January 2021

Financial Reporting Supervision

Financial Reporting Decisions

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

Contents

1. Background and introduction

In accordance with its Policy Paper on Publication of IAASA's Financial Reporting Enforcement Findings, IAASA publishes this compendium of financial reporting decisions with the aim of promoting high quality financial reports.

The financial reporting decisions included in this compendium were deemed by IAASA to be 'significant' and, therefore, are published in this document, as they met one or more of the following publication criteria:

(a) refers to financial reporting matters with technical merit;

(b) has been discussed at EECS as an emerging issue;

(c) has been submitted to the EECS Decision Database;

(d) will be of interest to other European accounting enforcers;

(e) indicates to IAASA that there is a risk of significant differences in the financial reporting treatments applied by issuers;

(f) is likely to have a significant impact on other Irish or European issuers;

(g) is taken on the basis of a provision not covered by a specific financial reporting standard; or

(h) otherwise meets IAASA's mission of promoting high quality financial reporting.

2. Bank of Cyprus Holdings plc

Issuer	Bank of Cyprus Holdings plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2019
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	IFRS 7 *Financial Instruments: Disclosures*

Summary
This financial reporting decision concerns the disclosure of significant changes in expected credit loss (ECL) assumptions and the reasons for those changes with a view to enabling users of the financial statements to understand how such changes impact ECL loss allowances [IFRS7.35B(b) and IFRS 7.35G(c)].

Background
Bank of Cyprus Holdings Group plc ('the issuer') provides a range of banking, financial services and insurance services. The issuer is the largest financial institution in Cyprus with total assets in excess of €21.1bn as at 31 December 2019.

IAASA performed a focused examination of the issuer's annual financial statements for the year ended 31 December 2019.

IAASA concluded that the issuer had not complied, in full, with the disclosure requirements of IFRS 7. The issuer provided IAASA with an undertaking to provide additional IFRS 7 disclosures in future financial statements.

Outline of financial reporting treatments applied by the issuer
The issuer reported a loss before tax for 2019 amounting to €180.5m (2018: loss before tax €33.4m).

Notes to the financial statements disclosed a table of movements of the ECL allowance which indicated that changes to models and inputs (i.e. probability of default (PD), loss given default (LGD) and exposure at default (EAD)) resulted in additional ECL allowance amounting to a net €218.3m.

A separate note to the financial statements stated that the sensitivity of ECLs to changes in selected assumptions ranges from €2.7m to €81.5m.

Outline of findings made by IAASA
Paragraph 35G(c) of IFRS 7 *Financial Instruments: Disclosures* states that an entity shall disclose '*changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.*'

IFRS 7.35B(b) states that credit risk disclosures shall provide:

'*… qualitative and quantitative information that allows users of the financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes ...*'

The issuer provided additional quantitative analysis to IAASA that quantified the impact of changes in the PD, LGD and EAD assumptions to movements of the ECLs allowance. The impact on the ECL allowance arising from the change in the LGD assumption of stage 3 and purchased originally credit impaired (POCI) loans (€232m) amounted to 89% of the total net ECL impairment charge of €260m. The issuer explained to IAASA that the main ECL drivers for stage 3 and POCI loans are the assumptions surrounding:

(a) the realisation amount;

(b) the timing of the realisation of collateral; and

(c) the impact of non-performing exposure (NPE) trades on the ECL assumptions.

IAASA concluded that the notes to the financial statements did not comply, in full, with the disclosure requirements of IFRS 7.35B(b) and IFRS 7.35G(c) to explain:

(a) the material changes in assumptions and, in particular, the LGD assumption; and

(b) the reasons for those changes

such as to enable users of the financial statements to understand how changes in assumptions contribute to changes in ECL loss allowance.

Outline of corrective actions undertaken or to be undertaken

The directors agreed that future financial statements would expand the explanation of the changes in significant ECL assumptions and disclose the reasoning for those changes in accordance with the requirements of paragraphs IFRS 7.35B(b) and IFRS 7.35G(c).

3. C & C Group plc

Issuer	C&C Group plc
Report type	Annual financial statements
Reporting period	Year ended 29 February 2020
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 10 *Events after the Reporting Period*

Summary
This Decision concerns the determination of the trigger event for the recognition of impairment charges in the income statement as a result of COVID-19.

