2019

Statutory Reporting Quality

Observations on selected financial reporting issues – years ending on or after 31 December 2019

IAASA
Irish Auditing & Accounting Supervisory Authority

MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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

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1. INTRODUCTION

1.1. Financial reporting review remit of IAASA

Ireland's accounting enforcer, IAASA, examines the periodic financial statements (namely, annual financial statements and half-yearly financial reports) of certain equity issuers, debt issuers and closed-end fund issuers (collectively 'issuers') to ensure that the reports are compliant with the relevant financial reporting framework.

Issuers are those entities with securities admitted to trading on an EU regulated market for compliance with the relevant reporting framework (in general, Euronext Dublin's Main Market).

The relevant reporting framework for the purposes of this document is limited to those issuers preparing their financial statements under International Financial Reporting Standards (IFRS) and financial reporting standards issued by the UK's Financial Reporting Council for Ireland and the UK (domestic GAAP).

Accordingly, although IAASA's financial statement examination remit may extend to periodic financial reports prepared under other financial reporting frameworks (e.g. Luxembourg GAAP and US GAAP), the observations offered in this document are limited to the requirements as they apply to IFRS and domestic GAAP issuers.

As was the case in earlier years, the matters raised in this document derive from a combination of:

(a) financial reporting matters identified during IAASA's examinations and surveys undertaken during 2019;

(b) matters identified in the course of IAASA's work, but not raised with specific issuers;

(c) IAASA's expectations of issuers regarding the upcoming financial reporting season; and

(d) financial reporting matters discussed at the European Securities and Markets Authority (ESMA) sponsored groupings of European national accounting enforcers at which IAASA continues to play an active role.

1.2. Purpose of this *Observations* document

Consistent with earlier years, the purpose of this *Observation*s document is to assist issuers' management and those charged with governance in the preparation of high quality financial reports by offering observations on selected financial reporting topics to coincide with the preparation of issuers' 2019 financial statements. It is also intended that some of the matters set out in this document will be subject to detailed scrutiny as IAASA conducts its programme of examinations of issuers' financial reports during 2020.

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

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

1.3. Continued applicability of matters raised in previous years

This is the 12th *Observations* document for year-end financial reporting published by IAASA and some of the matters raised in previous years' *Observations* documents have continued applicability in the upcoming financial reporting season. This document should be read in conjunction with those earlier years' documents, which are available on the publications section of the IAASA website.

1.4. Financial reporting environment

Economic backdrop

Issuers continue to be faced with the challenge of incorporating medium and long-term forecasts into their financial statements in a climate of mixed economic signals. There are many positive economic indicators for the domestic economy i.e. continued cyclical recovery; there are international threats facing domestic and multinational entities; there are uncertainties facing all entities from Brexit, trade wars and tensions in less stable areas of the world.

'*A rapid cyclical recovery has taken place since at least 2014 and this is continuing at a strong pace. Looking across a number of indicators, the Irish economy still appears to be growing very fast. Forecasts assume that the recent momentum in the domestic economy will only gradually moderate and they incorporate a reasonably strong outlook for Ireland's main trading partners*.'

Fiscal Assessment Report (June 2019), Irish Fiscal Advisory Council

'*Global growth remains subdued …*

GDP releases so far this year, together with generally softening inflation, point to weaker-than-anticipated global activity. Investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-range spending. Accordingly, global trade … remains sluggish …

Risks to the forecast are mainly to the downside …

Multilateral and national policy actions are vital to place global growth on a stronger footing. The pressing needs include reducing trade and technology tensions and expeditiously resolving uncertainty around trade agreements (including between the United Kingdom and the European Union and the free trade area encompassing Canada, Mexico, and the United States).'

