

FINANCIAL REPORTING REVIEW PANEL

REVIEW FINDINGS AND RECOMMENDATIONS - 2009

Introduction

This report is based on the Panel's reviews of reports and accounts commenced in the year to 31 March 2009. These accounts were mainly for financial periods ending from December 2007 to June 2008.

This period saw a severe deterioration in the capital markets which increased the challenges facing directors preparing company reports and accounts. A downturn in demand in many sectors, coupled with restricted availability of credit, tested both the robustness of corporate strategies and the fundamental assumptions on which financial statements are produced.

This report summarises the findings of the Panel's reviews in the context of the continuing dislocation of the markets and the impact that this has on financial reporting. It identifies issues that are likely to be relevant to companies preparing their annual and half-yearly reports over the next few months. These include new reporting requirements, for example, IFRS 7, where best practice has yet to be established and other disclosures which are of heightened interest to users of accounts in periods of economic downturn.

The publication date of the Panel's report has been brought forward this year so that its recommendations and comments may be reflected in the half-yearly accounts of December reporters as well as the annual accounts of companies with a June year end. The accelerated publication means that proportionately more of the year's cases have still to be concluded at the date of the report than in previous years.

The Panel draws particular attention to the following:

- Principal risk and uncertainties disclosures in the business review (page 6)
- Liquidity disclosures (page 21)
- Disclosure of management judgements and key estimation uncertainties (page 15)
- Capital disclosures (page 16)

The report summarises initial outcomes of the Panel's initiative to improve the quality of impairment disclosures through a targeted review of some 30 sets of company accounts. It also reports on its consideration of accounts

that are qualified by the companies' auditors for failure to comply with applicable accounting standards.

Under the terms of its operating procedures, the Panel may make an announcement where the directors of a company under review agree that their report was defective and requires corrective action. The Panel published two press notices in the year in respect of companies that had failed to comply with the requirements of the Act. Both companies restated comparative amounts in their next set of annual financial statements. These announcements are summarised in Appendix B.

International Co-operation

During the year, the European enforcers of financial information (EECS), of which the Panel is a member, met regularly under the auspices of the Committee of European Securities Regulators (CESR).

The Panel, as permitted by its procedures, submitted a number of decisions to the Committee's private database for discussion. The Panel continues to be an active member of the agenda sub-committee and plays a key role in the preparation of EECS publications. During the year the Committee published two packages of decisions from its private database to inform users of IFRS application issues*. The extracts from the EECS database, together with national reports of other enforcers of IFRS continue to contribute to the convergence of appropriate practices and accounting treatments under the international framework.

Since the year end, the Panel has worked closely with the FSA extracting data and information from the accounts of UK banks and insurers to assist CESR in its review of the impact of reclassifications between financial instruments and the adequacy of risk disclosures by EU financial institutions. The Panel will also use this work to inform the focus of its reviews of the accounts of UK financial institutions in 2009/10.

* <http://www.cmvm.pt/NR/rdonlyres/542657CE-77E4-47A2-BF28-2A18F392C8C7/11617/CESR5ExtractoDecisooesCumprimentoIAS.pdf>

Structure of this report

This report is set out in the following sections:

Section One	Overall results
Section Two	Targeted reviews <ul style="list-style-type: none">• Directors' reports• Bank financial statements• Targeted review of impairment disclosures• Half-yearly financial reports• Accounts with qualified audit reports
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SECTION ONE: *Overall results*

Statistics

In 2008/09, the Panel reviewed 326 sets of accounts (2007/08: 300) and wrote letters to 112 companies (2007/08: 138).

Twelve of the letters drew the board's attention to certain disclosure matters where there was a doubt whether the company had complied with the requirements of the relevant standard or legislation. The Panel did not ask for a substantive response to the matters raised but asked that they be considered when the directors prepare the companies' next financial statements if they were relevant or material to the company's reporting. In this context, the Panel notes that companies are not required to disclose immaterial items.

The remaining 100 letters asked companies for further information about areas of possible non-compliance with the accounting requirements of the Companies Act 1985 (the Act) or the Financial Services Authority's (FSA's) Listing Rules. Only three cases to date were closed by the company satisfying the Panel's concerns without recourse to future improvements in their financial reporting. 68 companies (2007/08: 88) gave specific undertakings to improve an aspect of the future financial reports. 29 cases have yet to be concluded (2007/08: 17).

Correspondence with seven companies was halted by the companies being put into administration or entering other similar arrangements during the period. In accordance with its procedures, the Panel does not normally continue correspondence with a company that is in administration or liquidation, as the cost to the company, which is borne by shareholders and creditors, is unlikely to be matched by any benefits which might be available from the revision of prior period accounts.

Three Panel Groups were established to consider specific company issues raised in the period. These enquiries are ongoing at the date of this report.

Conclusions

On the basis of accounts reviewed to March 2009, the Panel has concluded that the current standard of corporate reporting in the UK remains good. For the most part, the accounts of listed companies reviewed during the year were their third set of annual financial statements prepared in accordance with IFRS. Consistent with the requirements of the Transparency Directive, the accounts reviewed included some third country overseas issuers, also applying IFRS.

