



## Accounting Roundup Closing Out 2014

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In this special edition of our **Accounting Roundup** series we set out narrative reporting and financial reporting issues that may be relevant for years ending on or after 31 December 2014 as a result of areas of regulatory focus, including those identified in the FRC's *Corporate Reporting Review Annual Report 2014*, the current economic environment or changes in accounting Standards and legislation.

Deloitte's latest **Global Economic Outlook** notes that the global economy continues to show a few signs of strength and several signs of weakness. While the US economy is showing signs of a sustainable growth path, the Eurozone recovery has suffered several setbacks and remains highly vulnerable. The report also highlights other issues including the deceleration of growth in the Chinese economy and the effects of tax rises in Japan and falling oil prices on Russia. Meanwhile, **Deloitte's chief economist in the UK** suggests that in terms of year-on-year growth rates the UK recovery is probably past its best.

Preparers of financial statements may, therefore, face a variety of challenges depending on the environment in which they operate. In addition, the implementation of accounting standards will continue to require careful consideration and the application of significant judgement.

This special edition of our Accounting Roundup series highlights some of the above considerations, together with potential areas of regulatory focus.

For more information please see the following websites:

[www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)

[www.deloitte.co.uk](http://www.deloitte.co.uk)

# Topical issues

## Consolidation and Joint Arrangements

For UK entities applying IFRSs as endorsed for use in the European Union, 2014 is the first year of mandatory application of the 'package of five' standards including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* whilst for those reporting under IFRSs as issued by the IASB they will be applied for the second time. The pervasive nature of these standards and the level of judgement required in their application means they feature prominently on the FRC's areas of focus.

The models underpinning the requirements of IFRS 10 and IFRS 11 may be summarised quite concisely. However, this conceals a number of complexities.

### **IFRS 10 Consolidated Financial Statements**

IFRS 10 stipulates that an investee should be consolidated if, and only if, all three of the following elements of 'control' exist:

1. power over an investee;
2. exposure or rights to variable returns of the investee; and
3. the ability to use power over the investee to affect the investor's returns.

### **Applying the definition of 'control'**

The assessment of whether control exists requires significant judgement and is likely to be an area of focus for many regulators as IFRS 10 requires entities to conclude on whether or not control exists based not on a single requirement of the Standard but after assessing all relevant factors including its application guidance.

The Standard provides additional application guidance regarding situations in which the assessment of control is difficult including those involving:

- potential voting rights (held by the investor or others);
- decision making power delegated to another party ('an agent'); and
- rights designed only to protect the interests of the investor, but not to give power over the investee.

### **'De facto' control**

IFRS 10 spells out a concept that less than 50 per cent of voting rights can provide an investor with control if the remaining voting rights are held by a widely dispersed group that is unlikely to co-ordinate together sufficiently to block any decisions made by the investor. The FRC's Conduct Committee has identified this as an emerging issue and one on which they will focus to ensure IFRS 10's requirement has been carefully and objectively applied to the particular circumstances.

### **Investment Entities**

IFRS 10 includes an exception to the requirement for consolidation, effective for periods beginning on or after 1 January 2014, requiring that an investment entity instead measures its subsidiaries at fair value through profit or loss (other than a subsidiary that provides services relating to the investment entity's activities, such subsidiaries will still be consolidated by the investment entity).

To be considered an investment entity, an entity must:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate the performance of substantially all of its investments on a fair value basis.

### **IFRS 11 Joint Arrangements**

IFRS 11 specifies that 'joint control' exists when two or more investors share control (as defined in IFRS 10) through a contractual arrangement requiring unanimous consent of the parties sharing control for decisions on relevant activities.

An investor in a joint arrangement must then determine whether it has rights to the assets and obligations for the liabilities of the arrangement or has rights to its net assets. In the former case, the investor must recognise its share of the assets, liabilities, income and expenses of the *joint operation*. In the latter, equity accounting is applied to the investment in the *joint venture*.

#### **Joint venture – or joint operation?**

The classification of joint arrangements, particularly in determining the 'other facts and circumstances' that might lead to a conclusion that the existence of a separate legal vehicle has been nullified such that the parties to the arrangement have direct rights to its assets and obligations for its liabilities, has proved problematic and is the subject of current activity by the IFRS Interpretations Committee.

The November IFRIC Update included tentative positions on a number of aspects of this determination.

- The Interpretations Committee noted that the assessment of 'other facts and circumstances' should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities.
- The Committee also discussed how 'other facts and circumstances' should be assessed in some specific fact patterns. For example, whether the existence of a specific condition on its own such as the output being sold at market price, financing from a third party, and the nature of the output, would be a determinative factor in the classification. The Committee noted that none of these factors is on its own determinative. Accordingly, an entity would need to exercise judgement to determine the classification of the arrangement.

Confirmation of these positions is expected early in 2015.

### **IFRS 12 Disclosure of Interests in Other Entities**

A key element of IFRS 12 is the requirement to disclose significant judgements made in applying its 'sister standards' IFRS 10 and IFRS 11. For example, disclosure is required of the significant judgements and assumptions considered in reaching a conclusion that:

- another entity is not controlled despite the investor holding more than half of its voting rights or that is controlled despite holding less than half of its voting rights;
- a joint arrangement held in a separate legal entity is a joint operation; or
- an entity is an investment entity.

In addition, IFRS 12 requires disclosure of several pieces of information about an entity's interests in other entities.

#### **Disclosure of significant non-controlling interests**

The IFRS Interpretations Committee tentatively concluded in September 2014 that an issuer should apply judgement in identifying the information to be disclosed to meet the objectives of IFRS 12 for disclosing interests in subsidiaries with significant non-controlling interests (NCIs).

IFRS 12 requires an entity to disclose financial information to enable users to understand the composition of the group and the interest that NCIs have in the group's activities and cash flows. To meet this objective, an entity should assess materiality in terms of its consolidated financial statements and should consider quantitative and qualitative factors (for example the nature of the subsidiary). The Interpretations Committee also noted that the assessment should be made separately for each subsidiary or subgroup that has a material non-controlling interest.

