FINANCIAL REPORTING REVIEW PANEL

REPORT ON PRO-ACTIVITY

2005 Interim reports

1. The Panel is authorised under the Supervision of Accounts and Reports Order 2005 to keep under review the interim accounts of listed companies. This new responsibility has coincided with the publication of the first reports by UK listed companies under IFRS. The Panel has therefore undertaken a targeted review of 70 interim reports issued in mid-2005.

2. Two Panel groups were established to pursue cases which presented complex or potentially controversial issues and the Panel wrote to a further 14 companies asking for explanations of possible non-compliance with the disclosure requirements of the Listing Rules including IFRS. At 13 February 2006, 67 of the cases were complete and 3 were continuing.

3. Following the Panel's intervention all 16 companies contacted undertook to make amendments in future accounts. In all of these cases the Panel was satisfied that there was no significant breach of reporting requirements. The Panel has been pleased that most companies replied quickly to its enquiries, with many providing a substantive response within two weeks. This is of particular importance to interim reporting if enquiries are to be dealt with in advance of the publication of the preliminary announcement and annual financial statements.

4. IAS 34, 'Interim Financial Reporting', sets out the minimum content of interim reports prepared under IFRS. This standard, however, was not mandatory for UK listed companies preparing their first IFRS interims and the Panel found that only a few of the companies reviewed chose to comply with IAS 34. The remainder were obliged to comply only with the disclosure requirements of Chapter 9 of the Listing Rules. Nevertheless, some companies did not meet these requirements with the two most common breaches being in relation to the disclosure of overseas tax and the presentation of finance income and expenditure. (There are further details in Appendix B).

5. In the interim reports reviewed, most issues arose on matters where there had been changes as a result of the implementation of IFRS. These largely related to the presentation of items within the primary financial statements and to narrative descriptions of new or revised accounting policies.

Income statement

6. The format of the income statement under IFRS is less prescriptive than under UK GAAP but some issues did arise on presentation of items within this statement. Companies adopting IFRS are not required to disclose a figure for operating profit or loss in their interim reports. They may

choose to disclose additional non-GAAP numbers in their interim accounts but should make clear the basis on which such numbers are calculated.

7. Some companies chose to utilise sub-totals such as trading and operating profit, which are not defined within IFRS, but excluded from those sub-totals certain items which the Panel would have expected to have been included. There was also some variation in the presentation of discontinued operations.

Cash flow statement

8. The headings used in the cash flow statement under IFRS again vary from those used under UK GAAP and some instances were found of items incorrectly classified, particularly between investing and financing activities. Definitions of cash equivalents were also sometimes unclear.

Statement of Changes in Equity

9. UK companies are accustomed to providing a Statement of Recognised Gains and Losses (STRGL) but under IFRS, the Statement of Changes in Equity is split into two parts: a Statement of Recognised Income and Expense (SORIE) and a separate Statement of Changes in Equity. The latter shows only transactions with equity holders acting in their capacity as equity holders. Some confusion arose in the placing of items within the two sections of the statement, especially in relation to items recognised for the first time as a result of new accounting policies. (There are further details in Appendix B).

Accounting policy disclosures

10. The move to IFRS has involved companies in making significant changes to their principal accounting policies. In most cases reviewed by the Panel the new policies were found to be clear and comprehensive. Companies had often taken the opportunity to reconsider their policy disclosures and to rewrite them completely. Whilst this led to a welcome reduction in ‘boiler plate’ disclosures, in a number of instances the meaning of the policy was not clear to the Panel or the policy did not address certain aspects of a business. There was also some evidence of inappropriate UK GAAP wordings being retained. In all such cases queried by the Panel, the conclusion reached was that it was the policy wording rather than the underlying accounting that was incorrect. The Panel therefore asked for and received assurances that the wording of the policy notes would be amended in future sets of accounts.