There is evidence of continuing improvement in the general quality of IFRS financial reporting. As expected, market pressure and peer consensus, coupled with increased familiarity with the reporting requirements, have encouraged the development of good practices.

From January 2007, AIM quoted companies have also prepared their accounts in accordance with IFRS as required by the London Stock Exchange. Most of the accounts of AIM quoted companies reviewed in the year were their first IFRS compliant annual accounts. There is evidence that these companies benefitted from the experience of their listed peers and their advisers in effecting the transition to IFRS. Overall, however, their quality was not as good as for companies on the Main Market.

As in previous years, the areas of reporting that prompted many questions were those dealing with more complex accounting issues or where the exercise of judgement by directors is most critical. The Panel also questioned regularly the adequacy and relevance of principal risks and uncertainties reported by many companies in their business reviews.

As expected, the Panel raised more questions about various aspects of liquidity and impairment. Although offering comment on how these could be improved in the accounts of individual companies, the Panel did not identify any systemic issues requiring immediate remedial action across the market as a whole.

The Panel is pleased to report that boards of directors continued to co-operate well with the Panel during the year and generally were willing to volunteer undertakings to improve the quality of their future annual and half-yearly reports. Many boards of UK companies take pride in the quality of their financial reporting and welcomed the Panel's interest in how they might be improved.

Revised operating procedures

Following consultation, the Panel revised its operating procedures during the year to improve the transparency of the processes through which the Panel conducts its enquiries. The Panel now copies its initial letter, addressed to the company chairman, to the company finance director. This practice has helped to improve significantly the speed with which first responses are received.

Under the revised procedures, the Panel may also send a copy of the letter closing a case to the senior partner or chairman of the entity's auditors. The Panel will be introducing this practice over the next few weeks. It is the Panel's intention to issue such letters sparingly. The Panel hopes that the senior partner or chairman of the audit firm will take a personal interest in the next audit of that company's accounts.

SECTION TWO: *Targeted reviews*

This section summarises the outcomes of the Panel's targeted reviews in the year.

Directors' reports

Business review – principal risks and uncertainties

The Companies Act requires all business reviews to contain a description of the principal risks and uncertainties facing a company. The Panel noted last year that these disclosures were likely to warrant greater attention during the forthcoming reporting season in view of the extent and speed of deterioration of market conditions. Some boards would find themselves considering risks that they had never previously encountered. Novelty would not excuse them from making full and frank disclosure of the issues of concern to the board.

The adequacy of disclosures relating to principal risks and uncertainties was raised with a number of entities of different types and sizes during the year. A small number of companies did not appear to give any clear information about risk and uncertainties. The Panel was particularly concerned that several listed building societies did not provide any meaningful information about the risks relevant to their operating environment.

A small number of companies provided a list of risks but without any proper description which made it difficult to appreciate their precise nature. Elsewhere, the description was sometimes generic and the amount of detail provided insufficient to enable users to appreciate the specific nature of the risks that companies faced and the impact of any of them crystallising. Retention of skilled and experienced staff for example is an operating issue for very many companies that is usually mitigated by the adoption of appropriate employment policies and benefits packages. Where staff retention is highlighted as a principal risk, disclosures should provide a clear explanation of the reasons why it is particularly critical to the company.

The Companies Act 2006 introduced several important changes to the requirements in respect of directors' reports. First, it clarifies the purpose of the business review as helping shareholders assess how the directors have performed their statutory duty to promote the company's success. In order to meet this objective, it may be necessary for directors to describe how they are managing the risks and uncertainties facing the company.

Second, the business reviews of quoted companies are now required to refer to the main trends and factors likely to affect the future development and performance of the company. Information is also required about environmental matters, the company's employees and social and community

issues. The disclosures must cover information about the effectiveness of any policies the company has in respect of these matters.

The additional disclosures apply to annual accounts prepared for periods beginning on or after 1 October 2007. To date the Panel has only limited experience of monitoring the enhanced business reviews and will report on compliance with this aspect of reporting next year.

The Panel will consider the adequacy of these disclosures in terms of what a reasonable board might be expected to conclude on the basis of information available when the accounts are approved.

Further details on the Panel's approach to its review of directors' reports, specifically the enhanced business review, are available on its web-site.

Consistency

When reviewing the directors' report, the Panel has regard to the degree of consistency between the information it contains and other disclosures provided within the audited accounts. For example, where appropriate, the review should comment on material transactions reported in the accounts. Conversely, the Panel might expect matters discussed in the review to be suitably highlighted in the accounts.

Directors' reports - other disclosures

Takeover Directive

In February 2008 the Panel issued a press notice reminding preparers of the disclosures introduced to satisfy the Takeover Directive. Based on the Panel's reviews of June and September 2007 year end accounts, these requirements had been poorly applied.

Compliance with these requirements improved significantly in annual accounts published in the second half of 2008 but they are still overlooked on occasion.