IFRS 12 also specifically requires an entity to disclose for each of its subsidiaries with NCIs that are material to the reporting entity, the profit or loss attributed to NCIs and the accumulated NCI (amongst other items). Where a reporting entity's subsidiary has an NCI and heads a subgroup, the reporting entity is required to apply judgement in determining whether to best meet the requirements of IFRS 12 by disclosing information about a partially owned subsidiary that is itself a parent in isolation or at the subgroup level.

The Committee's consideration of these issues is expected to be finalised early in 2015.

### ***Nature of risks associated with an entity's interests in structured entities***

The specific disclosure requirements with respect to the nature of, and changes in, the risks associated with interests in consolidated and unconsolidated structured entities is likely to be an area of focus for regulators. IFRS 12 requires an entity to disclose information that enables users of its consolidated financial statements to evaluate the nature of, and changes in, the risks associated with the entity's interests in consolidated structured entities.

#### **Structured Entity**

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In respect of both consolidated and unconsolidated structured entities, the disclosures focus on financial or other support provided, together with any requirements or intentions to provide support in the future.

The following information is also required to be disclosed in respect of unconsolidated structured entities:

- qualitative and quantitative information about the nature, purpose, size and activities of the structured entity and how the structured entity is financed;
- a table of the assets and liabilities recognised in respect of interests in unconsolidated structured entities along with the maximum exposure to loss from those interests; and
- any support provided to unconsolidated structured entities together with obligations or intentions to provide such support.

This information needs to be provided whether or not the structured entity has been sponsored by the entity. Additional disclosures (how the entity defines sponsored entities, income and types of income perceived by the entity and the carrying amount of assets transferred to those structured entities during the reporting period) are required for sponsored but unconsolidated structured entities in which the entity does not have an interest.

#### ***Significant restrictions over assets and liabilities***

Under IFRS 12, an entity is required to disclose detail of significant restrictions (e.g. statutory, regulatory and contractual restrictions) on its ability to access or use the group's assets or settle the group's liabilities. Examples include restrictions affecting the ability to transfer cash or other assets between entities within the group, and guarantees or other requirements that may restrict the payment of dividends, the granting or repayment of intercompany loans and other capital distributions within the group.

### **Income Tax**

#### **Recognition and measurement of deferred tax assets**

The financial crisis, followed by an extended period of low economic growth has resulted in many entities recognising tax losses. In this context, particular attention should be paid to the recognition of deferred tax assets arising from such losses, as it depends upon an assessment of whether sufficient future taxable profits will arise to realise these tax benefits.

#### **History of recent losses**

Under IAS 12 *Income Taxes*, a history of recent losses represents strong evidence that future taxable profits may not be available to recover deferred tax assets.

In order to recognise deferred tax assets derived from tax losses, entities need to demonstrate that there is available evidence showing that future taxable profits will be available. Examples of such evidence may include significant new contracts, increase in the level of orders or the disposal of an unprofitable segment. IAS 12 includes no specific time restriction on the 'look forward' period for determination of the availability of taxable profits (although it obviously cannot extend beyond any period until the tax losses expire under relevant legislation). The length of the period used will depend on a number of entity-specific factors including the entity's historical profitability, accuracy of budgetary controls and expected future activities.

The nature of the evidence supporting the recognition of deferred tax assets in those circumstances is required to be disclosed.

Similar considerations exist for those companies reporting under UK GAAP; if there is a history of losses FRS 19 requires other persuasive and reliable evidence that there will be suitable taxable profits.

### Recognition of deferred tax for a single asset in a corporate wrapper

The IFRS Interpretations Committee concluded in July 2014 that when a subsidiary has only one asset and the parent expects to recover the carrying amount of that asset by selling the shares in the subsidiary, the parent will have to recognise in its consolidated financial statements, deferred tax related to both the asset and the shares if tax law attributes separate tax bases to the asset and to the shares (unless a specific exception in IAS 12 applies and subject to the recoverability of any deferred tax asset).

### Uncertain tax positions

Another important topic of regulatory focus is the recognition and measurement of uncertain tax positions. The IFRS Interpretations Committee currently has this topic on its agenda. One of the issues discussed is whether IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 12 should be considered in analysing the recognition and measurement of uncertain tax positions. Paragraph 12 of IAS 12 provides guidance on the recognition of current tax assets and liabilities and states that if the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset. Accordingly, in July 2014, the Interpretations Committee concluded that IAS 12 provides the relevant guidance on recognition of uncertain tax positions.

In November 2014, the Interpretations Committee tentatively decided to develop a draft interpretation to provide guidance for measuring income tax assets and liabilities arising from uncertain tax positions. The project would be based on the following tentative decisions:

- all income tax positions would be included in the scope of the project;
- an entity should make a judgement about the unit of account that provides relevant information for each uncertain tax position;
- an entity should estimate the amount expected to be paid to (or recovered from) the taxation authorities by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertain tax position; and
- measurement would be based on an assumption that the tax authorities would examine the amounts reported to them and have full knowledge of all relevant information (i.e., assuming full 'detection risk').

### Other areas of focus

The FRC's Conduct Committee has also identified a number of companies' financial statements which lack the description of how the applicable tax rate was calculated and fail to recognise deferred tax on intangibles acquired in business combinations.

### Non-GAAP Measures

The use of measures not required by IFRSs, which can take the form of additional line items within the financial statements or information provided elsewhere in the annual report or in other documents (sometimes referred to as, amongst other things, 'adjusted performance measures' or 'non-GAAP measures') has been the subject of much discussion in 2014, with both the **International Organisation of Securities Commissions (IOSCO)** and the **European Securities Markets Authority (ESMA)** drafting guidance on the topic and the **International Federation of Accountants (IFAC)** issuing recommendations on the use of 'supplementary financial measures'.

Common themes of the guidance include that non-GAAP measures should be:

- clearly defined and, when appropriate, reconciled to an equivalent 'GAAP' measure;
- used consistently from period to period; and
- balanced (e.g., in determining whether gains and losses should be excluded from an 'underlying profit' measure).

### Areas of concern in the Corporate Reporting Review Annual Report 2014

Following the reminders issued last year by the FRC on the use of exceptional items, the Conduct Committee has again identified a number of concerns in respect of their use in the income statement, including the following:

- lack of or poorly described accounting policies;
- inconsistent application period-on-period, including failure to identify reversals of exceptional items as 'exceptional';
- recurring or immaterial items being identified as 'exceptional';
- lack of symmetry between 'bad' news and 'good' news; and
- lack of comparative information.