References to Supporting Documents

11. Most companies presented detailed information concerning their new IFRS accounting policies and the significant differences between these and their previous UK GAAP accounting policies together with supporting numerical reconciliations. In some cases this transitional information was presented in the interim report but, in many other cases, companies provided a cross-reference to other documents containing this information on their web-sites. The Panel urges companies who choose to cross-refer to supporting documents to make every effort to give precise references to assist users in accessing the relevant documents.

Replacement of true and fair override

12. Companies who comply with IFRS and are therefore subject to International Accounting Standards Regulation 1606/2002 are no longer able to take a 'true and fair' override i.e. to override the requirements of standards in order that their accounts present a true and fair view, as required by the Companies Act 1985. Instead, they are subject to a specific requirement to comply with international accounting requirements under IAS 1 'Presentation of Financial Information', except in extremely rare circumstances where company management concludes that compliance would be so misleading that it would conflict with the objective to 'present fairly' their accounts. Whilst the full practical effect of this change is not yet known, it is important that any companies that do depart from IFRS make clear that this is a departure under the provisions of IAS 1 in order to ensure that the company's accounts are presented fairly, and that it is not a 'true and fair' override as previously required by the Companies Act.

Conclusion

13. The number of significant issues raised by the Panel was small. This is encouraging, but it may be a result of the limited information required to be provided in interim reports this year. The Panel did, nevertheless, find a number of instances where disclosure requirements had been overlooked. Examples of minor errors are listed in Appendix B.

14. No press notices have been issued on the cases closed to date. No companies have been asked to restate their results, although a number have agreed to make improvements to disclosures in the future. Under the terms of its memorandum of understanding, the Panel has informed the FSA of all cases, where as a result of the Panel's intervention, a company has undertaken to change its reporting. The Panel's conclusion is that the general level of compliance with IFRS as evidenced by interim reports to date is high. The Panel will continue to review interim reports both in response to complaints and as part of its ongoing work programme.

APPENDIX A

Analysis of company reviews

	FTSE 100	**FTSE 250**	**Other**	**TOTAL**
Interim reports reviewed	25	30	15	70
Approaches to companies	6	6	4	16
Improvements to future accounts (no. of companies)	6	6	4	16
Company-specific Press Notices issued	-	-	-	-

Minor issues corrected

Listing Rules disclosure of UK and overseas tax

An analysis of taxation on profits showing separately United Kingdom taxation and overseas and share of associated undertakings' taxation were not provided in a number of cases where the amounts were material [Listing Rules 9.9.8 (3) (j)].

Finance income and costs

Finance income and costs were shown as a net figure rather than as two separate items in the income statement [Listing Rules 9.9.8 (3) (b) and (d)].

Items to be included in the Statement of Recognised Income and Expense (SORIE)

Actuarial gains / losses on pension defined benefit schemes were taken to the statement of changes in equity rather than to the SORIE [IAS19 paragraph 93 and IAS 1 paragraph 96(b)].

The credit on share options taken to SORIE rather than to the statement of changes in equity [IAS 1 paragraph 97(a)].

Maturity of cash equivalents

Under IAS 7, 'Cash Flow Statements', cash flows include inflows and outflows of cash equivalents which were, in some cases, significant but not precisely defined. For example, some companies did not clarify that cash equivalents are usually limited to instruments with an original maturity on acquisition of less than three months. This can lead to doubt as to whether securities with longer maturities have been included in the category [IAS 7 paragraph 7].

Omission of statement regarding auditor's report

Omission of a statement that the auditor's report on the last full accounts did not contain a statement under s237(2) or (3) of the Companies Act 1985 [s240].

Reserves

The errors noted in respect of reserve balances were generally Companies Act rather than IFRS related. Examples included failure to take merger relief on the issue of shares in an acquisition when it was available. Merger relief, when available, is mandatory (CA1985 s131]. Errors were also discovered in relation to the capital redemption reserve, with the omission of a transfer from distributable reserves on the purchase of a company's own shares and incorrect double entry.