Disclosure and Transparency Rules (DTR)

Following implementation of the Transparency Directive, annual accounts should contain a statement by each person responsible for the accounts (usually the directors) that certifies that, to the best of his or her knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give '...a true and fair view of the assets, liabilities, financial positions and profit and loss of the issuer'. It must also certify that the management report includes a fair review of the development and performance of the business and the position of the issuer and the

undertakings included in the consolidation, together with a description of the principal risks and uncertainties they face. (DTR4.1.12)

A number of companies provided responsibility statements that did not fully meet the DTR requirements.

Banks' annual financial statements

The banking sector continued to be a priority sector for the Panel in 2008/09.

The Panel monitored closely the developments that affected the banks' financial reporting and liaised with other regulators where appropriate. The results and position of UK banks as reported in their accounts published in the year were subject to close and continuous scrutiny by regulators and other commentators, giving rise to a series of actions and responses that have been well publicised and that are continuing. A number of agencies published generic recommendations on improvements in bank financial reports including the FSA and the Senior Supervisors Group. These, together with comments made by the Panel as a result of its company specific reviews, prompted clear improvements in the half-yearly accounts of a number of UK banks.

In its reviews of banks' accounts, the Panel aims to ensure that the directors have applied their judgement reasonably and that valuations have been determined in accordance with methodologies that are permitted by the relevant accounting standards. The Panel does not aim to provide independent validation of the values at which financial assets and financial liabilities are reported. That is a matter for others, including the auditors and the prudential regulator, the FSA.

The Panel paid particular attention to how banks had applied IFRS 7 which was mandatory for periods beginning from January 2007. It requires companies to provide disclosures that enable a user to evaluate the significance of financial instruments for the company's financial position and performance, the nature and extent of the risks arising from financial instruments and how the company is managing those risks.

Multinational banks faced a particular challenge in organising disclosure of their risk information to meet the various regulatory requirements and to satisfy a wide range of users needs.

The Panel asked banks to explain their approach to the reporting and disclosure of risk where it appeared that information relevant to the IFRS 7 overall objective was located outside the financial statements and was not identified as having been subject to audit. In order to further its understanding of the process by which information was selected for

disclosure, the Panel sought confirmation of the extent to which unaudited information was drawn from internal reports provided to key management personnel. In the Panel's view, some of the information that was provided at the front end of the accounts and not identified as audited, could be said to satisfy the IFRS 7 overall objective and would have been better positioned within the audited financial statements. This included, for example, description and discussion of the risks arising from holding asset backed securities.

Several banks undertook to review the placing of their future risk disclosures in light of the Panel's comments and with the benefit of emerging practice. They also agreed to improve their IFRS 7 disclosures in their next half-yearly financial reports.

IFRS 7 requires disclosure of the measurement bases for financial instruments within a company's summary of principal accounting policies. The Panel paid particular attention to the detail of the banks' descriptions of the way in which their range of financial instruments were valued and asked further questions about the specific methodologies applied where narrative explanations were either unclear or did not refer to points of principle.

The Panel requested further information where the relevant notes supporting a bank's valuation did not specify the model inputs or omitted a factor which the Panel considered likely to be significant in the valuation of an instrument, such as its credit quality or liquidity. As a result of Panel intervention, some banks undertook to extend their disclosure of assumptions used as model inputs, and the sensitivities arising from them, when valuing instruments in the absence of an active market, to improve compliance with IAS 39.

The Panel asked questions of some banks about their exposure to structured investment and securitisation vehicles as this was not clear from the accounts. Company responses clarified the nature of the relationships with these entities and the extent of exposure to the risks and rewards arising from them.

Targeted review of impairment disclosures

IAS 36 'Impairment of assets' sets out the procedures that boards should adopt to ensure that company assets are not carried at more than their recoverable amount; that is, the value of the cash flows that the assets are expected to generate through their continuing use or sale.

The deterioration in economic conditions over the last two years has affected the assumptions supporting these assessments with the result that many companies may be reporting impairment losses in respect of goodwill in the current reporting season.

The FRC identified the impact that this could have on company results and the need for transparent disclosure. In October last year, to help boards with this aspect of their 2008 annual reporting, it published the results of its study of information published by a sample of UK companies about their testing for the impairment of goodwill.

In December 2008 the Panel announced a targeted review of impairment disclosures to build on the work conducted by the FRC and to stimulate improvement in this type of information provided in financial reports.

The Panel selected 30 large companies and, unusually, notified them in advance of their reporting year-end that their next set of annual accounts would be reviewed for compliance with IAS 36. The sample was chosen on account of the substantial amount of intangible assets they were expected to hold and that others may look to them as illustrating best practice in their respective industries. The companies were selected based on the likelihood of their holding substantial intangible assets and the likelihood that others might refer to their accounts as illustrating best practice in their respective industries.

IAS 36 requires a range of disclosures in support of a company's annual impairment review, the detail of which should be very fact-specific. Information is also required about the key assumptions made in estimating recoverable amount of an intangible asset and whether a reasonably possible change in a key assumption would give rise to an impairment loss. This information is of particular significance to users of accounts in a severe economic downturn when many companies are operating with heightened levels of uncertainty. Full and clear disclosures are required sufficient to allow users to understand the assumptions on which the directors' judgments are based.