Deloitte's **survey** of 100 listed UK companies annual reports showed that 68% of companies present non-GAAP measures on the face of their income statement, so many preparers will need to bear in mind the regulators' focus on this area.

Entities should consider the requirements of any regulator with jurisdiction over their reporting before using such measures. Practice accepted by one regulator in one jurisdiction may be deemed unacceptable by others.

### Pensions Accounting

Accounting for the costs of employee benefits, particularly in respect of defined benefit plans, remains a complex area that, in part due to the large values of the assets and liabilities involved, often attracts the attention of regulators. Many issues can arise in this area, a few of which are outlined below.

#### Actuarial assumptions

A defined benefit obligation consists of a stream of cash flows extending for many years that may vary depending on a range of factors (for example, the lifespan of members, their salaries at the time of retirement and, in the case of medical benefits, the health problems they experience). As such, determining their present value involves significant judgement in the choice of appropriate actuarial assumptions – small variations in which can have a significant effect on the value of the liability recorded.

IAS 19 *Employee Benefits* requires disclosure of both the significant actuarial assumptions applied and the sensitivity of the defined benefit obligation to reasonably possible changes in those assumptions.

Actuarial assumptions including, but not limited to, the discount rate and mortality assumptions have been and are expected to remain areas of focus for regulators.

### Assessment of the bond market at a currency level

An important part of determining the appropriate discount rate is the assessment of whether a deep market in high quality corporate bonds exists or whether, instead, the rate should be based on the market yields on government bonds.

In response to uncertainty over how this assessment should be made in a regional market sharing the same currency, IAS 19 was amended in September 2014 to clarify that this assessment should be made at a currency, rather than country, level.

This amendment to IAS 19 is effective for periods beginning on or after 1 January 2016 with earlier application permitted.

### Recognition of an asset derived from a surplus in a defined benefit plan

The effect of the 'asset ceiling' (defined by IAS 19 as "the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan") can be challenging to determine as this requires a full understanding of the rights of the employer and the plan's trustees to determine whether any surplus assets may be used to enhance the benefits paid to members, used to purchase annuities guaranteeing the existing benefits or returned to the employer.

This understanding is not only required when a plan is in a surplus position, as IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* requires the availability of a refund or reduction in future contributions to be considered in determining whether an additional liability should be recognised for a statutory or contractual 'minimum funding requirement' to make contributions to the plan. In the UK the FRC has concluded that a schedule of contributions is a minimum funding requirement under IFRIC 14. To the extent such schedules are to fund past service (i.e. a current funding deficit) and would give rise to an IAS 19 surplus that cannot be recovered an additional liability is required.

Under FRS 17 the accepted practice has been not to provide for an additional liability. Under FRS 102 FRED 55 has proposed that entities should report their obligation using the projected unit credit method and should not recognise additional liabilities to reflect funding valuations or agreements to fund deficits.

The IFRS Interpretations Committee currently has on its agenda the analysis of whether an entity can recognise an asset derived from the availability of refunds from a defined benefit plan managed by an independent trustee when the trustee has the discretion to increase the benefits. At its September 2014 meeting, the Interpretations Committee decided to propose amendments to IFRIC 14 to clarify that the amount of the surplus that the entity recognises as an asset on the basis of a refund should not include amounts that a third party (for example, the plan trustees) has the unilateral right to use for other purposes, for example to enhance benefits for plan members. It is also intended that the amendments will clarify that an entity does not have an unconditional right to a refund of a surplus assuming gradual settlement if a third party can unilaterally decide to wind up the plan and thus can prevent gradual settlement.

#### **Risk management and asset-liability matching strategies**

Many entities are seeking to pursue strategies to manage the risks inherent in a large, uncertain and long-term commitment such as a defined benefit plan.

Such strategies may take a variety of forms, including:

- introducing plans (for example, target benefit or cash balance plans) that deviate from the pure defined benefit model by sharing some risks between the employer and plan members;
- acquiring assets such as insurance policies or longevity swaps that generate cash flows closely mirroring the requirements to pay benefits from the plan; and
- using assets of the entity (such as property) as security against obligations to fund a defined benefit plan.

Care should be taken in accounting for such arrangements, considering issues such as:

- whether a risk-sharing scheme should be accounted for as defined benefit or defined contribution in nature;
- the valuation of assets designed to match plan liabilities, including whether they meet the definition of a qualifying insurance policy and should, therefore, be measured at the value of the defined benefit obligation; and
- whether any security issued by the entity to a defined benefit plan meets the definition of a plan asset (noting that non-transferable financial instruments issued by the reporting entity are excluded from that definition).

In addition, it should be noted that IAS 19 includes requirements to disclose, amongst other things, the characteristics of defined benefit plans, a description of any funding arrangements and a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

The FRC expects companies to include quantitative, as well as qualitative, information on the governance of their pension plans and the applicable regulatory framework (e.g. the level of minimum funding requirements), funding arrangements and maturity profiles.

#### **Converting pension obligations into equity instruments**

In January 2014 the FRC issued a **press notice** warning Boards about arrangements, typically involving the use of Scottish Limited Partnerships, that purport to turn pension obligations into equity instruments. The FRC will continue to monitor such schemes when they are identified and will open investigations into the financial reporting of companies reclassifying material pension obligations to equity.

## Levies

IFRIC Interpretation 21 *Levies*, effective for periods beginning on or after 1 January 2014, addresses the recognition of liabilities in respect of a wide range of payments to government (those that are not fines or penalties for breaches of legislation, payments for the acquisition of assets or services or within the scope of another Standard such as IAS 12). As such, it applies items such as property taxes and levies on participants in specific industries such as banking.

The Interpretation applies a strict interpretation of IAS 37 in determining the point at which a liability should be recognised, stating that this is the point (identified by legislation) at which the entity's activity triggers the payment of the levy.

Application of these requirements requires a full understanding of the relevant legislation and could in some cases result in a change to previous practices of recognising the cost of a levy over time.

## Going Concern

The going concern assumption is a fundamental principle in the preparation of financial statements. Difficult economic conditions present challenges for all of the parties involved in the preparation of annual reports and financial statements.

