Assurance

Simplifying complexity for our clients

EY Ireland

Financial reporting update

March 2019

EY

Building a better working world

Contents

Foreword

At EY we strive to simplify complex accounting and reporting requirements for our clients. With that in mind, this publication brings together the significant changes in accounting standards, legal and regulatory requirements, as well as key enablers, to help you respond to the changing landscape.

In this edition, we discuss recent IFRS updates including, among other things:

- the IASB's amendments to the definition of 'material' in IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors
- amendments to the definition of 'business' in IFRS 3 Business Combinations
- the proposal to defer the effective date of IFRS 17 Insurance Contracts, and
- we note that IFRS 16 we note IFRS 16 Leases is now effective for accounting periods beginning on or after 1 January 2019.

From an Irish GAAP perspective, we also provide some reminders on the key amendments to FRS 102 arising from the FRC's December 2017 Triennial Review, which are effective for accounting periods beginning on or after 1 January 2019.

We also highlight some of the findings and publications of the accounting regulators, including Irish Auditing & Accounting Supervisory Authority, the UK's Financial Reporting Council and the European Securities and Markets Authority.

If you have any questions, or would like to discuss how your company is impacted by any of the topics in this publication, please get in touch with your EY contact, who will be supported by the individuals below:

George Deegan
Partner, Assurance, EY Ireland
+353 1 221 2635
george.deegan@ie.ey.com

Mark Kelly
Director, Financial Reporting Group, EY Ireland
+353 1 221 2761
mark.kelly@ie.ey.com

Section 1: International Financial Reporting Standards (IFRS)

IASB amends the definition of 'material'

The International Accounting Standards Board ('IASB') issued amendments to its definition of 'material' to make it easier for companies to make materiality judgements. The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in their financial statements. The changes are effective from 1 January 2020, but may be early applied.

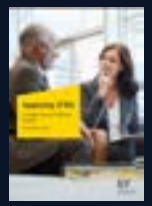
EY - IFRS Developments 138 - IASB issues amendments to the definition of material

IFRS 16 now effective

IFRS 16 Leases was issued in January 2016 and is effective for annual reporting periods starting on or after 1 January 2019. It replaces IAS 17 Leases and related Interpretations.

EY - Applying IFRS - A closer look at IFRS 16 Leases

EY - Applying IFRS - Presentation and disclosure requirements of IFRS 16 Leases

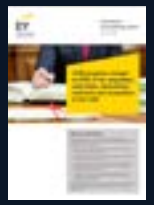


EY - Applying IFRS - Impairment considerations for the new leasing standard

IFRS 17 proposed deferral to 2022

The International Accounting Standards Board ('IASB') has voted to propose a one-year deferral of the effective date for IFRS 17 Insurance Contracts, the new insurance contracts Standard, to 2022.

EY - Insurance Accounting Alert - November 2018



EY - Insurance Accounting Alert - January 2019

EY - Insurance Accounting Alert - February 2019

EY - IASB considers concerns and implementation challenges raised by stakeholders on IFRS 17

IASB amends definition of 'Business'

The International Accounting Standards Board ('IASB') has issued narrow-scope amendments to IFRS 3 Business Combinations to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. Earlier application is permitted.

EY - IFRS Developments 137 - IASB issues amendments to the definition of a business in IFRS 3a

Latest EFRAG endorsement status report

The latest EFRAG endorsement status report provides an overview of IFRS Standards and IFRS interpretations pending endorsement. It includes mention of the IASB effective date, an indication of when the various decisions, including final endorsement, are expected to be made and of whether the time-table is compatible with the IASB effective date.

The report further contains a list of all IFRS, amendments to IFRS and IFRS Interpretations endorsed in the EU, providing for each of them the date when it became effective in the EU, the date the endorsement decision was made and the date when it was published in the Official Journal of the European Union.

EY - Update of standards and interpretations in issue at 31 December 2018

EY's IFRS Developments announces significant decisions on topics that have a broad audience, application or appeal. General and Industry *IFRS Developments* publications summarise, generally in four pages, IASB and IFRS Interpretations Committee discussion papers, exposure drafts, final standards or interpretations to provide a high-level overview of the requirements.

Longer and more detailed than *IFRS Developments*, *Applying IFRS* provides analyses of proposals, standards or interpretations and discussion of how to apply them.