In early July, the Panel was pleased to report that 22 of the 30 companies whose accounts were reviewed had improved the quality of their impairment disclosures from that which they had presented in their previous year's accounts. In particular, there was a noticeable increase in the level of compliance with the requirement to disclose reasonably possible changes in assumptions that could trigger an impairment charge.

The Panel wrote to 26 of the 30 companies confirming that no further points will be raised about this aspect of their current financial reporting. The accounts of the four remaining companies will be subject to detailed review, in accordance with the Panel's operating procedures, following which the Panel may put specific questions or clarifications to the board. The fact that the Panel has selected certain companies' accounts for a more detailed review does not mean that the Panel has concluded, at this stage, that those accounts do not comply with IAS 36.

Half-yearly financial reports

The Panel is authorised under the Supervision of Accounts and Reports (Prescribed Body) Order 2007 to keep under review the half-yearly financial reports of companies with securities traded on a regulated market and, if it thinks fit, to report its findings to the FSA.

As in previous years, most of the issues arising on review related to the disclosure requirements of the DTR rather than compliance with IAS 34. Following publication by the FSA in March 2008 of how certain of their requirements might be satisfied, the Panel has continued to note general improvement in many areas.

Preparers are, however, reminded of the need to provide an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the financial year (DTR 4.2.7). This requirement is not met by a simple cross-reference to those disclosed in the last annual accounts, however, as DTR requires a 'description' of the risks and uncertainties. As reported last year, where the principal risks and uncertainties for the second half of the year have changed from those described in the last annual report or where additional risks and uncertainties have arisen, a more comprehensive description is required.

A key principle of IAS 34, 'Interim Financial Reporting', is that interim accounts should be prepared applying the same accounting policies as those applied to the annual accounts. IAS 40, 'Investment Property' requires companies applying the fair value model to carry their properties at fair value with changes reported in the income statement. Properties are therefore required to be carried at fair value at the half-year stage. In several instances, the Panel noted that property companies had not revalued their investment properties in their half year financial reports.

The following IAS 34 disclosures were not always provided. In some cases they may have been relevant but were overlooked:

- The nature and amount of changes in estimates if they have a material effect on the half-yearly results;
- The nature and amount of items that are unusual because of their size, nature or incidence;
- Disclosure of details required by paragraphs 66-73 of IFRS 3 'Business Combinations' to explain the effect of changes in the composition of the group in the interim period; and

- Any events or transactions that are material to an understanding of the current interim period.

Interim reports of AIM quoted companies

The Panel's remit in respect of AIM quoted companies does not extend to the monitoring of their interim reports.

The Panel did, however, review 22 interim reports of AIM quoted companies prepared in accordance with IFRS in order to decide whether there were potential points of substance that would be likely to be raised in the annual accounts. Where this was the case, the Panel selected the subsequent annual accounts for review.

Accounts with qualified audit reports

The FRRP has a clear interest in company accounts which are qualified by their auditors for breach of accounting requirements. This is a strong indicator that the financial statements may not be properly prepared in accordance with the law and do not give a true and fair view.

In June 2008, the Panel announced that it had arranged for regular notification to it of all UK company accounts that had been filed with an audit opinion qualified for non-compliance with applicable accounting standards and that it planned to write to some of the companies concerned.

The Panel wrote to over 50 such companies last year, drawing the directors' attention to their responsibilities under the Act to prepare accounts that comply with the law and accounting standards. Companies were of a wide range of size and type and included UK subsidiaries of overseas companies where some aspects of their accounting policies had been determined by those of their parent company reporting under a different GAAP. Others were single company family businesses but of a considerable size and often with a substantial work-force.

The Panel advised company boards that it would not open an enquiry into those accounts but would review the company's next set of filed accounts in accordance with its operating procedures and would take appropriate action if the qualification remained. This approach was adopted in order to give directors the opportunity of reconsidering their approach to financial reporting and to put matters right in advance of Panel review.

Nature of qualification of audit opinion

The accounts were qualified in respect of a range of standards, many with multiple qualifications. The standards that were most often not complied with and that attracted most qualified audit reports were FRS 17, 'Retirement Benefits' in relation to defined benefit pension schemes and SSAP 19, 'Accounting for Investment Properties', where investment properties were carried at cost rather than, as required by SSAP 19, at fair value. The Panel pointed out to a number of companies that SSAP 19 does not necessarily require valuations to be made by independent third party valuers.

Although they were not required to do so, some company boards responded to the Panel's approach explaining why, in the directors' view, compliance was either not required or not appropriate. A common explanation was that the additional information required by the law could only be had at great expense and was not considered to provide a commensurate level of benefit to shareholders, often because the shareholders were also the directors. Although accounting standards are not to be applied to immaterial items the Act does not permit non-compliance on grounds of a cost and benefit analysis. Further, the Panel notes that the purpose of the requirement to file statutory accounts is to make information available to creditors and other stakeholders, not just shareholders.