IAS 1 *Presentation of Financial Statements* requires an assessment by management of an entity's ability to continue as a going concern. When preparing this assessment management is required to take into account all available information about the future, which is at least, but is not limited to, 12 months from the date of the financial statements. When management concludes that there are material uncertainties that may cast significant doubt upon an entity's ability to continue as a going concern the entity is required to disclose those uncertainties.

In the UK, the FRC's *Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009* and International Standard on Auditing (UK and Ireland) 570 currently both require that directors' reviews would usually cover 12 months from approval of the financial statements.

The FRC's most recent amendments to the UK Corporate Governance Code and accompanying guidance on internal control, risk management and financial and business reporting supersede the 2009 going concern guidance for periods commencing on or after 1 October 2014. The new guidance will require a 'statement of ongoing viability' in a listed company's narrative reporting (not its financial reporting) with directors having to assess a period that is expected to "significantly exceed" 12 months from the date of approval of the financial statements.

Further information on the changes to risk management and risk reporting, including the statement of ongoing viability, which replaces the existing going concern statement in a company's narrative reporting (but not in financial reporting), can be found in our publication **Governance in focus: In the spotlight – audit committees and the 2014 reporting season**.

### Going Concern assumptions – Disclosure of significant judgements

It might sometimes be the case that management is able to conclude that there is no material uncertainty over the entity's ability to continue as a going concern only after a careful evaluation of possible means of mitigating risks that might otherwise result in such an uncertainty.

The IFRS Interpretations Committee has recently concluded that in this situation the judgements and assumptions considered in the evaluation are part of the disclosure requirement of paragraph 122 of IAS 1 which requires an entity to disclose judgements made by management in the process of applying the entity's accounting policies.

The conditions or events that individually or collectively may cast significant doubt about the going concern assumption may be mitigated by other favourable factors. For example, the effect of an entity being unable to make its normal debt repayments may be counterbalanced by management's plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments or obtaining additional capital. Similarly the loss of a principal supplier may be mitigated by the availability of another suitable source of supply.

The strategies considered by an entity to mitigate the going concern risks need to be realistic and to have a reasonable expectation of resolving any problems foreseen and management must be likely to put the plans into place effectively.



## Impairment

Regulators continue to focus on impairment of financial and non-financial assets.

Particular attention should be placed on key assumptions for impairment testing, for example those around commodity prices. Since the start of 2014, the global prices for oil and coal have fallen, which is likely to be a key consideration in impairment reviews for entities involved in the supply chain of those resources from extraction through transportation and refinement to sale. Conversely, some entities may expect to benefit from a reduction in the cost of purchasing commodities which may result in consideration of whether a reversal of impairment has occurred.

Any affected entity should ensure consistency in including the effect of any changes in expected commodity prices in both their forecast revenues and forecast costs.

Important factors to consider are:

- the appropriate identification of cash-generating units and groups of cash-generating units for the purposes of impairment testing;
- consistency of cash flow projections used for different purposes (for example impairment testing of goodwill and impairment testing of deferred tax assets);
- appropriate analysis of the entity's performance vs prior year forecasts. When prior period cash flow projections have not been met, careful consideration should be given to whether current assumptions are reasonable and supportable;
- the currency in which cash flows will be generated, particularly if that currency has weakened against the functional currency of the reporting entity; and
- supportability of cash flow projections given current market trends.

In their Corporate Reporting Review Annual Report 2014, the FRC also identified the following areas that they continue to challenge companies on:

- the description of key assumptions – where companies disclosed discount and growth rates, but not the key assumptions to which they were applied;
- the way the values assigned to each key assumption are determined;
- instances of a single discount rate applied to multiple CGUs with different risk profiles;
- unclear or generic sensitivity disclosures; and
- unrealistic assumptions regarding a short-term turnaround in a loss-making business.

For UK GAAP reporters it is worth noting that FRS 11's disclosure requirements are focused on when an impairment loss has been recognised in the financial statements. The 2013 Edition of Closing Out includes an extensive analysis of those issues which continues to be relevant today. The publication can be found in: <http://www.ukaccountingplus.co.uk>.

## Clear and concise reporting

Building on their cutting clutter initiative, the FRC's 'Clear and Concise' initiative continues to promote good communication in corporate reporting. In this regard, the FRC's Conduct Committee continues to encourage exclusion of immaterial disclosures, both in narrative and financial reporting. Companies should note that, in the first instance, they may be challenged on the omission of such disclosures and evidence of the considerations made in concluding that such information is immaterial may be requested. However, the Conduct Committee have also stressed that companies are expected to be robust in justifying their judgements rather than just adding back in such disclosures.

The first publication published by the FRC under their clear and concise initiative was the finalised guidance on the strategic report. Common areas of Conduct Committee challenge around the strategic report have included inadequate explanations of key performance indicators and inappropriate focus on 'good news'. In addition to the FRC's guidance, Deloitte has published *The Strategic Report – A practical guide and Annual report insights 2014*, with the latter including a wealth of best practice examples.

Companies should bear in mind the need for clear and concise reporting in disclosing their principal risks and uncertainties, rather than a voluminous listing of all risks to which a company is exposed. Further information will be required on those principal risks and uncertainties as part of the changes to the UK Corporate Governance Code effective for periods commencing on or after 1 October 2014. The best reporters are however already including some of the newly required information, such as the likelihood and potential impact of risks and evidence of changes since the previous year.

Accounting policies are another area where the Conduct Committee has suggested that companies could dispense with irrelevant or immaterial disclosures. Companies should also avoid making boiler-plate disclosures in this area, particularly around revenue recognition. Further insight and suggestions on this topic can be found in the FRC's Financial Reporting Lab report *Accounting policies and integration of related financial information*, published in July 2014.

### **Critical judgements**

The FRC's Conduct Committee has in recent times challenged a number of disclosures of critical judgements and key sources of estimation uncertainty and such information looks set to remain an area of focus. The nature of the critical judgements should be made clear and should be distinct from key sources of estimation uncertainty, albeit companies will often provide these two disclosures alongside one another.

A reasonable degree of consistency is to be expected between the aforementioned disclosures made in the financial statements under IAS 1 and other similar disclosures, for example, in the case of a listed company the significant issues considered by the audit committee in relation to the financial statements, as disclosed in their report, and the most significant risks of material misstatement disclosed by the auditor.

