



# Financial reporting: supervision role of IAASA – findings to date

**Michael Kavanagh reports on the standard of issuers' compliance with regard to the EU's new Transparency Directive**

## Introduction

With the transposition of the EU Transparency Directive ('the Directive') into Irish law, the Irish Auditing and Accounting Supervisory Authority ('IAASA') assumed responsibility as the competent authority for monitoring and enforcing affected entities' compliance with the requirement to prepare annual and half-yearly financial reports in accordance with the relevant reporting framework (i.e. applicable accounting standards and law).

The Directive was transposed in the main, through the Transparency (Directive 2004/109/EC) Regulations, 2007 ('the Regulations'). The Regulations currently apply to in excess of 300 entities whose securities have been admitted to trading on a regulated stock market situated, or operating, within the EU (such entities being known as 'issuers'). These issuers' comprise of three distinct categories of entity, namely:

- issuers of equity;
- issuers of debt; and,
- closed ended funds.

Given the phased manner in which the Regulations take effect (i.e., dependent upon issuers' financial reporting periods), to date a relatively small number of issuers have been required to publish their first annual financial reports under the new requirements. For that reason, while reviews of annual financial reports have commenced and are ongoing,

IAASA's supervisory activities to date have concentrated largely on monitoring issuers' half-yearly financial reports, which were required to be published in accordance with the Regulations since October, 2007.

## Commentary

Due to the phased introduction of the Regulations a significant proportion of issuers were required to prepare their first half-yearly financial reports in accordance with the Regulations in respect of the six months ending on 30 June, 2008, with such reports due to be published by the end of August. With this in mind, and with the principal objective of assisting those issuers to achieve a high standard of compliance from the outset, IAASA published a Commentary in June, 2008. The Commentary, which has been widely disseminated and which can be accessed on IAASA's website ([www.iaasa.ie](http://www.iaasa.ie)), summarises the principal issues that had arisen on foot of our monitoring activity at that date.

## Review activity and general observations

As at the date of writing, almost 80 half-yearly financial reports have been published by issuers and IAASA – through the Financial Reporting Supervision Unit – has undertaken reviews of over half of those reports, with reviewed reports having been selected from across all three categories of issuer.

As indicated in the Commentary, based

on our review activities to date, the standard of issuers' compliance with the requirements of the Regulations has been varied. While some issuers' reports have displayed a high standard of awareness of (and, by extension, compliance with) the periodic financial reporting requirements of the Regulations, at the other end of the spectrum certain issuers' reports have indicated significantly less awareness and knowledge of the requirements and, as a consequence, have been found to be non-compliant to varying degrees.

Following the review of those half-yearly reports selected for examination, we have had reason to correspond with approximately 90 per cent of selected issuers' boards of directors – across all three categories, and regarding a range of matters. In that context, our experience has been that, relative to the other two categories, equity issuers have to date been displaying a better level of knowledge of, and compliance with, their obligations.

As also indicated in the Commentary, IAASA's experience has been that in this initial period of review activity, issuers' reactions to our contacts have been both positive and constructive, with issuers generally being willing to actively engage in addressing issues arising with a view to reaching mutually satisfactory outcomes. For that reason, the Board of IAASA has not yet found it necessary to exercise the enforcement powers available to it under the Regulations.

### Remediation

Following communication from IAASA, as at the date of writing, there have been 28 instances in which issuers have agreed to voluntarily publish revised half-yearly financial reports. While revised financial reports have been prepared across all three categories of issuer, the vast majority relate to debt and fund issuers. In other instances, matters arising have been addressed to IAASA's satisfaction by way of agreement with issuers – for example, through the provision of undertakings to make necessary improvements and/or amendments in future half-yearly and/or financial reports. The approach adopted towards remediating issues arising is determined on a case-by-case basis and has regard, amongst other things, to the extent of the non-compliance or other issue(s), the significance of the matters in question, and their potential to affect investors' decisions and/or public confidence in the quality of financial reporting.

### Issues arising

Details of the principal issues that had been identified by the date of publication of the Commentary are set out in Section 2 of that document. In summary, matters arising have included:

- minimum content requirements, as provided for in the applicable accounting pronouncements and the Regulations, not being met;
- deficiencies in disclosures concerning events or transactions that are significant to an understanding of the changes in financial position and performance of the issuer since the last annual reporting date;
- omission of certain disclosures required by the applicable accounting pronouncement in respect of business combinations – such as details of the fair values of assets and liabilities acquired, the resultant goodwill recognised, and details of the combined entity's revenue and profit or loss from the beginning of the period;
- omission of some or all of the details required in respect of related party transactions;
- failure to provide required primary statement comparative information in respect of previous periods;


- non-compliance with some of the applicable requirements regarding the format and content of the condensed financial statements and, in particular, the income statement and balance sheet; and,
- non-compliance with certain requirements of the Regulations relating to the content of the Interim Management Reports and Responsibility Statements.

While the above are the principal issues identified in the context of issuers' compliance with the applicable accounting standard for half-yearly financial reporting (IAS 34 'Interim Financial Reporting' or the ASB Statement entitled 'Half-Yearly Financial Reports'), issuers are also required to apply accounting policies that are consistent with those applied in their most recent annual financial statements. Accordingly, the principles for recognising assets, liabilities, income, and expenses for the purpose of condensed financial statements are required to be the same as applied in the annual financial statements. In that context IAASA sought clarification from a number of issuers regarding specific accounting treatments adopted in respect of certain matters and how the adopted treatments complied with relevant accounting standards. Further to such matters having been raised, where considered necessary or otherwise appropriate, remediating actions have been agreed upon by IAASA. Such agreed actions, in these instances, have included, for example, issuers undertaking to (i) amend accounting treatment(s) in subsequent reports; and (ii) provide additional disclosures in revised half-yearly financial reports or in future annual and/or half-yearly financial reports. Specific matters dealt with have included:

- the accounting treatments adopted for the recognition of deferred tax assets and liabilities;
- investments in associated entities;
- classification of provisions;
- recognition and measurement of biological assets; and,
- the accounting applied to financial instruments and the sufficiency of disclosures concerning same.

### Conclusion

With the enactment of the Regulations many Irish entities have, for the first time, found their financial reports being the subject of review by an independent accounting supervisor. Whilst this has, undoubtedly, been challenging for some of those concerned, one of IAASA's principal objectives, as evidenced by the publication of the Commentary, is to provide issuers with assistance in achieving a high standard of compliance, thereby contributing to the goal of supporting and enhancing public confidence in the quality of statutory financial reporting in Ireland.

Given that this document has been available for some time now, it is hoped that the overall standard will improve in the next tranche of half-yearly reports to be published. In that context, interested parties, including those involved in the preparation, approval and/or review of issuers' financial reports, are invited to read the Commentary in conjunction with the publication *'A Guide to the Financial Reporting Requirements of the EU Transparency Directive and IAASA's role under the Directive'*. 

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