Background
The issuer is a vertically integrated premium drinks company which manufactures, markets and distributes branded beer, cider, wine, spirits and soft drinks across the UK and Ireland.

IAASA performed a focussed examination of the issuer's annual financial statements for the year ended 29 February 2020.

Outline of financial reporting treatments applied by the issuer
In its financial statements, the issuer accounted for the COVID-19 pandemic as an adjusting event and recognised an exceptional charge of €47.6m at 29 February 2020.

Paragraph 3 of IAS 10 *Events after the Reporting Period* states that:

> '*Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:*
>
> *(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period) …*'

Outline of findings made by IAASA
It was not readily apparent to IAASA from the financial statements as to why the impact of COVID-19 had been accounted for by the issuer as an adjusting event given that the following occurred only after 29 February 2020 (i.e. the Group's reporting period end):

(a) the World Health Organisation (WHO) declared COVID-19 as a global pandemic on 11 March 2020;

(b) lockdown measures in Ireland were announced on 12 March 2020; and

(c) lockdown measures in the UK were announced on 21 March 2020.

IAASA requested the issuer to provide their detailed rationale as to why the COVID-19 pandemic event specifically provided evidence of conditions that existed at the issuer's reporting date (i.e. 29 February 2020) and, accordingly, fell to be treated as an adjusting event.

The issuer indicated that:

(a) it assessed that the trigger event for the recognition of COVID-19 related items in its financial statements was the actual presence of COVID-19 virus in Europe and its arrival in Ireland and the UK prior to 29 February 2020 rather than the response of national governments to contain its spread (e.g. restrictions on movements, cancellation of travel, closure of retail outlets);

(b) the WHO declared COVID-19 as a Public Health Emergency of International Concern on 30 January 2020; and

(c) it received informal feedback from the on-trade premises that, during February 2020, these premises had identified a change in consumer behaviour in that the footfall entering such premises had reduced noticeably.

The issuer viewed the arrival and progress of the virus as the originating trigger in the sequence of events and believed that this was supported by the impacts on consumer behaviour in the on-trade.

The issuer had undertaken an internal assessment based on both internal management information which was in turn supported by publicly available statistics at the reporting date which indicated:

(a) the existence of COVID-19 in Europe; and

(b) that the markets in which the issuer operated had already started to impact both the supply side and production side of the business prior to the reporting date.

The issuer provided evidence to IAASA supporting its position.

Based on the evidence that customers' behaviour had changed before the reporting date of 29 February 2020 and that the existence of COVID-19 in the markets in which the issuer operated had already started to impact both the supply side and production side of the business during February 2020, IAASA accepted the issuer's accounting treatment of COVID-19 as an adjusting event.

Outline of corrective actions undertaken or to be undertaken

IAASA agreed with the issuer's rationale that it was appropriate to treat COVID-19 pandemic related charges as an adjusting event for the reporting period ended 29 February 2020.

IAASA highlighted to the issuer that disclosure of additional narrative on the emerging customer behaviour and the impact on the supply and production side of the business identified during February 2020 would have provided useful information for the users of the financial statements.

4. FBD Holdings plc

Issuer	FBD Holdings plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2019
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	IAS 36 *Impairment of Assets*

Summary
This financial reporting decision concerns the expansion of impairment testing disclosures in circumstances where the carrying amount of the net assets of the issuer is more than the issuer's market capitalisation [IAS 36.12(d) refers].

Background
The issuer is a general insurer.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2019.

Outline of financial reporting treatments applied by the issuer
IAASA noted that at 31 December 2019, the issuer's market capitalisation [i.e. number of shares multiplied by the share price] amounted to €308.5m. The issuer's net assets at that date amounted to €375m.

The excess of the carrying amount of the issuer's net assets over its market capitalisation is an indicator of impairment.

Paragraph 12(d) of IAS 36 *Impairment of Assets* states that:

'*In assessing whether there is any indication that an asset may be impaired an entity shall consider, as a minimum the following indications:*

External sources of information

….

(d) the carrying amount of the net assets of the entity is more than its market capitalisation …'

Outline of findings made by IAASA
IAASA requested the issuer to clarify whether any additional impairment reviews were carried out as a result of the abovementioned indicator and to explain the significant variance between the market capitalisation and the carrying amount of its net assets as at 31 December 2019.

