



Irish Auditing & Accounting Supervisory Authority

IAASA and the Transparency Directive

Presentation to IBF

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IAASA

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Supervision

Presentation Overview

- IAASA's role under the Transparency Directive
- IAASA – general background to the organisation
- Financial Reporting Supervision functions of IAASA
- Transparency Directive – periodic information requirements
- Financial Reporting Supervision methodology
- Other activities of the Financial Reporting Supervision Unit of IAASA

IAASA role under Transparency Directive (TD)

- Article 24(4)(h) of the TD:
 - “*..to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.*”
- This role will be carried out by the Financial Reporting Supervision Unit of IAASA

Background to IAASA

- Board and key staff
- Existing statutory functions

IAASA Board

- Company Ltd. by guarantee - Board comprises 15 directors, nominated thus:
 - 2 (including the Chairperson) nominated by the Minister;
 - 3 nominated jointly by the prescribed accountancy bodies;
 - 9 nominated by the following bodies (1 each):
 - IBEC
 - IAIM
 - Pensions Board
 - Revenue
 - Law Society
 - ICTU
 - ISE
 - IFSRA
 - DCE
 - Chief Executive
- A maximum of 5 of the 15 directors may be members of prescribed accountancy bodies.

IAASA- key staff

- **Chief Executive** – Ian Drennan
- **Head of Financial Reporting Supervision** – Michael Kavanagh
- **Head of Regulatory & Monitoring Supervision** – Helen Hall
- **Secretary & Head of Legal Services** – Jane Meehan
- **Project manager** – Eileen Townsend
- **Project manager** – Bridget Ryan
- **Finance & Administration manager** – Fergal O’Briain

Statutory Remit (S8)

1. To supervise how the prescribed accountancy bodies regulate and monitor their members;
2. To promote adherence to high professional standards in the auditing & accountancy profession;
3. **To monitor whether the accounts of certain classes of companies and other undertakings comply with the Companies Acts and, where applicable, Article 4 of the IAS Regulation [and now Transparency Directive]; and**
4. To act as a specialist source of advice to the Minister on auditing and accounting matters.

Functions

- The Authority's principal functions include:
 - Promoting adherence to the highest standards in the profession;
 - Considering applications for recognition for audit purposes;
 - Supervising the manner in which the accountancy bodies monitor (including work quality) and regulate (including investigation and disciplinary functions) their members;
 - Where deemed appropriate, conducting investigations into bodies and/or members.
 - Co-operating in the development of auditing and ethical standards.
 - Reviewing the financial statements of certain companies and other undertakings;
 - Co-operating in the development of accounting standards and practice notes.

Financial Reporting Supervision Function

Principal Functions of Financial Reporting Supervision Unit

- To monitor whether the accounts of certain classes of companies and other undertakings comply with the Companies Acts and IAS Regulation and now the Transparency Directive
- Co-operating in the development of accounting standards and practice notes
- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters
- Liaising with other countries' financial reporting monitoring bodies

Monitoring whether the financial statements of certain companies comply with the Companies Acts

- Section 26 of the 2003 Act
- The IAS Regulation
- The Transparency Directive

Section 26 of the 2003 Act

- The financial reporting supervision constituency comprises:
 - all plcs (whether listed or not);
 - all subsidiary undertakings of plcs;
 - all private companies limited by shares that, in both in the relevant financial year and the immediately preceding financial year, satisfy the following criteria:
 - balance sheet total exceeds €25m; and
 - turnover exceeds €50m.
 - all private companies limited by shares which, when aggregated with their subsidiary undertakings, exceed the aforementioned thresholds;
 - all subsidiary undertakings of the preceding class of private companies; and
 - certain other undertakings, and where applicable their subsidiary undertakings, that satisfy the aforementioned criteria, including unlimited companies and partnerships whose members having unlimited liability are themselves limited companies.

Relevant Exemptions

- Act provides potential exemptions for:
 - certain entities already subject to, what in the Minister's opinion, is an appropriate level of supervision/regulation
 - might, for example, include Part XIII companies and UCITS
 - S110 TCA '97 entities (securitisation vehicles).

IAS Regulation

- Given effect to in Ireland by SI 116 of 2005;
- Requires EU Member States to take appropriate measures to ensure compliance with IFRS (applies to listed entities – consolidated a/c's only);
- Recital no.16 of the Regulation -

“A proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement.”

Transparency Directive

- Article 24(4)(h) of the TD:
 - “*..to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.*”
- Directive deals with Half-Yearly Financial Statements (which are not within the scope of Section 26/IAS Regulations).