World Economic Outlook (July 2019), International Monetary Fund

'*… there are material domestic and external risks … On the external side, Brexit remains the most salient risk … the estimates suggest that such an outcome would reduce output growth by 4 percentage points in the first year, with output lower by 6 per cent after 10 years, compared to a no-Brexit scenario … The results imply that GDP growth for 2019 would be reduced from 4.9 to 4.5 per cent, while in 2020 growth would fall from 4.1 to 0.7 per cent. With regard to other impacts, the estimates suggest that, by the end of 2020, there would be around 34,000 fewer jobs in the economy compared to the level of employment projected in the central forecast, while the General Government Balance-to-GDP ratio would be around 0.75 per cent worse.*

On the external side, in addition to Brexit, risks in relation to international trade and taxation persist …'

Quarterly Bulletin QB3 – July 2019, Central Bank of Ireland

Issuers face unknown economic, political and social threats and uncertainties because of Brexit and heightened protectionist policies, particularly in the USA which continues to be Ireland's largest export market.

Accounting enforcement at EU level
IAASA's national enforcement priorities, policies and methodologies are aligned with the enforcement priorities set by ESMA. ESMA continues to intervene in national accounting enforcers' activities to achieve greater convergence of enforcement activity by those EU national accounting enforcers.

ESMA sets annual Europe-wide common enforcement priorities, which are topics which EU accounting enforcers are required to embed in their examination programmes. The 2019 ESMA common enforcement priorities are expected to be published in the final quarter of 2019 and will be published on the ESMA and IAASA websites once finalised.

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

2. OBSERVATIONS ON SELECTED FINANCIAL REPORTING ISSUES

2.1 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, which applies to reporting periods from 1 January 2018, establishes principles that an entity shall apply to report useful information to the users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Standard provides a single, principles based five-step model to be applied to all contracts with customers.

Examinations undertaken by IAASA during 2019 noted a number of areas of concern in the application of IFRS 15 by issuers, the more significant concerns being:

(a) disaggregation of revenue [IFRS 15.114 and IFRS 15.B87 –B89 refer] and interaction with IFRS 8 Operating Segments – IAASA has noted that more detailed revenue information is disclosed in locations outside of the financial statements For example, some issuers have disclosed that revenue is disaggregated at the operating segment level but have included revenue amounts/percentages for the main products (i.e. more disaggregated quantitative information) within each segment on their website/management reports and/or investor presentations. If issuers are providing revenue information for major product lines and geographical areas in locations outside of the financial statements then management need to consider whether or not additional categories for the disaggregation of revenue should be presented in the financial statements. In assessing whether additional categories of revenue need to be disclosed, management should consider the economic factors that affect their contracts with customers.

Issuers' have indicated to IAASA that the information presented in other locations outside of the financial statements are not reviewed by the Chief Operating Decision Maker ('CODM') to assess performance of the issuer's operating segments or to allocate resources and, therefore, such revenue information does not need to be disclosed under IFRS 15.

The level of disclosures under IFRS 15 is not limited to the information that the CODM uses to assess the entity's performance and to allocate resources. When preparing the disaggregation of revenue disclosures, IFRS 15 also considers similar information that has been presented for other purposes. The objective of providing segment information in accordance with IFRS 8 is different from the objective for the disaggregation disclosures in IFRS 15 and, therefore, segment revenue disclosures may not always be sufficient to provide users of financial statements with enough information to help them understand the composition of revenue recognised in the period [IFRS 15.BC340 refers]. In order to fulfil IFRS 15's disclosure objective, this may result in the disclosure of revenue information in addition to the revenue amounts that are disclosed at segment level under IFRS 8.

(b) the extent to which the accounting policies for revenue related matters have been disclosed (e.g. policy for warranties, policy for determining when "delivery" takes place;

(c) disclosures around variable consideration and the methodology applied by the issuer to estimate it (i.e. by the expected value method or the most likely amount method) [IFRS 15.53 refers];

(d) the extent to which the significant judgements [IFRS 15.110(b)] have been determined such as the timing of satisfaction of performance obligations and the transfer of control of promised goods/services [IFRS 15.123 and 125], identifying and satisfying performance obligations [IFRS 15.119(a)], significant financing components [IFRS 15.119(b)], point-in-time v overtime, principal v agent, and unbundling of performance obligations [IFRS 15.22 – 30].

Matters for consideration by management, Directors and Audit Committees

IFRS 15 focusses on the principle of 'control' rather than on 'risk and rewards' and its application impacts revenue recognition from contracts with customers in all industries. Therefore, management, Directors and Audit Committees should ensure that they continue to reassess whether the recognition, measurement, presentation and disclosure of revenue from contracts complies, in full, with the requirements of IFRS 15 and continues to reflect the terms of contracts with customers.