### **Other topics**

Of course, the above is not an exhaustive list. Many other issues are likely to attract the attention of regulators.

- The Statement of Cash Flows – ensuring that non-cash transactions (for example, conversions of convertible debt) are not erroneously included, avoiding inappropriate net presentation of cash inflows and outflows and taking care over the classification of cash flows as operating, investing or financing in nature.
- Classification of financial instruments as debt or equity – this remains a challenging area, particularly when the timing or method of settlement depends upon contingent events or options available to either party. The precise terms of such an instrument should be considered carefully before determining its classification.
- Legal issues and related risks – Uncertainty over exposures to liabilities for legal or regulatory issues is a reality for entities in many industries. Properly reflecting this in financial statements necessarily involves the application of judgement on whether a liability should be recognised and, if so, the value at which it should be measured. This is also another area in which proper disclosure of the judgements applied and the uncertainties that exist is important.
- Changes in accounting estimates – the March 2014 IFRIC Update notes the IFRS Interpretations Committee's view that a change in the method used to develop an accounting estimate should be made only if that change "produces a reliable and equally or more relevant estimate". The Committee recommended an amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to that effect which is now being considered as part of the IASB's Disclosure Initiative.
- When applying IFRS 3 to business combinations, companies should ensure that they have a robust process for the identification and recognition of intangible assets, such as brands or customer lists. Companies can expect challenge from the FRC where a business combination results in material goodwill but few or no separate intangible assets.
- Revenue recognition – the implementation of IFRS 15 *Revenue from Contracts with Customers* (effective for periods beginning on or after 1 January 2017) will require many entities to reconsider their policies for recognition of revenue. However, even under current standards entities must take care to recognise revenue only when services have been performed or control over goods has passed to the customer. When a contract covers the supply of a number of goods and/or services it is also important to appropriately allocate revenue between these components.
- In respect of IFRS 15, it is also worthy of note that the FRC has highlighted the requirements of IAS 8 on standards in issue but not yet effective – stating an expectation that the likely impact of this standard be disclosed in 2014 financial statements to the extent it is known or reasonably estimable.

- In December 2014 the FRC issued a press release urging clarity in the reporting of complex supplier arrangements by retailers and other businesses. The Conduct Committee will expect high quality disclosure in this area.

The FRC has published a **letter** pulling together year-end reminders on the issues listed above. The FRC's Financial Reporting Lab has also published a summary of points from their reminders, entitled "**Lab reminders for the 2014 reporting season**".

Per the FRC's *Draft Plan & Budget Proposed Levies for 2015/16*, priority sectors for their Corporate Reporting Review will be:

- insurance;
- food, drink and consumer goods manufacturers and retailers;
- companies servicing the extractive industries; and
- business services.

Key areas for these reviews will be revenue recognition, the reporting of complex supplier arrangements, business combinations and the implementation of new accounting standards.

# New IFRSs mandatorily effective for years ending 31 December 2014

Further detail on the new and revised standards discussed below is available at:  
<http://www.ukaccountingplus.co.uk/tag-types/global/newsletters/need-to-know>

## IFRS

New and amended Standards	IASB effective date – periods commencing on or after	EU-endorsed effective date – periods commencing on or after
The 'consolidation package of five' - IFRSs 10, 11 and 12, IAS 27(revised) and IAS 28(revised)	1 January 2013	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 – <i>Investment Entities</i>	1 January 2014	1 January 2014
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Amendments to IAS 36 – <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	1 January 2014	1 January 2014
Amendments to IAS 39 – <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	1 January 2014	1 January 2014
Amendments to IFRS 2 – <i>Definition of Vesting Condition</i>	See below	See below
Amendments to IFRS 3 – <i>Accounting for Contingent Consideration in a Business Combination</i>	See below	See below
<b>New Interpretations:</b>		
IFRIC Interpretation 21 – <i>Levies</i>	1 January 2014	17 June 2014

As issued by the IASB, the amendments to IFRS 2 and IFRS 3 apply to share-based payment transactions and business combinations with a grant date and acquisition date respectively on or after 1 July 2014. EU endorsement of the 2010-12 Annual Improvements, of which these amendments were a part, was still outstanding at the time of writing, although was expected before the end of 2014.

### The 'consolidation package of five' – IFRSs 10, 11 and 12, IAS 27 (revised) and IAS 28 (revised)

Further information on the consolidation package of five can be found in the topical areas listed above and by following the hyperlinks provided to UK Accounting Plus.

### Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*

The amendments provide an exception from consolidation of subsidiaries under IFRS 10 for entities which meet the definition of an 'investment entity', such as certain investment funds. Instead, such entities must measure their investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. Where applicable, application of the exemption is not optional, it is required.

The amendments define an 'investment entity' as an entity that (i) obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services; (ii) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and (iii) measures and evaluates the performance of substantially all of its investments on a fair value basis

The amendments also introduce new disclosure requirements related to investment entities in IFRS 12 and IAS 27 *Separate Financial Statements*.

#### Investment entities – Applying the consolidation exception

In October 2014, the IASB tentatively decided to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even when the investment entity measures that subsidiary at fair value. However, UK companies following the Companies Act will not be able to take advantage of the exemption in such a scenario since the law would require the entity in question to have been included in a larger consolidation through 'full consolidation' rather than included at fair value.

A final amendment on this topic is expected by the end of 2014.

### **Investment entities – Unit of account**

An investment entity is required to measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 (or IAS 39). However, it was not clear whether the reference to IFRS 9 (or IAS 39) refers only to the measurement basis of the investment or if it also prescribes the unit of account for such investments which would indicate that the unit of account should be the individual financial instrument.

In September 2014, the IASB issued ED 2014/4 proposing amendments to state that the unit of account of investments in subsidiaries, joint ventures or associates is the investment as a whole but that if the investment is made up of financial instruments that are quoted in an active market (i.e. 'Level 1' investments), the fair value measurement of that investment would be based on the quoted price without adjustments (i.e. P x Q). It would be advisable for entities currently applying a different approach to follow the progress of this project closely.

### **Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities***

The amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set off' and 'simultaneous realisation and settlement' (an issue which might be particularly relevant to transactions involving clearing houses).

