



Mid-year update on IAASA's financial reporting examination activities

June 2017

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The primary function of IAASA's Financial Reporting Supervision Unit (FRSU) is to examine the compliance of financial reporting of those listed companies coming within its remit with applicable accounting standards. This remit extends to the annual and half-yearly financial reports of those companies.

With the majority of companies having half-yearly reporting dates of 30 June and with FRSU's examinations of companies' 31 December 2016 annual financial statements underway, this update is being issued to remind directors, Audit Committees and preparers of financial reports of some key topics to continue to consider and to provide stakeholders with an update to IAASA's accounting enforcement activities in 2017 to date.

IAASA's 2016 *Observations* document

IAASA's 2016 *Observations* document focuses on some key areas that merit careful consideration in financial statements in the current reporting season including:

- (a) uncertainties facing entities brought on by low or negative interest rates, low commodity prices, volatility in exchange rates, Brexit and sluggish EU economic growth offset by an improving domestic economy;
- (b) the measurement of fair values and determining discount rates used in measuring pension liabilities; and
- (c) reporting financial performance, including the use of alternative performance measures (APMs or KPIs) and the quality of disclosures. Disclosures should be relevant and tailored to the reporting company's specific circumstances rather than being "boiler plate" in nature.

The *Observations* document can be accessed [here](#).

ESMA Common Enforcement Priorities

The public statement titled "[European Common Enforcement Priorities for 2016 Financial Statements](#)" issued by ESMA, the [European Securities and Markets Authority](#), in October 2016 specified the topics to be considered in respect of 2016 financial statements.

These topics are used by European national accounting enforcers, including IAASA, in their examinations of companies' 2016 annual and 2017 half-yearly financial statements.

The ESMA common enforcement topics identified are:

- (a) presentation of financial performance;
- (b) distinction between equity and liabilities; and
- (c) disclosure of the impact of new accounting standards in the financial statements.

Each of these topics is elaborated on in ESMA's public statement which is available [here](#).

ESMA Guidelines on Alternative Performance Measures (APMs)

ESMA published its Guidelines on Alternative Performance Measures (ESMA APM Guidelines) for issuers on 30 June 2015 which have been effective in relation to any APMs disclosed on or after 3 July 2016.

The ESMA APM Guidelines can be found [here](#).

IAASA is currently engaging with a number of companies in respect to their use of APMs and is coordinating its enforcement responses with other EU accounting enforcers to ensure consistent application of the ESMA APM Guidelines across Europe.

New accounting Standards

International Accounting Standards require disclosure of the impact of an impending change in accounting policy when the company has yet to implement a new IFRS Standard that has been issued but not yet come into effect¹.

In that context, ESMA's [Public Statement](#) dealing with issues to be considered in implementing IFRS 15 *Revenue from Contracts with Customers* and its [Public Statement](#) dealing with issues to be considered in implementing IFRS 9 *Financial Instruments* have continued applicability.

IAASA is currently engaging with a number of companies in respect of the extent to which they disclose the impact of new IFRS Standards in quantitative and qualitative terms.

Brexit

Risks and uncertainties consequent on Brexit remain following the outcome of the UK general election and the continued uncertainty as to how "hard" any exit agreement may be.

In that context, the considerations set out in IAASA's Information Note "[Consideration of the impact of Brexit for issuers' half-yearly financial reports](#)", which sets out factors that IAASA suggests should be considered by companies when preparing financial reports, continue to be of relevance.

The Information Note may be accessed [here](#).

Topics arising from IAASA's current year examinations

A number of financial reporting examinations of companies' 2016 annual financial statements are underway or have already been completed. Some common themes identified from those examinations include:

- (a) the classification of and disclosures surrounding liabilities and provisions relating to uncertain tax positions (including interest and penalties thereon) in the context of IAS 12 *Income Taxes*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 23 *Uncertainty over Income Tax Treatments*², and paragraphs 112(c), 125 and 131 of IAS 1 *Presentation of Financial Statements*;

¹ Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of an impending change in accounting policies when the company has yet to implement a new IFRS Standard that has been issued but not yet come into effect (irrespective of whether it has already been endorsed in the EU). In addition, it requires disclosure of 'known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the company's financial statements in the period of initial application'. These requirements encompass both qualitative and quantitative information. The objective of these requirements is to enable users of the financial statements to understand the expected impact that the future application of the new Standard will have on the financial position and performance of the company

² IFRIC 23, which was issued on 7 June 2017 and is effective for annual accounting periods beginning on or after 1 January 2019, has not yet been endorsed by the EU

- (b) the quality of quantitative and qualitative disclosures of the impact of an impending change in accounting policy when the company has yet to implement a new IFRS Standard that has been issued but not yet come into effect; and
- (c) the extent to which companies have met the requirements of the ESMA APM Guidelines. In that regard, most companies appear to have made good efforts to comply.