Financial Reporting News

IAASA publishes review on the IFRS 16 Leases disclosures within the 2019 half-yearly financial reports

IAASA, Ireland's accounting enforcer, has published an Information Note highlighting the findings of a desktop review on the IFRS 16 Leases disclosures in the 2019 half-yearly financial reports.

The purpose of this Information Note is to provide readers with:

- an analysis of the nature, extent and impact of the information disclosed by issuers in relation to the transition to IFRS 16 Leases in their 2019 half-yearly financial reports; and
- a comparison of the actual transitional impact of IFRS 16 as disclosed in the half-yearly financial statements with the estimated impact disclosed by the issuers in their prior year annual financial statements.

IFRS 16 is required to be applied to annual reporting periods beginning on or after 1 January 2019. As such, the 2019 half-yearly financial reports are the first financial statements that issuers had to prepare and publish in which mandatory IFRS 16 information was required, including the impact of transition.

Overall, IAASA found that issuers provided high quality disclosures regarding their accounting policy for leases and the financial impact of the adoption of the new accounting standard.

The most significant impact for issuers' reported results arising from transitioning to IFRS 16 is that leases previously defined as operating leases under IAS 17 and treated as "off-balance sheet" are now required to be recognised in the Statement of Financial Position as a "right of use" asset and a related lease liability.

The Information Note is available here

Source: www.iaasa.ie

Common enforcement priorities

The European Securities and Markets Authority ('ESMA') has published its annual priorities statement titled 'European common enforcement priorities for 2019 annual financial reports' setting out those topics which company directors, Audit Committees and auditors should particularly consider when preparing, reviewing and auditing International Financial Reporting Standards ('IFRS') financial statements for the year ending 31 December 2019.

The three priorities for 2019, selected on the basis of the significant changes that these new requirements introduce and their impact on EU capital markets, are:

- specific issues related to the application of IFRS 16 Leases;
- follow-up of specific issues related to the application of IFRS 9 Financial Instruments for credit institutions and IFRS 15 Revenue from Contracts with Customers for corporate issuers; and
- specific issues related to application of IAS 12 Income Taxes (including application of IFRIC 23 Uncertainty over Income Tax Treatments).

In its statement, ESMA reiterates the importance for companies to present entity-specific information in their financial reports and provide information that aids readers' understanding of the company's financial performance and financial position.

ESMA highlights potentially significant implications of transition from one interest rate benchmark rate to another on financial reporting and the importance of timely disclosure of its consequences.

ESMA's statement also draws attention to some specific requirements relating to the sections of the annual financial report other than the financial statements, namely:

- the disclosures of non-financial information focusing on:
    - environmental and climate change related matters;
    - key-performance indicators;
    - the use of disclosure frameworks and supply chains; and
- specific aspects related to the application of the ESMA Guidelines on Alternative Performance Measures (APMs) to measures modified or included as a result of the new accounting standards.

Source: www.iaasa.ie

FRC sets out expectations for corporate reporting to improve trust in business

The Financial Reporting Council (FRC) has today called for improvements to corporate reporting in an open letter to all Audit Committee Chairs and Finance Directors. The letter reflects findings from the FRC's Annual Review of Corporate Reporting 2018/19 (published today) and the scope for companies to improve their reporting to address matters of increasing concern to investors and enhance public trust in business.

The FRC expects companies to improve the quality reporting of forward-looking information, the potential impact of emerging risks on future business strategy, the carrying value of assets and the recognition of liabilities. Failure to report on these crucial areas undermines trust in business and can lead to the conclusion that management is either unaware of their potential impact, is being opaque, or is not managing them effectively.

In times of uncertainty, investors and other stakeholders expect greater transparency of the risks to which companies are exposed and the actions they are taking to mitigate the impact of those uncertainties. The FRC expects companies to think beyond the period covered by their viability statement and identify those keys risks that challenge their business models in the medium to longer term and have a particular focus on environmental issues.

The FRC welcomes some improvement in key disclosures of critical judgements and estimates and alternative performance measures (APMs) as reflected in companies' strategic reports. It will continue to press companies who do not clearly report the specific judgements they have taken or who do not present APMs clearly in accordance with best practice.