### **Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets***

The amendments to IAS 36 *Impairment of Assets* remove the requirement to disclose the recoverable amount of a cash generating unit (or group of cash generating units) to which a significant amount of goodwill or intangible assets with indefinite useful lives has been allocated in periods when no impairment or reversal has been recognised (this requirement having been inadvertently introduced as part of consequential amendments on the introduction of IFRS 13 *Fair Value Measurement*) and introduce additional disclosure requirements in respect of assets for which an impairment has been recognised or reversed and for which the recoverable amount is determined using fair value less costs of disposal.

### **Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting***

The amendments allow the continuation of hedge accounting (under IAS 39 and the IFRS 9 chapter on hedge accounting) when a derivative is novated to a clearing house counterparty and certain conditions are met.

### **Amendments to IFRS 2 *Definition of Vesting Condition***

As part of the 2010-2012 cycle of the Annual Improvements Project, the definitions of 'vesting condition' and 'market condition' in IFRS 2 *Share-based Payment* were amended and definitions added of 'performance condition' and 'service condition' to clarify how such conditions are reflected in the recognition and measurement of share-based payment expenses.

### **Amendments to IFRS 3 *Accounting for Contingent Consideration in a Business Combination***

As part of the same cycle, IFRS 3 *Business Combinations* was amended to clarify that all contingent consideration classified as an asset or liability should be measured at fair value at each reporting date.

### **IFRIC Interpretation 21 *Levies***

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy.
- The liability is recognised progressively if the obligating event occurs over a period of time.
- If an obligating event is triggered on reaching a minimum threshold, the liability is recognised when that minimum is reached.

As indicated in the table above, the EU-endorsed version of IFRIC 21 is only effective for periods commencing on or after 17 June 2014, rather than 1 January 2014, although earlier application is still permitted.

## New and revised IFRSs effective for years ending after 31 December 2014

Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective to the extent such information is known or reasonably estimable.

The list below reflects a cut-off date of 30 November 2014. The potential impact of the application of any new and revised IFRSs issued by the IASB after 30 November 2014 but before the financial statements are issued should also be considered and disclosed.

For those reporting under EU-endorsed IFRSs, to the extent that the below conflict with current standards, such items cannot be early adopted until they have been endorsed for use in the EU.

IFRS	IASB Effective Date – periods commencing on or after:	EU-endorsed effective date – periods commencing on or after:
<b>New Standards</b>		
IFRS 9 <i>Financial Instruments</i>	1 January 2018*	TBC – Endorsement outstanding
IFRS 14 <i>Regulatory Deferral Accounts</i>	First time adopters whose first annual IFRS financial statements are for a period beginning on or after 1 January 2016	TBC – Endorsement outstanding
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2017	TBC – Endorsement expected Q2 2015
<b>Amended Standards</b>		
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2016	TBC – Endorsement expected Q3 2015
Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016	TBC – Endorsement expected Q1 2015
Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016	TBC – Endorsement expected Q1 2015
Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	1 January 2016	TBC – Endorsement expected Q1 2015
Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014	TBC – Endorsement expected Q4 2014
Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i>	1 January 2016	TBC – Endorsement expected Q3 2015
Annual Improvements 2010-2012 cycle	1 July 2014**	TBC – Endorsement expected Q4 2014
Annual Improvements 2011-2013 cycle	1 July 2014	TBC – Endorsement expected Q4 2014
Annual Improvements 2012-2014 cycle	1 January 2016	TBC – Endorsement expected Q3 2015
<b>Interpretations</b>		
IFRIC Interpretation 21 – <i>Levies</i>	1 January 2014	17 June 2014

\*For periods beginning before 1 January 2018, previous versions of IFRS 9 may be adopted provided the relevant date of initial application is before 1 February 2015.

\*\*See above detail on amendments to IFRS 2 and IFRS 3 effective for transactions on or after 1 July 2014.

# UK GAAP Developments

## Old UK GAAP

This will be the last year of reporting under old UK GAAP, with FRSs 100-102 becoming effective for periods commencing on or after 1 January 2015. There are no changes to old UK GAAP for preparers to contend with in this final year.

## New UK GAAP

FRSs 100-102 become effective for periods commencing on or after 1 January 2015, although early adoption is permitted. Companies should note that the FRC issued amendments to both FRS 101 and FRS 102 in July 2014. Those amendments are also effective for periods commencing on or after 1 January 2015, again with early adoption available.

In July 2014, relatively minor amendments were made to FRS 101 *Reduced Disclosure Framework*, being consequential amendments for changes to IFRSs and clarifying certain legal requirements.

In July 2014 the FRC also published a set of significant amendments to Sections 11 and 12 of FRS 102.

FRS 102 includes two sections on financial instruments. Section 11 applies to 'basic' financial instruments, whereas Section 12 applies to other, more complex financial instruments and transactions, including hedge accounting. The amendments to FRS 102:

- updated the definition of a 'basic' debt instrument in Section 11. The assessment as to whether a debt instrument is 'basic' is entirely rules-based. Section 11 includes a list of criteria, all of which must be met in order for a debt instrument to qualify as 'basic'. Failure to meet any of these criteria would mean that the debt instrument cannot be classified as 'basic';
- relaxed the requirements on hedge accounting in Section 12, making hedge accounting more readily available. A group of items, and certain components of items, can be eligible hedged items if certain conditions are met; and
- introduced flexible transitional provisions around hedge accounting, that are included in Section 35. Transitional provisions for hedge accounting provide entities the choice to commence, continue, or end hedge accounting under Sections 12 (as a hedge by hedge election) on transition to FRS 102.

## Status of SORPs

Statements of Recommended Practice (SORPs) are sector-driven recommendations on accounting practices for specialised industries or sectors which supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector. SORPs are not issued by the FRC, but by SORP-making bodies recognised by the FRC for that purpose.

The majority of SORPs - Authorised Funds, Charities, Further and Higher Education, Pension, Social Housing and LLPs have been updated this year and published in final form following the issue of the new UK financial reporting standards. However, the Investment Trusts SORP has at the time of writing only been published as an exposure draft for public comment. Entities that currently apply SORPs will, for the most part, still be applying them under FRS 102. The three SORPs that have been confirmed as being withdrawn for periods beginning on or after 1 January 2015 are those for oil and gas, leasing and banking.