Many private companies file their financial statements close to the end of the statutory period and some months after the accounts are audited. Some companies responded to the Panel's approach by explaining that, at the time of receipt, of its letter, they were either close to, or had already finalised, their next set of accounts without addressing the reason for the qualification. In these cases, the Panel advised the companies concerned that it would review the next set of annual accounts to be prepared - in many cases, December 2008.

Preliminary results

The Panel has now reviewed 14 sets of accounts of companies to which the Panel had previously written in this respect. All but one are accompanied by an unqualified audit report, removing any need for the Panel to do any further work. The other set was filed with an audit opinion qualified for failure to comply with two standards. This set of accounts was reviewed in full in accordance with the Panel's operating procedures. The Panel is currently in correspondence with the company concerned.

These results are promising and were achieved with relatively little resource.

SECTION THREE: *Annual financial statements - commentary*

The areas highlighted below represent those where, from the Panel's reviews of individual sets of company accounts, there is room for further enhancement in quality, particularly in the context of current market conditions. Areas where, in the Panel's view, compliance has generally improved are also referred to below. Appendix A lists common disclosure points identified during the Panel's work.

IAS 1 'Presentation of Financial Statements'

Accounting Policies

IAS 1 requires companies to disclose the bases of measurement applied in preparing their accounts and other accounting policies used that are relevant to an understanding of their financial statements.

The Panel was pleased to note that few IFRS companies had retained inappropriate UK GAAP compliant narrative in their descriptions of the accounting policies adopted in their IFRS accounts. Some companies were, however, asked to explain their policies in respect of material items when these were not disclosed or where it was unclear whether an appropriate recognition or measurement basis had been applied. As in previous years, most questions related to aspects of revenue recognition (see also page 18 below).

Lack of clarity was sometimes a consequence of boiler-plate narrative which did not reflect the company's specific application of IFRS principles. On the whole, however, the Panel noticed improvements in this area of reporting. Companies were usually quick to offer improved and sharper narrative in their future accounts.

Fewer instances were noted of redundant policies indicating that more companies now actively consider the appropriateness of their policies at each reporting date. The Panel continues to encourage the deletion of redundant information to ease users' understanding.

Disclosures of Judgements and Estimates

The Panel was also pleased to note a general improvement in the disclosure of the judgements management had made in applying their accounting policies. This improvement is partly due to the practice of presenting the information in a separate section of the accounts, suitably cross referenced to other parts of the report to avoid unnecessary duplication. This enables users to appreciate more easily the extent to which directors' judgment has been applied and its effect.

The Panel continued to challenge directors where they had clearly applied judgment in areas that were very significant but which did not appear to be suitably highlighted in the report. Some companies were able to respond with appropriate and persuasive explanations as to why the matter raised, although representing a judgment, was not a key judgment.

Similarly, more companies provided information about the key assumptions they make concerning the future, and other major sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year. In some cases, however, the disclosures were still boiler-plate and limited, providing little insight into the impact of reasonably possible alternative assumptions on the company's financial position.

The Panel also encouraged companies to remove redundant or irrelevant information such as accounting policies for transactions of a type no longer undertaken but which were still, at times, disclosed.

IAS 1 encourages directors to indicate the degree of sensitivity of carrying amounts to the methods, assumptions or estimates underlying their calculation (paragraph 129). Where this is impracticable, companies can explain that it is reasonably possible that actual results within the next financial year may vary from the assumption and could require a material adjustment to the carrying amount of the asset or liability affected. In this case, both the nature and carrying amount of that asset or liability must be explained.

The Panel expressed concern last year that this exemption should not become the default position. It also indicated that directors should pay attention to estimation uncertainties given the continuing difficulties in the financial markets.

Reviews this year did not indicate an increase in the number of those making a relevant disclosure or of an increase in the importance attached to sensitivity analysis. Directors are encouraged to be more candid about the sources of the uncertainties they face and identify the specific consequences for their financial position.

Capital disclosures

An amendment to IAS 1 came into force during the year requiring additional disclosures to help users of accounts evaluate the company's objectives, policies and processes for managing capital.

As IFRS does not define 'capital', the standard first requires companies to explain what they manage as capital before providing other details. This includes a description of how the company is meeting its objectives for managing capital and the degree of compliance with any externally imposed capital requirements to which it is subject.

Summary quantitative information should also be given about what the company manages as capital. Consistent with other recent developments in IFRS, the required disclosures, both qualitative and quantitative, should be based on information that is provided internally to key management personnel.

Compliance with the capital disclosures requirements of IAS 1 was poor except for financial services companies where capital is regulated and there is a history of disclosing information in this area. Some companies had overlooked the disclosures in their entirety. Others did not first establish what they manage as capital which meant that the subsequent disclosures were not particularly meaningful. There was also some evidence of boiler-plate reporting which is particularly inappropriate given that the disclosures are required to be based on management information used by the company. Finally, there were instances where companies had not properly considered what was required – defining capital as the nominal share capital, for example.

The significance to users of this information is particularly important in periods of economic downturn. Users want to know how a company is managing its capital base to help it survive in periods of no or slow growth. Information about the dividend policy, for example, and share buy-back arrangements is particularly relevant to a user's assessment of stewardship and how prepared management is to face the challenges of the next stage of the downturn. Poor disclosure in this area could obscure the extent of expected capital raising.

