

Other matters in respect of which the Authority engaged with directors of financial institutions and fund and debt issuers during the year included:

- accounting policies – changes in accounting estimates;
- concentration risk;
- treatment of the cash flows relating to debt securities in issue;
- assets classified as held for sale;
- redemption of subordinated liabilities;
- share-based compensation schemes;

5. Enforcement of IFRS across the European Union - EECS

5.1 Background to the Authority's membership of the EECS

The background to the establishment of the CESR-sponsored EECS⁶⁸ was set out in detail in the Authority's first Annual Report⁶⁹ and is not, therefore, reproduced in this Report. In summary, the EECS was established with a view of facilitating the co-ordination and consistency of financial reporting enforcement practices across the EU. To that end, its membership includes both organisations that are securities regulators (and are, therefore, CESR members) and where Member States' financial reporting enforcement responsibilities do not reside with the national securities regulator (as is the case in Ireland⁷⁰), non-CESR members. It is in this context that the Authority is a member of the EECS.

In the context of the foregoing, it is important to note that the EECS does not take enforcement decisions. Rather, while enforcement decisions are

⁶⁷ IAS 34 *Interim Financial Reporting*, paragraph 15 refers.

⁶⁸ European Enforcers' Co-ordination Sessions.

⁶⁹ Section 4 of Chapter 2 of the Authority's 2006 Annual Report refers.

⁷⁰ The Financial Regulator, which is a CESR member, is also a member of the EECS.

taken by Member States' national enforcement authorities, the EECS serves as a forum whereby EU financial reporting enforcement authorities discuss decisions taken by enforcement authorities and share perspectives, experiences and knowledge with each other. Similarly, the EECS does not issue interpretations of IFRS, which remains the role of the International Financial Reporting Interpretations Committee (IFRIC).

5.2 EECS enforcement decisions database

With a view to fostering the consistent enforcement of IFRS across the EU, EECS members' enforcement decisions are recorded on a confidential database for members' future reference. While such decisions do not constitute precedent and are not, therefore, binding on other financial reporting enforcement authorities, the purpose of the database is to enable EU financial reporting enforcement authorities to consider decisions taken by their counterparts on similar issues and to determine the extent to which regard might appropriately be had to same in their own decision making processes - while having regard to the fact that the circumstances surrounding individual issues are rarely the same.

As at 31 December, 2009 approximately 350 decisions had been submitted to the database by EECS members. For the benefit of preparers and other stakeholders, summaries of enforcement decisions taken by EECS members are published periodically. During 2009, CESR published its fifth, sixth and seventh such summaries (on 24 March, 26 August and 16 December respectively). Those summaries published by CESR to date, which do not name the issuers concerned, can be accessed on the Authority's website at <http://www.iaasa.ie/publications/index.htm>

5.3 EECS activities

During the year, the EECS' principal activities included:

- considering issues giving rise to enforcement in Member States and sharing perspectives thereon;
- discussing decisions taken by other enforcement authorities;
- discussing emerging issues of interest to financial reporting enforcers;
- maintaining and augmenting the confidential database of enforcement decisions;
- publishing, for the benefit of issuers and other interested parties, summaries of enforcement decisions posted to the EECS database;
- publishing (*via* CESR) an analysis of the compliance of European financial institutions with financial reporting disclosure requirements related to financial instruments⁷¹; and
- hosting (*via* CESR) a roundtable session with accounting enforcers from 33 countries, representatives of the International Accounting Standards Board (IASB) and auditors to discuss the enforcement of IFRS and enforcement decisions taken around the world.

5.4 Authority participation in the EECS

During the year:

- Authority staff attended all 7 EECS plenary meetings and actively participated in the consideration of issues brought to the EECS by other members;
- the Authority submitted 13 decisions to the database;
- Authority staff presented 8 decisions to the plenary for discussion;
- the Authority submitted 2 emerging cases to the

plenary for discussion;

- Authority staff presented 5 discussion papers to the plenary for discussion amongst members. The subject matter of those discussion papers included:
 - the impact of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 24 *Related Party Disclosures* on State participation in the ownership of banks and the impact of NAMA⁷²;
 - IFRS 3 *Business Combinations* and factors contributing to the recognition of goodwill;
 - IAS 1 *Presentation of Financial Statements* and the classification of bank loans in circumstances of non-compliance with loan covenants; and
 - IFRS 8 *Operating Segments* and the identification of Cash Generating Units for the purposes of impairment testing;
- hosted, in conjunction with the Financial Regulator, a meeting of EECS in July, 2009 at Dublin Castle which was attended by representatives of EU accounting enforcers from 19 countries; and
- conducted research and analysis, from an Irish perspective, on the compliance of European financial institutions with financial reporting disclosure requirements related to financial instruments for collation at EU level by CESR.

In addition to the Authority's participation in plenary related matters, the Authority's Head of Financial Reporting Supervision is also a member of the EECS' Agenda Group. Accordingly, in addition to being an active contributor to the Group's activities at

plenary level, the Authority also has a direct input to, and involvement in:

- the review of emerging cases and decisions as tabled by EU national enforcers with a view to assessing those which should be afforded priority for consideration and discussion at the plenary; and
- the review of enforcement decisions taken by EU national enforcers with a view to determining whether they meet the criteria for publication.

During the year, the Authority's Head of Financial Reporting Supervision was also appointed to the following EECS working groups:

- Enforcement Methodology Group, which is charged by the plenary with the development of common review methodologies. This Group develops and maintains template review programmes for use by EU national enforcers, the purpose of such programmes being to facilitate a consistent approach towards financial reporting review and enforcement across the EU. The template review programmes were updated in 2009 to reflect additions and amendments to IFRS; and
- Enforcement Actions Group, which is charged by the plenary with the examination of enforcement actions taken by EU national enforcers, with the aim of providing an overview and analysis of actions taken by national enforcers across the EU.

In addition, the Authority provided input to a number of CESR-led surveys on the application of CESR Standards across the EU.

⁷¹ This document can be found on www.cesr.eu/data/document/09_821.pdf

⁷² National Asset Management Agency.

6. Accounting Standards Board ('ASB')

During the year the Authority continued to act as an observer at ASB meetings, an activity that facilitates the Authority in discharging its role of co-operating in the development of accounting standards and to identify at an early stage developments that may have a particular relevance to, or bearing on, Ireland. Further detail of the Authority's ASB-related activities may be found in Chapter 5 of this Report.