## FRED 55 Pension Obligations

The FRC has published FRED 55 Draft Amendments to FRS 102 – Pension Obligations. The proposed amendments clarify that entities reporting under FRS 102 should measure their obligations using the projected unit credit method and should not recognise additional liabilities to reflect funding valuations or agreements to fund deficits. Entities would therefore not need to recognise additional liabilities for a schedule of contributions, even if such an agreement would otherwise be considered onerous. This contrasts with the position for companies reporting under IFRSs which may have to recognise an additional liability for such obligations in some circumstances.

## FRED 56 Draft FRS 104 Interim Financial Reporting

The FRC is proposing to introduce a new standard based on IAS 34 'Interim Financial Reporting', adapted for use by entities that apply FRS 102. The new standard will not impose an obligation on entities to produce interim financial reports. However, entities that make a statement of compliance with it will be required to apply all of its provisions. The new standard will, for example, apply to those listed investment trusts which report under UK GAAP.

## FRED 57 Draft amendments to FRS 101 Reduced Disclosure Framework

The FRC has published FRED 57 Draft Amendments to FRS 101 Reduced Disclosure Framework, proposing disclosure exemptions from the requirements of:

- paragraph 18A of IAS 24 *Related Party Disclosures*, introduced by the *Annual Improvements to IFRSs (2010–2012 Cycle)*, which requires an entity that obtains key management personnel services from a management entity to disclose amounts incurred for the provision of those services; and
- paragraphs 6 and 21 of IFRS 1 *First-time Adoption of IFRSs*, which require entities adopting IFRSs for the first time to prepare and present an opening statement of financial position at the date of transition.

The effective date proposed is also 1 January 2015. The removal of the requirement for a third balance sheet on the date of transition in particular may make early adoption more attractive, albeit entities would need to wait for this change to FRS 101 to be finalised first before taking advantage of this new exemption.

#### **FRSSE**

In light of the new UK financial reporting standards, a new version of the FRSSE is also effective for periods commencing on or after 1 January 2015, with early adoption available. The FRSSE will continue to be available for small companies in the UK until 2016, when the new EU Accounting Directive must be implemented into UK law. This change in law will bring about a number of changes for small companies, including an increase in size thresholds and simplified disclosure and presentation requirements. As a result, the FRC proposes to withdraw the FRSSE from 2016. Instead, small companies will apply FRS 102 with reduced disclosure and presentation requirements.



## Actions for transitioning to new UK GAAP

As 2014 draws to a close, many UK entities will be preparing to apply a new GAAP for the first time in years. For periods beginning on or after 1 January 2015, three new financial reporting standards (FRSs 100-102) come into force, replacing all other UK FRSs, SSAPs and UITF Abstracts ('old' UK GAAP). A change from old UK GAAP to one of the new regimes will have far-reaching implications for nearly all UK entities, affecting wider business decisions on distributable profits, tax, banking arrangements and remuneration plans as well as the financial statements themselves.

By now many entities have chosen which GAAP to move to and the focus is very much on the process of converting to that new GAAP. Successful planning for and implementation of the new accounting regime will benefit from oversight and internal review at a senior level to ensure a smooth transition. Accordingly, although accounts prepared under the chosen new GAAP will not be filed until 2016 at the earliest (unless adopting in advance of the effective date), there are a number of considerations which should be addressed now.

### Communicating intent to apply FRS 101 (or the reduced disclosures in FRS 102)

In order to adopt FRS 101 (or the disclosure exemptions in FRS 102) shareholders must have been notified in writing and must make no objection. There is no requirement for explicit shareholder approval. The absence of any objections within the prescribed limits can be taken as approval. Even if a few objections are received, FRS 101 can still be applied, provided that the objections did not represent more than 5 per cent of the share capital.

Where the qualifying entity is a wholly-owned subsidiary, notification should be fairly straightforward to arrange. In practice, such decisions are nearly always made at group level and imposed on subsidiaries by group management.

However, the requirement applies equally to the parent of a group if it wishes to apply FRS 101 (or the disclosure exemptions in FRS 102) in its separate financial statements. Listed companies planning on applying FRS 101 should consider making a prominent statement in the annual report (or indeed the interim report if sent to shareholders) prior to the year in which it is to be adopted, saying that they will do so unless objections are received. For example, a listed company with a 31 December year-end should consider making such a statement in the annual report for the year ended 31 December 2014.

#### 'Testing the water'

There is still some time to select some entities within a group to move to one of the new accounting frameworks early. For instance, a group with a 31 December year-end may elect to transition a handful of subsidiaries to FRS 101 or FRS 102 early. This provides the opportunity to test systems and processes in place, as well as spreading the transition work over two year ends. This is acceptable as long as all affected entities convert to the new regime by the end of the first accounting period beginning on or after 1 January 2015.

### Payment of dividends

A change of GAAP is likely to affect retained earnings for most companies, and will therefore impact the level of profits available for distribution. In particular, some changes in accounting (such as financial instruments, deferred tax, goodwill and intangibles, foreign currency, pensions and investments) may have a significant impact on retained earnings. Companies may find that their distributable reserves are reduced or even eliminated entirely under the new framework.

However, under UK company law, if a dividend is accounted for and paid **before the date on which the new accounting framework** is adopted, the effect of the new framework does not need to be taken into consideration in deciding whether or not the distribution can be made.

For example, for a UK company adopting FRS 102 for the year ended 31 March 2016, the position is as follows:

- an interim dividend accounted for and paid before 31 March 2015 would not have to have regard to the adoption of FRS 102;
- any interim dividend not paid until after 1 April 2015 would have to have regard to the effect of adoption of FRS 102; and
- any final dividend for the year ended 31 March 2015 would not be accounted for until the year ended 31 March 2016 and would therefore have to have regard to the effect of adoption of FRS 102.

### Corporate simplification

There is a limited window of opportunity for groups to rationalise their structures by liquidating unnecessary companies and so reduce the number of entities that will need to transition to a new GAAP.

Under UK company law, once insolvency proceedings have been initiated and initial liquidation documents have been filed, the Registrar would no longer expect to receive a set of financial statements (accounts may be requested by others such as HMRC, but such accounts may not have to comply with all statutory requirements or be audited). It is also possible for companies to be 'struck off' the register without having to go through formal liquidation procedures. A private company can apply to be struck off if, in the previous three months, it has not traded or otherwise carried on business, subject to certain conditions. If it is anticipated that a company will be dissolved before the filing deadline for its statutory financial statements, the Registrar will not expect to receive them and they need not be prepared.