2.2 IFRS 9 *Financial Instruments*

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities with the aim of presenting relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. It is mandatorily effective for periods beginning on or after 1 January 2018.

IAASA's examinations of the 2018 financial statements of issuers and, in particular, those of financial institutions are ongoing at this time. However, IAASA has identified a number of areas that merit closer scrutiny. These include:

(a) forward looking information (FLI): and the apparent absence of clear disclosure as to how FLI has been incorporated into the determination of expected credit losses (ECL), e.g. disclosure as to how scenario probability weightings have been determined, changes therein and disclosure as to how the macroeconomic variables are derived [IFRS 7.35G];

(b) management adjustments to modelled ECLs: the extent to which management adjustments to ECL modelled outcomes have been explained in the financial statements and the observable data that supports the ECL management adjustments;

(c) estimation of the initial probability of default (PD): approximation of the residual lifetime PD expectations (originated prior to adoption of IFRS 9) and the basis for significant judgements therein [IFRS 9.7.2.20];

(d) ECLs on credit impaired loans: the estimation of additional ECL arising on potential portfolio loan sales on credit impaired loans [IFRS 9.B5.5.55];

(e) impairment loss allowance: transparency of the quantitative and qualitative disclosures linked to impairment loss allowance tables [IFRS 7.35I];

(f) disclosures of sensitivity analysis: the ECL provision is a source of estimation uncertainty and this means that a sensitivity analysis must be presented. ECL sensitivity disclosures may limit the transparency of material differences in the sensitivities of ECLs across sub-portfolios and/or may limit transparency of variances or non-linearity observed in the sensitivity of ECLs across various sub-portfolios The sensitivity analysis should be useful and transparent for the user [IAS 1.125 and IAS 1.129]

Matters raised in IAASA's examinations are informed by our active participation in European discussions on IFRS 9 at the ESMA sponsored Financial Institutions Task Force.

For non-financial institutions, IAASA has questioned the determination of ECL allowance using the simplified approach.

Matters for consideration by management, Directors and Audit Committees

IAASA recognises that IFRS 9 is complex and represents a significant change from previous requirements. The level of issuer judgement and the extent of disclosures required warrants on-going re-evaluation by financial institutions at each reporting date. Management, Directors and Audit Committees should continue to focus on this area as best practice evolves over time.

2.3 New accounting standards effective 1 January 2019

IFRS 16 *Leases* sets out how an issuer shall recognise, measure, present and disclose leases and is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged from its forerunner, IAS 17 *Lease*s, lessors can continue to classify leases as operating or finance, in accordance with IFRS 16.

It is IAASA's expectation that issuers will disclose key judgements in their implementation of IFRS 16, including but not limited to:

(a) implementation and transition disclosures [IFRS 16.C12];

(b) the key judgements made in recognising and measuring right-of-use assets and liabilities;

(c) the determination of the discount rate(s) of leases; and

(d) an understanding as to how the lease term is determined (i.e. lease term extensions, early termination options and lease modifications) [IFRS 16.15 to 21 and B34].

IFRIC 23 *Uncertainty over Income Tax Treatments* clarifies the accounting for uncertainties in income taxes. IFRIC 23 is applied to the determination of taxable profit/loss, tax bases, unutilised tax losses, unused credits and tax rates in situations where, under IAS 12 *Income Taxes*, there is uncertainty over income tax treatments. IFRIC 23 is effective for accounting periods beginning on or after 1 January 2019.

It is IAASA's expectation that issuers will provide transparent and entity specific disclosure of their accounting policies regarding the recognition, measurement, presentation and disclosure of uncertain tax positions (UTPs) i.e. in those instances where UTPs are a source of estimation uncertainty, issuers should provide the related IAS 1.125 and IAS 1.129 disclosures where applicable.

In addition, IAASA notes that the disclosure of the expected impact of new accounting standards in issue but not yet effective in previous periods (i.e. IFRS 9 and IFRS 15) was, in many instances, of a low quality, boilerplate in nature and lacking in issuer specific detail. The quantitative impact of the new accounting standards was, in many cases, not provided until after the new standards were effective [which is non-compliant with the requirements of IAS 8.30].