The issuer indicated that:

(a) it had identified one cash generating unit and an impairment review was performed based on the value in use method. The result of the impairment review was that no impairment provision was warranted; and

(b) the difference between the market capitalisation and the carrying amount of the net assets was due to a number of factors including:

    (i) illiquidity of the issuer’s shares;

    (ii) overall market sentiment towards insurers; and

    (iii) Brexit concerns.

Following a request from IAASA, the issuer provided:

(a) a more detailed description of the key assumptions used in the value in use calculation and explanations as to how these assumptions were determined for the impairment review carried out;

(b) details as to how it had calculated the discount rate used in calculation of the recoverable amount;

(c) the amount of headroom that was identified in the impairment review carried out;

(d) a more detailed explanation as to why there is illiquidity in the issuer’s shares; and

(e) a more detailed explanation on why overall market sentiment towards insurers and Brexit concerns impacted the variance between market capitalisation and the carrying amount of net assets of the issuer as at 31 December 2019.

IAASA concluded that, given the issuer’s market capitalisation was below the carrying amount of its net assets, an expansion of the impairment testing disclosures in future periodic financial statements would aid users understanding as to why no impairment provision was warranted.

Outline of corrective actions undertaken or to be undertaken
Following the engagement with IAASA, the issuer voluntarily expanded the disclosures in relation to impairment testing in its 2020 interim financial statements for the six month period ended 30 June 2020 for the following matters:

(a) discussion on the decline in the issuer’s market capitalisation which resulted in the market capitalisation being below the carrying amount of net assets;

(b) description of the method used to determine the recoverable amount;

(c) additional narrative information including quantification of the significant assumptions used in the issuer’s cash flow projections and a discussion on how the key assumptions were determined;

(d) information on any sensitivity analysis performed and, if applicable, reasons why no sensitivity analysis was performed; and

(e) an explanation as to why the decline in the issuer’s market capitalisation did not result in an impairment provision.

5. Irish Continental Group plc

Issuer	Irish Continental Group plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2019
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	IFRS 16 *Leases*

Summary
This financial reporting decision concerns the estimation of the incremental borrowing rate (IBR) for two long leases of land of 77 and 103 years duration respectively in accordance with IFRS 16. IAASA did not identify any non-compliance with IFRS 16's requirements in the issuer's measurement of the IBR and, accordingly, no corrective action was requested.

Outline of financial reporting treatments applied by the issuer
Irish Continental Group (the issuer) is a shipping company which carries passengers and cars, roll-on roll-off freight and container freight, on routes between Ireland, the United Kingdom and mainland Europe and carries out ship chartering activities. The issuer operates container terminals at two ports.

IAASA performed a focused examination of the issuer's initial implementation of IFRS 16 *Leases* in the issuer's annual financial statements for the year ended 31 December 2019.

Right-of-use assets recognised by the issuer include leased lands at Dublin Port from which the issuer operates a container terminal. The issuer's financial statements state that the IBR for the two land leases (which extend for 77 and 103 years) is estimated and is based on a consideration of longer-term property yields and extrapolation of corporate bond yields for an equivalent duration of the underlying lease (i.e. a yield curve is derived from a population of BBB rated Euro corporate bonds and projected forward into durations not readily observable using linear regression analysis). The issuer confirmed that the IBR calculated for the 77-year lease was 4.07% and the IBR for the 103-year lease was 4.25%. The issuer disclosed in the notes to the financial statements that the average effective interest rate on its borrowings at 31 December 2019 was 1.60%.

The issuer applied the modified retrospective approach permitted by IFRS 16.C5(b) and, therefore, discounts the property leases at the IBR in accordance with IFRS 16.C8(a).

Outline of findings made by IAASA
Having engaged with the issuer, IAASA did not disagree with its measurement of the IBR and, accordingly, no corrective action was requested. IFRS 16 Appendix A defines the IBR as '*The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.*'

IFRS 16.BC162 states that '*… the IASB decided to define the lessee's incremental borrowing rate to take into account the terms and conditions of the lease.*'

IAASA examined the issuer's approach to determining IBR and assessed whether or not the IBR took into account the terms and conditions of the lease such as asset specific risk, asset quality, lending market conditions, credit risk, and lease duration. IAASA also evaluated the sample population of corporate bonds used to derive the IBR (i.e. being of a shorter duration that the term of the long-leases).