Applying IFRS include:

- A closer look at IFRS 15, the revenue recognition standard
- Alternative performance measures

EY - Applying IFRS - A closer look at IFRS 15, the revenue recognition standard

EY - Applying IFRS - Alternative performance measures

Other publications from EY's series IFRS Developments include:

- Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)
- Revenue earned before an asset is ready for its intended use
- Step acquisition of a subsidiary in separate financial statements (IAS 27)
- Sale of output by a joint operator
- Liabilities in relation to a joint operator's interest in a joint operation
- IBOR reform: the IASB's proposals

EY - IFRS Developments 139 - Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)

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EY - IFRS Developments 142 - Sale of output by a joint operator

EY - IFRS Developments 143 - Liabilities in relation to a Joint Operator's interest in a Joint Operation

EY - IFRS Developments 144 - IBOR: the IASB's proposals

Other publications from EY's series IFRS Core Tools include:

- IFRS Update of standards and interpretations in issue at 30 September 2018
- International GAAP Disclosure Checklist August 2018
- Good Group (International) Limited illustrative consolidated financial statements
- Good Bank (International) Limited illustrative financial statements
- Good Life Insurance (International) Limited illustrative financial statements

EY - International GAAP Disclosure Checklist August 2018

EY - Good Group (International) Limited Illustrative consolidated financial statements (December 2018)

EY - Good Bank (International) Limited - Illustrative Financial Statements, including hedge disclosures (2018)

EY - Good Life Insurance (International) Limited - selective disclosures for IFRS 7, IFRS 9 and IFRS 17

EY Good Mining (International) Limited Illustrative Financial Statements

Section 2: Irish Generally Accepted Accounting Practice (GAAP)

A reminder: Amendments to FRS 102

Triennial Review 2017 – Incremental improvements and clarifications

In December 2017, the Financial Reporting Council ('FRC') published Amendments to FRS 102 – Triennial Review 2017 – Incremental improvements and clarifications.

The amendments are effective for accounting periods beginning on or after 1 January 2019. Early application is permitted, provided all amendments are adopted at the same time and that the early application is disclosed.

- The amendments include various incremental improvements and clarifications arising from the 2017 Triennial Review. Note that the December 2017 amendments do not introduce major changes to IFRSs into FRS 102. Any amendments to reflect IFRS 9, IFRS 15 and IFRS 16 will be considered as part of a later phase, and will not be effective before 1 January 2022.
- There are a large number of amendments to FRS 102, most being clarifications of existing practice, or wording changes without substantive effect. Some of the key changes to FRS 102 concern the following:
- **Changes to the accounting for intragroup investment properties.** Entities will be allowed a policy choice of measuring investment property rented to another group entity (a) within PP&E at cost, or (b) at fair value through profit or loss.
- **Requiring fewer intangible assets to be recognised from goodwill in a business combination.** Currently, intangible assets are recognised in a business combination if they (a) meet the recognition criteria and either (b) arise from contractual or legal rights, or (c) are separable. Once the amendments are effective, for all prospective business combinations, all three criteria (i.e., (a), (b) and (c)) must be met. However, an entity may, as a matter of accounting policy, still choose to separately recognise additional intangible assets based on the previous requirement.
- **Introducing a narrower definition of financial institution.** Fewer entities will be classed as financial institutions (and therefore no longer subject to the additional disclosures in Section 34 and be able to benefit from more disclosure exemptions under the reduced disclosure framework) by removing the reference to 'generating wealth' and 'managing risk' in the final 'catch all' paragraph of the definition of a 'financial institution'. Judgement will still be required.
- **Debt instruments meeting a principles-based description will be considered 'basic financial instruments' and measured at amortised cost.** This should mean more debt instruments qualify to be measured at amortised cost.
- **Simplifying the accounting by small entities for directors' loans.** Small entities will be permitted to initially measure loans from a person within a director's group of close family members that includes at least one shareholder in the entity at transaction price rather than fair value. Subsequently the effective interest rate for a loan accounted at transaction price is that implicit in the contract, which may be zero. This provides relief from the normal requirements which would require a loan to be recognised initially at the present value of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

Amendments to FRS 102 – Triennial Review 2017 – Incremental improvements and clarifications

FRC factsheets

- The Financial Reporting Council ('FRC') issued a suite of staff factsheets on aspects of FRS 102. The factsheets are intended to assist stakeholders by highlighting certain requirements of FRS 102.
- Fact Sheet 1 - FRS 102: Triennial Review 2017 Amendments
- Fact Sheet 2 - FRS 102: Triennial Review 2017 Transition
- Fact Sheet 3 - FRS 102: Illustrative Statement of Cash Flows
- Fact Sheet 4 - FRS 102: Financial Instruments
- Fact Sheet 5 - FRS 102: Property: Fair Value Measurement
- Fact Sheet 6 - FRS 102: Business Combinations
- Fact Sheet 7 - FRS 102: Transition to FRS 102

FRC proposes amendment to FRS 101 and FRS 102

The Financial Reporting Council ('FRC') issued FRED 70 arising from the annual review of FRS 101 *Reduced Disclosure Framework*. FRED 70 proposes that insurance entities shall not be permitted to apply FRS 101 if IFRS 17 *Insurance Contracts* is part of EU adopted IFRS. The comment period for FRED 70 closes on 30 April 2019.