It is IAASA's expectation that the disclosure of the impact of new accounting standards in issue but not yet effective in issuers' annual and half-yearly reports will be of a much higher quality.

Matter for consideration by management, Directors and Audit Committees
Management, Directors and Audit Committees should ensure that financial statements disclose the impact of the adoption of these new requirements [IFRS 16 Appendix C, IFRIC 23 Appendix B and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* refer].

2.4 Brexit – disclosure in the annual report

At the time of publication of this *Observations* document, it appears that the United Kingdom is poised to leave the European Union on 31 October 2019.

The impact of Brexit is likely to become more apparent to issuers by the time they are finalising their 2019 annual financial reports during Q1 2020.

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

Against this continuing uncertainty, issuers must closely monitor and consider the financial reporting consequences that Brexit arrangements will have on their future financial performance, financial position, cash flows and forecasts.

Management Report – Brexit risks and uncertainties
Issuers are reminded that Regulation 5(4)(c)(ii) of the Transparency Regulations requires the management report to include a description of the principal risks and uncertainties that the issuer faces.

> Matters for consideration by management, Directors and Audit Committees
> Management, Directors and Audit Committees should ensure that periodic financial reports disclose entity specific impacts of Brexit on the judgements and sources of estimation uncertainty that reflect the specific facts and circumstances applying [IAS 1.122 and IAS 1.125] and the risks and uncertainties in the management report [Regulation 5(4)(c)(ii)].
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> IAASA expects management, Directors and Audit Committees to ensure that they apply medium and long-term assumptions that reflect changes in the current market expectations for the products, services, markets and countries in which they operate or on which they rely. Issuers' medium and long-term key assumptions need to reflect on-going market uncertainty and possible future market disruption.

2.5 Maturity analysis disclosures for non-derivative financial liabilities

IFRS 7 *Financial Instruments: Disclosures* defines liquidity risk as the risk that an entity will have difficulties in paying its financial liabilities [IFRS 7Appendix A refers].

Required disclosures about liquidity risk include:

- a maturity analysis for non-derivative financial liabilities showing the remaining contractual maturities [IFRS 7.39(a)];
- a maturity analysis for derivative financial liabilities [IFRS 7.39(b)]; and
- a description of the entity's approach to risk management.

It is a matter of concern to IAASA that a cohort of issuers, particularly specific financial institutions and debt issuers, have disclosed liquidity analysis of non-derivative financial liabilities that, to varying degrees, limit users understanding of liquidity risks and changes therein.

IAASA has noted that the most common areas of non-compliance of liquidity risk reporting typically include one or more of the following:

(a) liabilities are not presented by the **earliest** contractual maturity date in which the entity can be required to pay (IFRS 7.BC11 refers) and are sometimes prepared on a best case scenario (i.e. the **latest** payment date). For example, some issuers have presented the liabilities at their contractual maturity date; however, due to the existence of early redemption options, the earliest contractual maturity date is significantly shorter than this date;

(b) the omission of selected non-derivative financial liabilities from the liquidity tables;

(c) presentation of too few time bands and inappropriate aggregation of time bands that limits the usefulness of the liquidity analysis;

(d) time bands for financial liabilities maturities presented in the liquidity risk analysis table being inconsistent with cash flow patterns observed in the Statement of Cash Flows;

(e) material restatement of comparative amounts in liquidity analysis tables without the explanation and disclosure required (i.e. IAS 1.41 and IAS 8.49 refer); and

(f) boilerplate description as to how the entity manages the liquidity risk or omission of same.

Matters for consideration by management, Directors and Audit Committees

Management, Directors and Audit Committees should exercise closer scrutiny in the preparation and review of liquidity risk analysis disclosures in the preparation of periodic financial statements.

Management, Directors and Audit Committees should ensure that the liquidity risk analysis:

(a) discloses a maturity analysis for financial liabilities showing the remaining earliest contractual maturities;

(b) uses an appropriate number of time bands that does not limit the usefulness of the quantitative liquidity analysis;

(c) avoids boilerplate disclosures;

(d) provides an explanation of any material restatement of comparative amounts; and

(e) enables users of the financial statements to gain an understanding of the timing of cash flows and changes therein that is associated with financial liabilities.