IAASA also evaluated the alternative approaches to measuring the IBR considered by the issuer.

The issuer provided to IAASA:

(a) a comparison of its IBR against yields observed on a population of US corporate bonds swapped to Euros and to the yields observed on Irish property; and

(b) an analysis of the sensitivity of the carrying amount of the lease liability (and right-of-use assets) and the profit and loss charges to changes in the IBR used.

IAASA noted the actions taken by the issuer to validate its IBR judgements and to ensure the IBR reflected the terms and conditions of the long leases by comparing the estimated IBR to: (i) yields on prime Irish property and (ii) yields on corporate debt and by considering IBR sensitivity to determine the impacts of changes to IBRs for leases.

IAASA accepted that the measurement of IBRs for long leases requires the use of judgement. In this particular fact pattern, IAASA did not disagree with the issuer's measurement of the IBR.

Outline of corrective actions undertaken or to be undertaken
None as, based on the particular fact pattern, IAASA did not disagree with the issuer's measurement of the IBR.

6. Permanent TSB Group Holdings plc

Issuer	Permanent TSB Group Holdings plc
Report type	Annual financial statements
Reporting period	Year ended 31 December 2019
Financial reporting framework	IFRS-EU
Applicable financial reporting standard	IAS 36 *Impairment of Assets*

Summary

This financial reporting decision concerns the expansion of impairment testing disclosures in circumstances where the carrying amount of the net assets of the issuer is more than the issuer's market capitalisation [IAS 36.12(d) refers].

Background

The issuer is a financial institution.

IAASA performed an unlimited scope examination of the issuer's annual financial statements for the year ended 31 December 2019.

Outline of financial reporting treatments applied by the issuer

IAASA noted that at 31 December 2019 the issuer's market capitalisation [i.e. number of shares in issue multiplied by the price per share] amounted to €519m. The issuer's net assets at that date amounted to €1,997m.

The excess of the carrying amount of the issuer's net assets over its market capitalisation is an indicator of impairment.

Paragraph 12(d) of IAS 36 *Impairment of Assets* states that:

'*In assessing whether there is any indication that an asset may be impaired an entity shall consider, as a minimum the following indications:*

External sources of information

….

(d) the carrying amount of the net assets of the entity is more than its market capitalisation …'

Outline of findings made by IAASA

IAASA requested the issuer to clarify whether any additional impairment reviews was carried out as a result of the abovementioned indicator and to explain the significant variance between the market capitalisation and the carrying amount of its net assets as at 31 December 2019.

The issuer stated that it completed an impairment assessment of its Group fixed assets in the scope of IAS 36 and indicated that:

(a) the cash-generating unit (CGU) for this impairment assessment was its overall banking business. To determine the value in use of the CGU, the issuer used the cash flows from its medium-term plan for years 1 to 4 and then applied a long-term growth rate of 2.5%. The cash flows were discounted at the issuer's cost of equity.

The outcome of this assessment indicated that no impairment charge was required; and

(b) the difference between the market capitalisation and the carrying amount of the net assets was due to a number of factors including:

    (i) the market capitalisation of €519m does not take account of a control premium;

    (ii) the issuer has a 75% shareholder and, therefore, there is limited liquidity in the shares impacting the share price; and

    (iii) throughout 2019, banks including the issuer experienced depressed share prices because of the current low interest rate environment.

Following a request from IAASA, the issuer provided:

(a) details of other assumptions that were used in its projections;

(b) a reconciliation as to how the issuer's cost of equity was calculated; and

(c) details of the sensitivity analysis that was performed.

IAASA concluded that, given the issuer's market capitalisation was below the carrying amount of its net assets, an expansion of the impairment testing disclosures in future periodic financial statements would aid users' understanding as to why no impairment charge was warranted.

Outline of corrective actions undertaken or to be undertaken

Following the engagement with IAASA, the issuer voluntarily undertook to expand the disclosures in relation to impairment testing to articulate clearly the conclusion of the impairment assessment. In particular, the issuer agreed that the following disclosures would be expanded in future periodic financial statements:

(a) additional narrative information including quantification of the significant assumptions used in the issuer's cash flow projections;

(b) information on the sensitivity analysis performed; and

(c) an explanation as to why the decline in the issuer's market capitalisation does not result in an impairment provision.

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