The Panel expects this area of reporting to improve as companies familiarise themselves with the requirements and give due weight to the significance of the information to users in a period of recession. Given the current environment, the Panel expects disclosures here to be rather more detailed to meet the objectives of the standard than in periods of economic growth.

Assets and liabilities – classification

Current and non-current assets and current and non-current liabilities are to be presented as separate classifications in its balance sheet unless the directors judge that a presentation based on liquidity provides more relevant information.

Most non-financial companies present a classified balance sheet as their assets tend to be readily realisable and liabilities capable of immediate settlement.

The Panel paid particular attention to accounts where there was indication of inappropriate classification or other evidence of financial difficulties. The Panel challenged a number of companies where, from the information provided, it was unclear why certain receivables were shown as current rather than non-current or why certain liabilities were shown as non-current when indications were that they should be shown as current.

Some companies argued successfully that the classification complied with the standard given their expectation that amounts would be settled in the entity's normal operating cycle and so was consistent with the standard.

IAS 17 'Leases'

The standard prescribes the accounting policies and disclosures to apply to leases entered into by both lessees and lessors.

The Panel has previously drawn attention to specific disclosure requirements where compliance could be improved. This includes, for example, the total of future minimum lease payments under non-cancellable operating leases analysed for the periods specified by the standard.

In its reviews this year, the Panel was obliged to ask proportionately more companies for a description of their significant leasing arrangements, both as lessee and lessor as required by the standard. The description should include, as a minimum, the basis on which contingent rent is payable, the existence and terms of renewal or purchase options and escalation clauses and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing. Given current economic circumstances the Panel would expect to see improved and more detailed disclosures being given by retail sector companies during the balance of the year.

IAS 18 'Revenue Recognition'

Revenue recognition issues of the type reported in previous years continued to prompt questions from the Panel.

Questions focused, as before, on the adequacy of the stated policies to enable users to understand the bases on which management recognises its significant revenue streams. Companies were asked to provide the Panel with additional explanation where their disclosure did not appear to cover all apparently significant sources of revenue. Specific examples included rebates and discounts in the retail trade and part exchange arrangements in the accounts

of house-builders. Where the revenue streams were material, companies were asked to expand the high level description of their policies in their future reporting.

The Panel also asked questions of companies that derive substantial revenue from the provision of services but that did not explain how they establish the stage of completion according to which revenue is measured. Absence of this disclosure raises a concern that revenue may be recognised at too early a stage as there is a question whether the necessary criteria have been satisfied which allows revenue to be estimated reliably.

The reporting of revenue recognition criteria is likely to continue to require greater attention during the next reporting season as preparers face the next stage of the current recession. The Panel encourages companies to keep their revenue recognition policies and practices under review, particularly given changes and uncertainties in the market which may affect their ability to measure revenue reliably and the fact that many businesses are changing the way they operate to maximise cash flow whenever possible. During the year the Panel took a keen interest in the revenue recognition policies of house-builders as a result of the development of a range of co-investment schemes.

IAS 24 'Related Party Disclosures'

Financial statements should include information to draw users' attention to the possibility that a company's position and result may have been affected by the existence of, and transactions with, related parties.

Under IAS 24, related parties include all members of the company's key management personnel. The extent to which senior management meet the definition of key management personnel is a matter for directors' judgement. The standard is clear, however that all directors (whether executive or otherwise) are key management personnel. The Panel wrote to a number of companies during the year where non-executive directors had been excluded from the relevant disclosures.

A number of companies also failed to disclose the name of the ultimate controlling party where it was not the company's parent.

The total amount of key management personnel compensation is required to be given, and for each of a number of separate categories. Some companies were reminded that this included share-based payment.

The Panel also noted that where there had been transactions between related parties, the nature of the relationship was not always provided as required in order to provide context for the information given about the transactions and any outstanding balances with the related parties.

IAS 27 'Consolidated and Separate Financial Statements'

In its report last year, the Panel highlighted the fact that the current economic environment may require some companies to reconsider their contractual and other relationships with special purpose entities. If the substance of such relationships changes, boards need to reconsider the application of the concept of control in order to determine whether or not the entity should be consolidated in accordance with IAS 27 and SIC-12 and whether to disclose the matter as a material judgment.

Questions raised in the period included instances where the status of an investment had changed and where the narrative explaining the change was inadequate to explain management's rationale. The Panel also challenged a number of companies where it seemed likely that considerable judgment had been exercised in the decision and where this had not been disclosed.

Specific examples, as in previous years, included cases where companies claimed to hold the power to govern an entity's financial and operating policies other than through voting rights, but where the nature of that control was not described. In other cases, investee companies were not consolidated although the circumstances appeared to indicate a relationship in which they were controlled by the company concerned.

IAS 36 'Impairment of Assets'

Section Two, at page 10, describes the Panel's rationale for a targeted review of impairment disclosures in the wake of an FRC study which was published in October 2008.