2.6 Recognition of deferred tax assets ('DTAs')

IAS 12.34 states that a deferred tax asset shall be recognised for unused tax losses and unused tax credits to the extent that it is probable that the future taxable profit will be available against which they can be utilised.

ESMA has published a Public Statement on IAS 12 Income Taxes '*Considerations on recognition of deferred tax assets arising from the carry-forward of unused tax losses*', The Public Statement sets out its expectations regarding the application of the requirements relating to the recognition, measurement and disclosure of DTAs arising from unused tax losses.

IAASA continues to examine issuers' judgements related to the recognition, measurement, re-measurement and disclosure of DTAs. In some instances IAASA has challenged:

(a) the basis for the key DTA assumptions underpinning the forecast of future taxable profits that will result in the DTAs being recovered over an extended period of time (years);

(b) the recognition of DTAs where the issuer has a recent history of losses; and

(c) the recognition of DTAs where the issuer has not achieved key profit forecasts.

> **Matters for consideration by management, Directors and Audit Committees**
> Management, Directors and Audit Committees should exercise close scrutiny in the recognition, measurement, re-measurement and disclosure of material deferred tax assets arising from unused tax losses where the issuer has a history of recent trading losses.

2.7 IAS 36 *Impairment of Assets*

IAS 36 requires that an entity's assets are not carried at more than their recoverable amount. With the exception of goodwill and certain other intangible assets for which an annual impairment test is required to be performed, entities must conduct an impairment test where there is an indication of impairment.

IAASA continues to challenge issuers' on IAS 36 related topics including:

(a) apparent indicators of impairment exist; however, there is no evidence that the required impairment testing was conducted by the issuer, including an instance where the market capitalisation is below the carrying amount of the net assets of the entity;

(b) the discount rate used to measure recoverable amount and whether or not that rate has been appropriately set, including country risk premium [IAS 36.55 and Appendix A A15 to A21];

(c) the key assumptions used, the long-term growth rates used and the disclosure of sensitivities.

> **Matters for consideration by management, Directors and Audit Committees**
> Management, Directors and Audit Committees should carefully consider all the key judgements in preparing impairment tests and the disclosure requirements of IAS 36. Issuers should carefully assess whether or not there are indications of impairment and whether or not an impairment review is required and, if so, should ensure that the recognition, measurement and disclosure requirements of IAS 36 are met in full.

2.8 Alternative performance measures ('APMs')

ESMA's Guidelines on Alternative Performance Measures have been applicable since 2016. These Guidelines are supplemented by a series of questions and answers providing responses to questions posed by stakeholders in relation to the practical application of the Guidelines.

While some instances of good practice were identified, IAASA's examinations of issuers' use of APMs have detected cases where:

(a) incorrect labels are used to describe APMs (e.g. the expression "EBITDA" is used rather than "Adjusted EBITDA"). The Guidelines require that APMs should be given meaningful labels reflecting their content and basis of calculation in order to avoid conveying misleading messages to users [paragraph 22];

(b) undue prominence is given to APMs over the IFRS-based measures. The Guidelines require that APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from financial statements. Presentation of APMs should not distract from the presentation of the measures directly stemming from financial statements [paragraphs 35 and 36];

(c) no reconciliation of the APM to the IFRS-based measure was provided. Reconciliation of the APM to the most directly reconcilable line item, sub-total or total presented in the financial statements is required by paragraph 26 of the Guidelines. The material reconciling items should be separately identified and explained;

(d) if an issuer stops using an APM the issuer should explain the reason why the APM is no longer presented and when an APM is replaced by another APM, issuers should explain why the new APM provides more reliable and more relevant information [paragraphs 42 and 43]; and

(e) prior period comparative amounts for APMs are not presented. APMs should be accompanied by comparatives for the corresponding previous periods [paragraph 37].

Matter for consideration by management, Directors and Audit Committees
Management, Directors and Audit Committees should carefully consider the requirements of the ESMA Guidelines on Alternative Performance Measures and ensure compliance to the fullest extent possible with each of the requirements of those Guidelines. Issuers should also consider the impact of new financial reporting standards and amendments on APMs.