Transparency Directive implementation in Ireland

- **Primary legislation** - The Investment Funds, Companies and Miscellaneous Provisions Act, 2006
- **Secondary legislation** - The Transparency (Directive 2004/109/EC) Regulations, 2007 – not yet enacted.
- Applies to all issuers with securities (debt and equity) admitted to trading on the regulated market of the ISE i.e.
 - Shares
 - Debt securities
 - Derivative securities
 - Closed ended investment funds

TD- summary of periodic information requirements

| | What must be included? | Publication deadline |
|--------------------------------------|--|--|
| Annuals | <ul style="list-style-type: none"> ➤ Audited financial statements ➤ Management report ➤ Audit report ➤ Responsibility statement | 4 months after y/e |
| Interims reports | <ul style="list-style-type: none"> ➤ Condensed financial statements ➤ Interim management report ➤ Audit report <i>or</i> review report <i>or</i> negative statement ➤ Responsibility statement | 2 months after p/e |
| Interim management statements | <ul style="list-style-type: none"> ➤ Explain material events and transactions and their impact on issuer's financial position ➤ General description issuer's financial position and performance | 10 weeks after the beginning and 6 weeks before end of relevant six month period |

Annual audited financial statements

– relevant financial reporting framework

- Consolidated financial statements – IFRS or equivalent.
- Non consolidated FS – in accordance with the issuers national law.

Condensed half-yearly financial statements - relevant financial reporting framework

- If required to prepare consolidated annual financial statements then half-yearly prepared in accordance with IAS 34
- Irish issuers not using IFRS – use ASB ED “Half-Yearly Financial Reports”
- All other issuers – a national accounting standard relating to interim reporting.

Potential Exemptions

- Issuers of Debt securities whose denomination per unit > €50k exempt from annual and half-yearly reporting requirements
- Potential exemption for issuers already existing at the date of the entry into force of Directive 2003/71/EC which exclusively issue debt securities unconditionally and irrevocably guaranteed by the home Member State or by one of its regional or local authorities, on a regulated market exempt from half-yearly reporting requirements

Interim Management Statement

- IAASA has no role in examining this information

Transparency Directive equivalence

- All issuers who prepare consolidated financial statements must use IFRS or equivalent.
- What is “equivalent”?
- Decision postponed until 2009

Approximate numbers of entities within the remit of the TD

- Equity issuers 50
- Closed ended funds 100+
- Debt issuers 200+

IAASA powers and sanctions under the Transparency Directive

- Awaiting finalisation of Regulation but TD requires the competent authority to have the power to
 - require, in particular, auditors and issuers to provide information and documents (see Art. 24 par. 4a)
 - require an issuer to disclose the required information (Art. 24 par. 4b),
 - make public the fact that an issuer is failing to comply with its obligation (Art. 24 par. 4g)
 - carry out on-site inspections (Art. 24 par. 4i)

Methodology for selection of entity for review

- S26/ IAS Regulation/ Transparency Directive suggests a proactive rather than reactive approach to monitoring
- Methodology for risk assessment and selection of entities financial statements for review has been developed – written in context of S26 aswell as IAS Regulation and TD
- Mixed model approach proposed

Methodology for selection of entity for review

- Criteria for selection will include
 - Risk of material misstatement in the financial statements
 - Potential impact on users of financial statements in the event of material misstatement
 - Supplemented with random selection of F/S for review
 - Complaint from public may also trigger a review

Methodology for selection of entity for review

- Risk of material misstatement in the financial statements – factors include:
 - - financial structure and business trends,
 - financial position and ratios,
 - industry specific issues,
 - corporate governance issues and internal control environment,
 - related party transactions,
 - incidence of business combinations and disposals,
 - audit qualifications and related issues,
 - administrative, court and regulatory actions,
 - third party signals (e.g. complaints received by the Authority, press reportage etc.)

Methodology for selection of entity for review

- Potential impact on users users include:
 - present and potential investors;
 - shareholders;
 - employees;
 - lenders;
 - suppliers and other trade creditors;
 - customers;
 - the Revenue Commissioners;
 - regulatory authorities;
 - the general public

Methodology for selection of entity for review

- Potential impact on users – factors include:
 - Number, and nature of, retail investors
 - Size of undertaking (including number of employees),
 - Public profile,
 - Industry profile,
 - Whether the shares or other securities of the undertaking are traded on a public stock exchange. For those undertakings that have securities traded on a public stock exchange the following will be considered -
 - Share trading activity and volatility in stock price,
 - Market capitalisation,
 - Number of investors,
 - Nature of security traded

Liaising with other countries' financial reporting monitoring bodies

- IAASA an active participant in EECS (European Enforcement Co-ordination Sessions) – sub committee of CESR – monthly meetings
- EECS – Forum for discussing and co-ordinating “enforcement” decisions in EU/EEA
- A database of IFRS enforcement decisions in the EU/EEA has been established – not precedents but likely to be persuasive reference point
- Has been Irish EECS case which was brought to EU Roundtable on Consistent Application of IFRS
- CESR/EECS liasing with IASB and SEC on various matters of mutual interest
- EECS - very important part of SEC and EU “road map”

Other financial reporting functions

- Assisting the Board to discharge its functions as an advisor to the Minister on accounting related matters
 - Advice on various matters as have arisen
 - Member of CLRG and advice on part A6 of forthcoming Consolidation Bill dealing with accounting and auditing
- Co-operating in the development of accounting standards and practice notes
 - Irish Observer at ASB Board – twice monthly meetings
(Recent ED on half-yearly reporting very important in context of TD)
 - Liaison with IASB

Questions?

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