

FINANCIAL REPORTING REVIEW PANEL

REVIEW FINDINGS AND RECOMMENDATIONS - 2008

Introduction

This report is based on the Panel's reviews of reports and accounts in the year to 31 March 2008. These accounts were mainly for financial periods ending from December 2006 to June 2007, shortly before the onset of the current dislocation in the markets. As the principal purpose of this report is to inform those who will prepare accounts in the future, it also includes the Panel's comments on some of the more recent challenges to corporate reporting arising from the credit crunch.

In November 2007 the Panel identified the areas in the economy considered to be under most strain as the banking, retail, travel, commercial property and house-building industries. The Panel's selection of accounts for review in 2008/09 has been biased towards these sectors as annual financial statements and half-yearly accounts have become available. These reviews are continuing and the Panel is in correspondence with a number of companies.

The Financial Reporting Council (FRC) has also taken a closer look at impairment and liquidity - two aspects of reporting that are of increased significance given the pressure from the restricted availability of credit and reduced expectations for growth in the economy. The FRC is reviewing the goodwill and related impairment disclosures of 30 listed companies with significant goodwill balances at 31 December 2007 and the liquidity disclosures of 30 listed companies that have announced profit warnings or rescue fund raisings in the first half of 2008. The FRC will publish brief reports on its findings later in October.

Against this background this report identifies issues that are likely to be of relevance to companies preparing their annual and half-yearly reports over the next few months. In the present economic circumstances the Panel draws particular attention to the following:

- Selection of appropriate accounting policies (page 6)
- Disclosure of management judgements and key estimation uncertainties (pages 6-7)
- Sufficiency of descriptions of revenue recognition policies (pages 8-9)
- Consolidation issues (pages 9-10)
- Principal risk and uncertainties disclosures in the business review (pages 15-16)

In covering the Panel's review of accounts for 2007/08 this report summarises the Panel's findings across a number of reporting requirements including two areas new to the Panel's remit; directors' reports, including business reviews, and half-yearly accounts of listed companies after implementation of the Transparency Directive and the requirement to comply with IAS 34.

Structure of this report

This report is set out in the following sections:

Section One Overall results

Section Two Annual financial statements

- General financial statements
- Banks' financial statements
- Common disclosure points raised with companies

Section Three Other reviews

- Directors' reports
- Half-yearly financial reports
- Review of pensions disclosures

Appendices

A Statistical analysis

B Panel press notices and other published material

C Summary of the Panel's approach

Section One : *Overall results*

In 2007/08, the Panel reviewed 300 sets of accounts (2006/07: 311) and wrote letters to 138 companies (2006/07: 135) asking 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. At the time of writing this report, all but 17 cases are concluded.

On the basis of accounts reviewed to March 2008, the Panel has concluded that the current standard of corporate reporting in the UK is good. The areas of reporting that prompted most questions were those dealing with more complex accounting issues or where the exercise of judgement by management is most critical. The Panel did not identify any systemic issues requiring immediate remedial action.

The Panel does not ask questions about reports and accounts in order to test its judgement against that of management. Directors, with the assistance of their professional advisers, are best placed to apply corporate reporting requirements to the particular circumstances of their companies. The Panel asks directors for additional information or explanations when it needs to clarify the facts and circumstances attaching to specific events, transactions or conditions reflected in reports and accounts. Once these are available the Panel is better placed to consider the thought processes applied to the reporting requirements, particularly the extent to which management has relied on working assumptions that are supported by a realistic appraisal of past performance and experience and future expectations, taking account of risks and uncertainties. It is the Panel's experience that reports which clearly set out the company's business model are those which are easiest to understand.

The Panel continues to be pleased by the way in which directors co-operate openly and constructively with the Panel and by their willingness to volunteer undertakings to improve the quality of their future annual and half-yearly reports.

Company responses to the Panel's letters of enquiry continued to be well considered. Directors who answered the questions they were asked, who presented well analysed and comprehensive replies, and who involved audit committees and external auditors in the process will usually have found that the Panel was able to conclude its enquiries after minimal exchanges of correspondence.