2.9 Related party disclosures

IAASA continues to detect instances where issuers' fail to comply in full with the requirements of IAS 24 *Related Party Disclosures*. Examples of such instances included:

(a) failure to identify a party as a related party where that entity's parent or subsidiary provides key management services to the issuer; and

(b) providing some but not all of the related party disclosures required by IAS 24.18(a) – (d).

Matter for consideration by management, Directors and Audit Committees
Management, Directors and Audit Committees should ensure full compliance with the disclosure requirements of IAS 24.

Particularly in the case of Fund and Debt issuers, management, Directors and Audit Committees should carefully evaluate the process for identification of related parties and transactions and balances with those related parties.

2.10 Supply chain financing

Issuers may use supply chain financing (e.g. non-recourse factoring or reverse factoring) to manage cash flow and working capital.

IAASA has detected instances where the disclosures regarding such financing arrangements are inadequate to provide users with useful financial information. Examples of such inadequacies include:

(a) lack of an accounting policy regarding such arrangements including the basis on which the associated accounts receivable or accounts payable are recognised and de-recognised;

(b) lack of clarity as to the terms, risks and uncertainties connected with such financing facilities; and

(c) absence of clarity as to how such facilities are reflected in the cash flow statement.

Matter for consideration by management, Directors and Audit Committees
Management, Directors and Audit Committees should ensure that, where supply chain financing arrangements are in place, there is adequate disclosure of the financial reporting treatments applied so that users have a full appreciation of the impact of such financing solutions.

2.11 Significant judgements (or critical accounting judgements)

Paragraph 122 of IAS 1 *Presentation of Financial Statements* states that:

> '*An entity shall disclose … the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements …*'

IAS 1.125 states that:

> '*An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:*
>
> *(a) their nature, and*
>
> *(b) their carrying amount as at the end of the reporting period …*'

IAASA reiterates the point made in the 2018 *Observations* document that the disclosures required by IAS 1.125 are reserved for assumptions and estimates that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Issuers should note that items which would not result in a material adjustment to the carrying amount of the asset/liability within the next financial year do not fall within the scope of IAS 1.125 and, therefore, may not warrant disclosure under that paragraph.

The IAS 1.125 disclosures are more detailed and burdensome than the disclosures required for significant judgements (critical accounting judgements) or other sources of estimation uncertainty where there is not at risk of resulting in a material adjustment within the next financial year.

IAASA calls on issuers to clearly identify the accounting matters which they consider to be significant judgements (critical accounting judgements) [IAS 1.122 refers] and to clearly distinguish them from sources of estimation uncertainty [IAS 1.125 refers].

> Matter for consideration by management, Directors and Audit Committees
> Management, Directors and Audit Committees should also ensure that the financial statements clearly identify the accounting matters considered to be significant judgements (critical accounting judgements) and those considered to be sources of estimation uncertainty and distinguish one form the other.

2.12 Other matters

In conducting examinations of periodic financial statements, IAASA has detected matters that recur from year to year over a number of issuers; individually these may not be significant to the individual financial reports in any particular year. However, they are a recurring feature across a range of issuers and, accordingly warrant brief mention here with a view to encouraging management, Directors and Audit Committees taking steps to reduce and eliminate such instances of non-compliance in future financial reports.

The table below lists a selection of such matters along with certain other matters that may merit consideration by management, Directors and Audit Committees as they work their way through the 2019 reporting season.