The FRC also issued FRED 71, which proposes amending FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* in relation to the presentation of the impact of transition from defined contribution accounting to defined benefit accounting. The comment period for FRED 71 closes on 31 March 2019.

FRC - FRED 70

FRC - FRED 71

Section 3: Corporate governance

IAASA's Observations document

The Irish Auditing & Accounting Supervisory Authority ('IAASA') issued its annual Observations document highlighting those topics that it considers key that management, Directors and Audit Committees should consider when preparing and approving 2018 financial statements, including:

- the impact of new financial reporting standards;
- significant judgments and sources of estimation uncertainty;
- accounting treatment applied in respect of complex customer and supplier arrangements; and
- the presentation of alternative performance measures ('APMs').

IAASA survey on corporate taxes reporting

The Irish Auditing & Accounting Supervisory Authority ('IAASA') issued an information note following its desktop review of the tax accounting practices of a range of listed companies.

IAASA noted that for almost 2 in every 3 companies selected, corporate income taxes were a principal risk and uncertainty and a source of estimation uncertainty. The information note provides IAASA's observations on the disclosure of the effective tax rate, the tax reconciliation disclosed in the notes to the annual accounts, and the disclosure of uncertain tax positions (UTPs).

IAASA review on disclosure of bank covenants

The Irish Auditing & Accounting Supervisory Authority ('IAASA') published the results of its desktop review into bank covenant disclosures.

IAASA noted that the disclosure of financial ratios and other terms agreed with lenders is relevant information in assisting users assess the creditworthiness and liquidity risk of a company.

IAASA observed from its review that, of those surveyed, some issuers did not disclose any information on covenants, some disclosed only selective information on covenants, while others disclosed the covenants but not the measures achieved.

IAASA review of business combination disclosures

The Irish Auditing & Accounting Supervisory Authority ('IAASA') published the results of its desktop review into IFRS 3 Business Combination disclosures.

Among other things, IAASA noted from its sample, that:

- all companies with acquisition activity in the period under review disclosed that the acquired assets and liabilities were measured provisionally, none identified the specific asset or liability for which information was still required.
- 43% did not disclose the acquisition-related costs.
- 36% did not disclose the basis for determining the amount of contingent consideration, while 29% did not disclose the valuation technique and key inputs to measure the contingent consideration.

IAASA review of revenue disclosures

The Irish Auditing & Accounting Supervisory Authority ('IAASA') published the results of its desktop review into IFRS 15 disclosures in 2018 half yearly financial reports.

Among other things, IAASA noted from its sample, that:

- 75% reported no material impact from adopting IFRS 15.
- 30% did not explain the timing of revenue recognition.
- 45% did not describe the criteria to determine when control had passed.
- 35% disaggregated revenue into just two categories, while a further 30% provided no disclosures on disaggregation.

IAASA Financial Reporting Decisions

The Irish Auditing & Accounting Supervisory Authority ('IAASA') published selected financial reporting decisions arising from its examinations of certain issuers' periodic financial reporting.

The topics giving rise to these financial reporting decisions included:

- IFRS 8 *Operating Segments*, and the legal of disaggregation in disclosures of revenue by country of origin.
- IAS 24 *Related party disclosures*, and the definition of 'key management personnel' and associated disclosures.
- IFRS 3 *Business combinations*, and the determination of whether individual business combinations were material to require separate disclosure.
- IFRS 7 *Financial Instruments*: Disclosures, and disclosure of the maturity profile of redeemable debt instruments.

ESMA – European common enforcement priorities for 2018 annual financial reports

The European Securities and Markets Authority ('ESMA') published its annual statement titled European common enforcement priorities for 2018 annual financial reports. ESMA, together with national enforcers, will pay particular attention to these areas when monitoring and assessing the application of all respective requirements.

The common enforcement priorities for 2018 year-end, are:

- Specific issues related to the application of IFRS 15 Revenue from Contracts with Customers;
- Specific issues related to the application of IFRS 9 Financial Instruments; and
- Disclosure of the expected impact of implementation of IFRS 16 Leases.