The overall results of the FRC study were supported by the Panel's findings in respect of specific cases during the year.

For those companies that incurred an impairment charge, the narrative did not always explain the events and circumstances that gave rise to it. When provided, explanations tended to be short and generic which, in the absence of other disclosures, would not help users understand the extent to which there might be further impairment in future. Although the amount of the charge was disclosed, some companies did not identify the line item in the income statement in which it was included, making comparison with the prior period difficult.

Preparers are reminded that IFRS 8 will have an impact on reporting in this area as many disclosures will also need to be given on a segmental basis and goodwill aggregation is limited to the level at which separate segments are determined.

The standard specifies considerable disclosure to support a company's value in use calculation. The discount rate applied and the period over which management had projected the cash flows was generally disclosed where any of the supporting detail was given. Fewer companies disclosed the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budget/forecasts.

Information about the assumptions on which the cash flows had been based was often vague and little regard appeared to be paid to the requirement to describe management's approach to determining the values assigned to the key assumptions beyond reference to past experience. Similarly, reference to reasonably possible changes to the assumptions leading to future impairment often tended to the generic rather than identifying factors specific to the particular business. The Panel nevertheless saw a number of examples of good practice in this area.

The Panel encourages directors to support their impairment calculations with relevant company specific information.

IFRS 7 'Financial Instruments: Disclosures'

The scope of the standard, mandatory for most sets of accounts reviewed in the period, is very wide. Although it is of particular significance to banks and other financial institutions, it applies to all financial statements prepared under IFRS and represents a substantial change for non-financial companies.

The disclosures provided by non-financial companies about the types of risk they are exposed to and the ways in which they are managing them tended to be boiler-plate. The summarised quantitative information about exposure to risks, typically, credit, liquidity and market risk, should be based on the information provided internally to key management personnel, as defined in IAS 24, 'Related Party Disclosures'. If not given as part of the summarised information, specific disclosures are required unless the relevant risk is not material.

Similar disclosures are required in the directors' report where, if material, the Companies Act requires a description of the company's financial risk management objectives and policies, including hedging policy and its exposure to price risk, credit risk, liquidity risk and cash flow risk. Where feasible, the Panel encourages directors to bring together these disclosures by cross-referencing, minimising the extent to which information is repeated but ensuring that it is given with the appropriate level of audit assurance.

Three issues were frequently raised with companies that could be expected to be relevant for most non-financial entities.

First, the absence of the required analysis, by class of financial asset, of the age of the financial assets that are past due but not impaired as at the end of the reporting period

Second, a maturity analysis is required for financial liabilities that shows the remaining contractual liabilities together with a description of how the company manages the inherent liquidity risk. Some companies provided an analysis but discounted the amounts recorded, whereas the standard requires an undiscounted basis, inclusive of all future interest payments.

Third, the Panel challenged the omission of a sensitivity analysis where, elsewhere in the accounts, there were indications that a specific type of market risk was material to the company; foreign exchange risk for example.

Other IFRS 7 disclosure points that non-financial companies had to be reminded about, when relevant, included the following:

- a reconciliation of the changes in an allowance account for impairment for each class of financial assets for example, trade receivables (paragraph 16)
- disclosure of total interest income and total interest expense for financial assets and financial liabilities that are not at fair value through profit or loss (paragraph 20(b))
- the amount of any impairment loss for each class of financial asset (paragraph 20(e))
- disclosure of concentrations of risk (paragraph 34 (c))

IFRS 8 'Operating Segments'

IFRS 8 is mandatory for companies reporting under IFRS for reporting periods beginning on or after 1 January 2009.

Panel experience of monitoring IFRS 8 disclosures is limited, but the following points raised with early adopters of the standard may help preparers applying the standard in their June half-yearly accounts.

Under IFRS 8, the reporting of segmental information is based on the information that the chief operating decision maker (CODM) receives and uses to make key decisions even if this is not prepared on an IFRS basis. Identification of the CODM and operating segments may well be an area of significant judgment and one that needs to be reassessed at each year end. Specific points to remember on first-time application include the following:

- the comparative information has to be restated on the new basis

- the standard does not permit a 'seriously prejudicial' exemption and may require the disclosure of sensitive information
- aggregation is permitted but only where the segments have similar economic characteristics and where the segments are similar in each of a number of respects
- as goodwill cannot be allocated to a group of cash-generating units larger than an operating segment, goodwill impairment must be considered if there have been any changes in the operating segments reported
- multiple reconciliations may be required

The possible reconciliations are more exacting than their equivalent under the predecessor standard, IAS 14, as all material reconciling items are required to be both separately identified and described.

APPENDIX A: *Common disclosure points raised with companies*

The Panel often draws the attention of directors to more minor points of possible disclosure omissions or inadequacies that come to its attention. These matters may not be applicable or sufficiently material to warrant disclosure. They may, however, have simply been overlooked, in which case, directors would need to consider whether they fall to be included in the company's next set of accounts.

The following examples are the more common points raised with companies during the year. The IFRS references provided are from the standard that are to be applied currently.