Accordingly, in both of these cases, companies that are either liquidated or struck off in advance of the filing deadline for the first set of new GAAP accounts may not need to go through the conversion process.

However it is worth noting that, in the case of dormant companies that are not struck off or liquidated, transition to FRS 102 will be relatively straightforward, since FRS 102 contains a transitional provision allowing dormant companies to continue to apply existing accounting policies until such time as they cease to be dormant. IFRSs and FRS 101 contain no such relief and dormant companies currently applying old UK GAAP would therefore be well advised to choose to apply FRS 102.

### Clarification of intercompany loan terms

Whichever GAAP is adopted, financial instruments – including intercompany loans – will need to be identified, understood and accounted for in accordance with the requirements of the chosen framework. The impact of the change in GAAP will depend on the terms of the loan, but IFRS, FRS 101 and FRS 102 all contain specific requirements for accounting for financial instruments that differ substantially from those under old UK GAAP.

Many intercompany balances do not have formal terms. Where this is the case, companies should clarify the contractual terms of intercompany loans as soon as possible in order to understand how to account for them. Terms such as maturity, repayment schedules and interest charged should be clarified and understood as these will affect the required accounting.

For instance, a loan that is interest free and repayable on demand is likely to be relatively straightforward and the accounting may not change at all under the new framework. By contrast, the accounting is likely to change where an intercompany loan has not been made on market terms and is **not** repayable on demand. The Deloitte GAAP suite of financial reporting manuals addresses this complex area of accounting in detail.

### Allocation of a group defined benefit scheme deficit

Companies reporting under 'old' UK GAAP that were part of a larger group with a multi-employer pension scheme may have taken advantage of the exemption in FRS 17 Retirement Benefits, which enabled companies within the group to account for the scheme as if it were a defined contribution scheme, recognising only their contributions payable.

IFRSs, FRS 101 and FRS 102 all remove the multi-employer exemption for schemes under common control. Groups will have the option either to a) account for the full defined benefit scheme in the employer that is legally responsible for the scheme, or b) to set up a stated policy or agreement to allocate the costs and associated deficit to group members.

A stated policy or agreement may be attractive as it reduces the distributable profits effect on the legally responsible employer. This policy should be put in place before the start of the first period reporting under the new framework (for companies with a 31 December year-end, by 31 December 2014) to ensure clarity over where the liability and associated costs will appear.

### Further information

Deloitte has produced a number of publications including *Changing your GAAP*, a guide designed to help entities plan for conversion to the new UK reporting regime and *ukGAAP 2014 in your pocket – a guide to FRS 102*, a handy pocket guide comparing FRS 102 to full IFRSs and existing UK GAAP.

## UK narrative reporting developments

As identified in the topical issues listed above, the FRC published their finalised guidance on the strategic report during the year. However, having had so much change to deal with in 2013, there are relatively few 'hard' changes to contend with in 2014. Instead, preparers should focus their efforts on improving the quality of their reporting, taking on board messages from the regulator, including their areas of focus, described above. Deloitte's **annual report survey and accompanying guidance** suggests a number of ways that annual reports can be improved in 2014, ranging from the bare minimum changes that companies should be making through to ways that they can go above and beyond.

Of limited relevance for year-end reporting, but worthy of note is the fact that the Financial Conduct Authority has removed the requirement under DTR 4.3 for listed companies to prepare interim management statements, also known as "quarterly reports" from 7 November 2014, although companies can of course continue to volunteer such information. Companies should however remember their obligation to announce inside information under DTR 2.2.

### Listing rules disclosure changes

Companies with a premium listing (which excludes companies listed on AIM) should note two relatively minor changes made to Listing Rule 9.8 that are now effective.

- LR 9.8.4CR has been added, requiring the annual report include all the information required under LR 9.8.4R in a single identifiable section, unless the annual financial report includes a cross-reference table indicating where that information is set out.
- Listing Rule 9.8.4R(14) has also been added requiring extra disclosure in the annual report if the listed company has a controlling shareholder (as per LR6.1.2AR a "controlling shareholder" means any person who exercises or controls on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company – further details are included in LR 6.1.2 on which voting rights are disregarded for the purposes of this calculation).

## Resources

Deloitte has a wealth of resources for the forthcoming reporting season, all of which can be found on our dedicated page at [www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk), your one-stop-shop for the latest insight and guidance on narrative reporting, corporate governance and financial reporting. Key resources include those listed below.

### **Annual report insights 2014 – Providing a clear steer**

The Deloitte publication 'Annual report insights 2014 - Providing a clear steer' provides an insight into the narrative and financial reporting practices across 100 UK listed companies. The publication, which includes survey findings, better practice examples, a regulatory overview and suggestions on how to improve annual reports in the year ahead, enables you to add real value and insight on your annual reports. A short booklet is also available, comprising two distinct parts - firstly, survey highlights, and secondly, ideas on how to improve annual reports in the year ahead, ranging from the bare minimum preparers should consider through to ways companies can go above and beyond.

### **GAAP 2015 Model Annual report and Financial Statements for UK Listed groups**

This publication provides comprehensive guidance on the presentation and disclosure requirements for company reporting that will apply to listed groups for 2014, including guidance on the strategic report and directors' remuneration report legislation, the requirements of the 2012 UK Corporate Governance Code and illustrative financial statements. Note that this is not available on UK Accounting Plus, although your Deloitte contact would be pleased to provide you with a copy.

### **Governance in focus: In the spotlight – audit committees and the 2014 reporting season**

In this Governance in focus the topics audit committees need to focus on in the 2014 reporting season are reviewed, including: the areas of focus from the FRC's Corporate Reporting Review, effective audit committee reporting, new responsibilities under the CMA Order, the impacts on the provision of professional services, the updated UK Corporate Governance Code and the key governance themes for 2015, including the FRC's integrated guidance on Risk management, internal control and related financial and business reporting.

### **Changing Your GAAP**

Based on the final FRSs100 – 102, this document is designed to help you understand some of the anticipated impacts of the changes to UK financial reporting and what you need to be doing to prepare for and manage the change.

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