Area	Observation
Provisions	Paragraph 84 of IAS 37 *Provisions, Contingent Liabilities and Contingent Liabilities* requires specified disclosures (e.g. opening amount, additional provisions made, amounts utilised, amounts reversed and unwinding of discounts) **by class of provision**. IAASA has identified instances where each of these required disclosures have not been presented by class.
IFRS 8 *Operating Segments* – aggregation criteria	Management, Directors and Audit Committees are reminded that IFRS 8.22(aa) requires the disclosure of the judgements made in applying the aggregation criteria in IFRS 8.12 (‘*similar economic characteristics*’). IAASA continues to challenge issuers in instances where it is not apparent that the required disclosures have been given.
IAS 7 *Statement of Cash Flows* – cash and cash equivalents	Management, Directors and Audit Committees are reminded that IAS 7.6 defines cash and cash equivalents. IAS 7.7 elaborates on those definitions. Consequent on IAASA examinations, individual issuers have been instructed by IAASA to enhance the financial reporting treatments applied regarding: - the definition of cash and cash equivalents; - the accounting policy applied; and - the judgements made regarding restricted cash balances and what constitutes cash and cash equivalents.
Digitalisation of issuers' financial reports	The European Commission has put forward rules to support the digitalisation of corporate reporting and to achieve greater transparency of the yearly information disclosed by issuers. The European Single Electronic Format (ESEF) will make issuers’ financial records more readable and accessible. Under the rules, from January 2020 all listed entities will need to finalise their annual financial reports using up-to-date digitalised business reporting systems (XHTML and iXBRL) which should improve accessibility and make the information more user-friendly. The move will also facilitate the availability of key financial information in all EU official languages. In support of these rules, ESMA has prepared an ESEF Reporting Manual and ESEF taxonomy files to help issuers in their preparation. The provisions will be updated on an annual basis to reflect possible updates to the IFRS taxonomy.
NFI Directive[1]	EU law requires large companies to disclose certain information on the way they operate and manage social and environmental challenges. Directive 2014/95/EU lays down the rules on disclosure of non-financial and diversity information by large companies in their annual reports from 2018 onwards.

[1] Directive 2014/95/EU implemented in Ireland by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (S.I. No. 360 of 2017) as amended by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (Amendment) Regulations 2018 (S.I. No. 410 of 2018)

Area	Observation
	Large companies have to publish reports on the policies they implement in relation to: (a) environmental protection; (b) social responsibility and treatment of employees; (c) respect for human rights; (d) anti-corruption and bribery; and (e) diversity on company boards (in terms of age, gender, educational and professional background).
IBOR reform	The Interbank Offered Rate (IBOR) is being replaced and the transition from IBOR from 2021 will impact financial services entities and their customers. In May 2019, the International Accounting Standards Board (IASB) published an Exposure Draft, *Interest Rate Benchmark Reform, Proposed amendments to IFRS 9 and IAS 39*. The ED presents for comment the decisions taken by the IASB to date as part of its project responding to the effects of IBOR reform on financial reporting. The IASB has divided the IBOR project into two phases – the first phase considers issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative virtually risk-free interest rate (an RFR), e.g. Euro Short-Term Rate (€STR), and the second phase will look at issues that may affect financial reporting when an existing interest rate benchmark is replaced with an RFR.

3. GLOSSARY OF TERMS

APM(s)	Alternative Performance Measure(s)
CODM	Chief operating decision maker
DTAs	Deferred tax assets
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECL	Expected credit losses
EECS	European Enforcement Coordination Sessions
ESEF	European Single Electronic Format
ESMA	European Securities and Markets Authority
EU	European Union
FLI	Forward looking information
GAAP	Generally Accepted Accounting Principles
IAASA	Irish Auditing & Accounting Supervisory Authority
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
iXBRL	Inline eXtensible Business Reporting Language
IFRS	International Financial Reporting Standard
IFRIC	International Financial Reporting Standard Interpretations Committee
Issuer	An entity coming within IAASA's financial statement examination remit under the Transparency Regulations
NFI	Non-financial information
PD	Probability of default
RFR	Risk free (interest) rate
SICR	Significant Increase in Credit Risk
XHTML	eXtensible Hyper Text Markup Language