FRC report on Diversity Reporting

The Financial Reporting Council ('FRC'), the UK's accounting enforcer, released a report on research conducted for it by the University of Exeter Business School.

The report shows that while the majority of the UK's large companies have adopted policies on diversity, the diversity reporting to stakeholders needs to improve, specifically noting that only 15% of FTSE100 companies fully complied with the UK Corporate Governance Code's provision (B.2.4) on diversity reporting by describing their policy on diversity, the process for board appointments, their objectives for implementing the policy, and progress on achieving them.

The report reminds that the revised UK Corporate Governance Code, which takes effect from 1 January 2019, requires improved reporting on diversity.

FRC letter to Finance Directors and Audit Committee Chairs

The Financial Reporting Council ('FRC'), the UK's accounting enforcer, issued a letter to UK Finance Directors and Audit Committee Chairs calling for improvements in key areas of corporate reporting, including key accounting judgements and estimates, eliminating basic errors and how companies have applied the Principles of the UK Corporate Governance Code.

The letter draws on findings from the FRC's work on corporate governance and corporate reporting in 'Annual Review of Corporate Governance and Reporting 2017/18' (see below). It also refers to topical areas of reporting, including the UK's exit from the EU.

Key findings of corporate reporting

- The most significant concerns with financial statements include judgements and estimate disclosures and cash flow statements.
- Frequent challenges in the strategic report include the use of Alternative Performance Measures and whether reports are fair, balanced and comprehensive.
- Viability Statements have brought a greater focus on risk management but could be enhanced to show more clearly how companies have assessed their prospects and viability.

Key findings of corporate governance

- Reported compliance with the Code is high. 95% of FTSE 350 companies report that they comply with all but one or two of the 55 provisions. However, reporting on how companies have applied the Principles in the Code has been inadequately covered due to an excessive reliance on compliance with the provisions,
- Companies remain reluctant to explain clearly when they don't comply with Code provisions. The quality of explanations is disappointing - such explanations are essential to the successful operation of the Code. They must be thoughtful and provide a clear rationale for the action the company is taking.

FRC issues thematic reviews on disclosures of adoption of major new accounting standards

The Financial Reporting Council ('FRC'), the UK's accounting enforcer, released two reports arising from their thematic reviews of 2018 interim reports in relation to the adoption of the new standards.

FRC - IFRS 9 Thematic Review

FRC - IFRS 15 Thematic Review

FRC issues thematic review on reporting by smaller listed and AIM quoted companies

The Financial Reporting Council ('FRC'), the UK's accounting enforcer, reviewed the reports and accounts of 40 smaller listed and AIM quoted companies to consider.

Alternative performance measures (APMs) and Strategic Reports; Pension disclosures; Accounting policies, including critical judgements and estimates; Tax disclosures; and Cash flow statements.

The study identified several areas requiring improvement. Among other things, the FRC noted that companies should provide more specific disclosures of significant accounting judgements and more quantitative information on key sources of estimation uncertainty. The FRC also found that companies could do more to ensure that the classification of cash flows complies with IAS 7 'Statement of Cash Flows' and that all sections of the report present APMs in a balanced and transparent manner.

Section 4: Irish company law

Non-financial and diversity reporting – reminder
As a reminder, the Regulations transposing into Irish legislation the EU provisions as regards disclosure of non-financial and diversity information by certain large undertakings and groups came into effect on 21 August 2017 and applies to financial years beginning on or after 1 August 2017.

As a reminder, the regulations require certain companies to include:

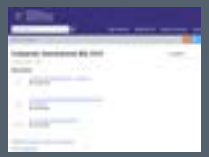
- in the directors' report, a statement containing certain prescribed non-financial information; and
- in the corporate governance statement, a diversity report.

In addition, Regulations 4 and 5 of S.I. 360/2017 was amended by Regulation (S.I. 410/2018) in October 2018, making a number of technical changes to the Non-Financial Disclosure Regulations.

Companies (Amendment) Bill 2019
The Companies (Amendment) Bill 2019 is a short Bill proposing a technical amendment to section 344 by providing companies with 56 days after their annual return date to file the annual return. Previously, companies were required to file their annual return within 28 days, with a further 28 days allowed for delivery of the financial statements if the annual return was filed electronically.

S.I. 360/2017

S.I. 410/2018



Companies (Amendment) Bill 2019

Contact us

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George Deegan
Partner, Assurance, EY Ireland
+353 1 221 2635
george.deegan@ie.ey.com

Mark Kelly
Director, Financial Reporting Group, EY Ireland
+353 1 221 2761
mark.kelly@ie.ey.com

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