IAS 1 'Presentation of Financial Statements'

Each reserve within equity should be supported by a description of its nature and purpose (IAS 1. 79(b)).

Except when IFRS specifically permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all amounts reported in the accounts. When relevant to an understanding of the current period's accounts, comparative information for narrative and descriptive information should also be disclosed (IAS 1. 38).

IAS 2 'Inventories'

The amount of inventory recognised as an expense in the period is required to be disclosed (IAS 2. 36 (d)).

The amount of any write down to net realisable value or reversal of write-downs should be disclosed (IAS 2.36 (e) and (f)).

IAS 7 'Statement of Cash Flows'

Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs. These items should, however, be reported on a consistent basis (IAS 7.31 and 7.33).

IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

When an entity has not applied a new IFRS that has been issued but is not yet effective, that fact should be disclosed together with known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application (IAS 8.30).

IAS 11 'Construction Contracts'

Methods used to determine the stage of completion of construction contracts in progress should be disclosed (IAS 11.39(c)).

IAS 12 'Income Taxes'

The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position should be disclosed (IAS 12.81(e)).

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised, should be disclosed (IAS 12.81(f)).

In respect of each type of temporary difference and in respect of each type of unused tax losses and unused tax credits, the amount of the deferred tax assets and liabilities recognised in the statement of financial position should be presented, and the amount of the deferred tax income or expense recognised in profit or loss, if it is not apparent from the changes in amounts recognised in the statement of financial position (IAS 12.81(g)).

The amount of a deferred tax asset and the nature of the evidence supporting its recognition should be disclosed when:

- (a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- (b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates (IAS 12.82).

IAS 19 'Employee Benefits'

A narrative description is required of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets (IAS 19.120A(l)).

IAS 23 'Borrowing Costs'

The amount of borrowing costs capitalised during the period and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation should be disclosed (IAS 23.26 (revised)).

IAS 27 'Consolidated and Separate Financial Statements'

The nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly, more than half of the voting power should be disclosed (IAS 27. 41(a)).

Where ownership of more than half of the voting or potential voting power in an investee does not constitute control, the reasons must be stated (IAS 27.41(b)).

IFRS 2 'Share-based Payment'

For share options exercised during the period, the weighted average share price at the date of exercise should be disclosed (IFRS 2.45 (c)).

For share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured is required (IFRS 2.47(a)).

IFRS 3 'Business Combinations'

Disclosure is required of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors (IFRS 3.B64(e) applying paragraphs 59 and 61 of the standard).

APPENDIX B: *Panel press notices*

The Panel issued two company-specific press notices during the year to March 2009 both of which related to the presentation of capital instruments under IFRS.

The first company had departed from the provisions of IAS 32, 'Financial Instruments: Disclosure and Presentation' in order to treat participating preference shares with a fixed dividend obligation as equity rather than as debt as the standard requires.

The shares were non-redeemable instruments that entitled the holders to a fixed net cash dividend and a participating dividend alongside any dividend paid in respect of ordinary shares. Under IAS 32, the shares fell to be treated as compound financial instruments with both equity and liability components, the equity component being the residual amount after deducting the liability element from the initial fair value of the instrument as whole. Presentation in accordance with IAS 32 would have resulted in substantially all of the carrying value of the shares being allocated to the liability component. The company's board, however, departed from the standard as they considered that this treatment did not fairly present the substance of the shares as permanent capital of the company and on that basis that it would conflict with the objective of financial statements

The Panel found that the circumstances did not constitute an extremely rare case where compliance with IAS 32 would be so misleading as to require departure from the requirements of the standard. The directors accepted the Panel's findings and corrected the presentation of the shares in their next set of accounts by way of a prior period adjustment. The directors also took the opportunity to revise their accounting policy for the treatment of gains and losses on disposal of non-current asset investments which had previously been taken to a capital reserve rather than being recognised in profit or loss as required by IAS 39, 'Financial Instruments: Recognition and Measurement' .

The second case concerned the treatment of put options each of which contained an obligation on the company to purchase the minority holdings in its subsidiaries. The company disclosed a contingent liability for the best estimate of the value of the redemption amount of the minority put options using current levels of profitability.

The put options were contracts which contained an obligation for the group to purchase its own equity instruments for cash or other financial asset. As these contracts give rise to a financial liability, IAS 32 requires this is to be recognised as a liability in the balance sheet rather than as a contingent liability in the notes to the accounts. The directors accepted the Panel's

findings and corrected the treatment in their next annual accounts by way of prior period adjustment.

APPENDIX C: *Statistical analysis*

	FTSE 100	FTSE 250	Other listed	AIM	Third Country	Unlisted public and private	TOTAL
<i>Accounts reviewed</i>							
Annual	33	66	49	89	7	37	281
Interim	1	10	12	22	-	-	45
<i>Selected by the FRRP</i>							
Annual	27	50	38	73	7	37	232
Interim	1	8	8	21	-	-	38
<i>Complaints/referrals</i>							
Annual	6	16	11	16	-	-	49
Interim	-	2	4	1	-	-	7
<i>Approaches to companies</i>	16	24	25	31	1	15	112