APPENDIX I – IAASA'S FINANCIAL REPORTING RELATED PUBLICATIONS

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

Category	Document
Observations documents	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2018
	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2017
	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2016
	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2015
	Observations on selected financial reporting issues issuers' financial years ending on or after 31 December 2014
Financial reporting decisions	Financial Reporting Decisions (November 2018)
	Financial Reporting Decisions (June 2018)
	Financial Reporting Decisions (February 2018)
	Financial Reporting Decisions (July 2017)
	Financial Reporting Decisions (March 2017)
	Financial Reporting Decisions [2] (January 2017)
	Financial Reporting Decisions [1] (January 2017)
	Financial Reporting Decisions (March 2016)
	Financial Reporting Decisions (January 2016)
	Financial Reporting Decisions (December 2015)
	Financial Reporting Decisions (November 2015)
Surveys and commentaries	Information Note 'Some key areas of focus for 2019 half-yearly reports' (June 2019)
	Information Note 'Requirement to disclose disaggregated revenue' (April 2019)
	Information Note 'Requirement to disclose dividends proposed' (April 2019)
	Thematic review of companies' revenues disclosures (December 2018)
	Desk-top review on Companies' Business Combinations Disclosures (November 2018)
	Desk-top Review on Companies' Bank Covenants Disclosures (October 2018)
	Information Note 'Corporate Income Tax Reporting by Irish Issuers' (October 2018)
	IAASA desktop survey: Impairment testing in Irish listed companies' 2016/17 annual financial statements (November 2017)
	OPERATING SEGMENTS – THEMATIC SURVEY (October 2017)

Category	Document
	ALTERNATIVE PERFORMANCE MEASURES – THEMATIC SURVEY (September 2017)
	Desktop survey – Disclosures of the New Accounting Standards in issuers' 2016 annual financial statements (July 2017)
	Survey on the application of IFRS 13 Fair Value Measurement by Irish Companies (November 2016)
	SHARE-BASED PAYMENTS – a survey (October 2016)
	RECOGNITION OF INTANGIBLE ASSETS AND SCALE OF ACQUISITION ACTIVITY – a survey (September 2016)
	SURVEY OF ISSUERS' DEFINED BENEFIT PENSION SCHEME ASSUMPTIONS (August 2016)
	OPERATING LEASE COMMITMENTS - A Survey of Operating Lease Commitments by Irish Equity Issuers (July 2016)
	Survey of Directors' Critical Accounting Judgments and Auditors' Assessed Risks of Material Misstatement (November 2015)
	Alternative Performance Measures – A Survey of their Use together with Key Recommendations: An Update (January 2015)
	Review of the application of IAS 7 *Statement of Cash Flows* by selected Irish equity issuers (October 2014)
Policy Paper	Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings (June 2016)
Information Notes	Consideration of the impact of Brexit for issuers' half-yearly financial reports (July 2016)
Annual Reports	2018 Annual Report 2017 Annual Report 2016 Annual Report 2015 Annual Report 2014 Annual Report

APPENDIX II – USEFUL LINKS

	Link
Legislation	
Companies Act 2014	http://www.irishstatutebook.ie/eli/2014/act/38/enacted/en/html
Companies (Accounting) Act 2017	http://www.irishstatutebook.ie/eli/2017/act/9/enacted/en/html
Companies (Amendment) Act 2017	http://www.irishstatutebook.ie/eli/2017/act/13/enacted/en/html
Central Bank of Ireland	https://www.centralbank.ie/
Central Bank (Investment Market Conduct) Rules 2019 (S.I. No. 366 of 2019 (22 July 2019)	http://www.irishstatutebook.ie/eli/2019/si/366/made/en/pdf
European Financial Reporting Advisory Group (EFRAG)[2]	http://www.efrag.org/
Endorsement status	http://www.efrag.org/Endorsement
European Securities and Markets Authority	https://www.esma.europa.eu/
Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs) (October 2017)	https://www.esma.europa.eu/sites/default/files/library/esma32-51-370_qas_on_esma_guidelines_on_apms.pdf
ESMA Guidelines on Alternative Performance Measures (October 2015)	https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf
ESMA Guidelines on enforcement of financial information (October 2014)	https://www.esma.europa.eu/sites/default/files/library/2015/11/2014-esma-1293en.pdf
23rd Extract from the EECS's Database of Enforcement Decisions (July 2019)	https://www.esma.europa.eu/press-news/esma-news/esma-publishes-23rd-extract-eecs-database
22nd Extract from the EECS's Database of Enforcement Decisions (April 2018)	https://www.esma.europa.eu/press-news/esma-news/esma-publishes-22nd-extract-eecs-database
International Accounting Standards Board	http://www.ifrs.org

[2] EFRAG provides technical expertise to the European Commission concerning the use of IFRS within Europe

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