The Panel published two press notices in the year in respect of companies that had failed to comply with the requirements of the Act. These companies restated comparative amounts in their next set of annual and half-yearly

financial statements. These and other company specific announcements issued since 31 March 2008 are summarised in Appendix B.

88 companies undertook to make future changes to their reporting. Several of these were asked to refer to the Panel's intervention when explaining the changes in their accounts.

Three Panel Groups were established during the period to consider specific company issues. All three have since reached conclusions agreed with the directors of the companies concerned.

SECTION TWO: *Annual financial statements*

UK companies with securities traded on a regulated market have been required since 2005 to prepare their consolidated financial statements in accordance with IFRS. From January 2007, AIM quoted companies have also prepared their accounts in accordance with IFRS as required by the Stock Exchange.

The Panel's experience is that there has been good progress and that the overall quality of financial statements has improved since 2005.

The areas referred to below represent those where there is room for further advances in quality, particularly in the context of the difficult current conditions in the financial markets. Disclosure points that were frequently raised with companies during the period under review are noted at the end of the section.

General financial statements

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 did not find it necessary to ask as many questions this year about accounting policies and, in particular, noted that the inappropriate retention of UK GAAP descriptive material had diminished. Companies continued to be asked to explain their policies in respect of material items when they were not disclosed. The Panel asked for undertakings to include policies in future statements of principal accounting policies when the relevant amounts were material or when the standard allows options and it was not clear from the descriptions which treatment had been applied.

The Panel also noticed an amount of redundant information in summaries of accounting policies and encouraged the deletion of references to accounting policies which companies had either never applied or which had ceased to apply in past periods.

Disclosures of Judgements and Estimates

The Panel continues to focus on the requirements in IAS 1 to explain the judgements management have made in applying their accounting policies and the assumptions covering the future and other key sources of uncertainty

that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year. These requirements, not paralleled in UK GAAP, gave rise to most questions to companies in 2006/07.

Fewer companies were challenged on this area this year as company boards made more effective use of cross-referencing or included a separate section in their accounts highlighting judgements and key sources of estimation uncertainty.

The Panel remains concerned, however, that too often these disclosures tend towards boiler-plate and do not refer to the specific issues faced by individual companies. The Panel asked some companies to extend their disclosures where it became apparent that significant judgements about the application of their accounting policies had been made which were not included in the IAS 1 disclosures.

The types of disclosures provided were often restricted to the nature of the assumption or other estimation uncertainty. Few companies indicated the degree of sensitivity of carrying amounts to the methods, assumptions or estimates underlying their calculation as suggested in IAS 1, paragraph 129.

The standard acknowledges that sometimes it may be impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. Where this is the case, companies must 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. The nature and carrying amount of that asset or liability must also be disclosed. The Panel is concerned that this exemption should not become the default position.

Directors will need to pay particular attention to disclosure of key assumptions and key sources of estimation uncertainties during the forthcoming reporting season given recent developments and continuing difficulties within the financial markets.

Departure from the Standards

In extremely rare circumstances, management may conclude that compliance with a requirement of an IFRS standard would be so misleading that it would conflict with the objective of financial statements set out in the IASB's Framework (IAS 1, paragraph 17). In these circumstances, the company must depart from the requirement and provide the relevant disclosure to explain and support its decision.

The Panel reviews all such departures from the requirements of IFRS and 'over-rides' of UK GAAP drawn to its attention to ensure that companies comply in full with the requirement to depart only in those rare circumstances where the relevant criteria are met and, where this is the case, that the necessary supporting disclosure is provided.

The Panel considered the financial reporting of one company in the year that departed from IAS 32 in treating participating preference shares as equity rather than as a liability as application of the standard requires. This case, which was in progress at 31 March 2008, was concluded in August 2008 and a press notice published.

Another common IAS 1 disclosure point raised with companies was the lack of comparative information for amounts reported in the current year. This issue was most often raised in respect of movements in balance sheet amounts. Some companies had also to be reminded that comparative information for narrative and descriptive information should be provided where relevant to an understanding of the current period's accounts.

IAS 18 'Revenue Recognition'

Revenue recognition issues continued to prompt a considerable number of enquiries. Questions focused on the sufficiency of the stated policy to enable users to understand the bases on which management recognised its significant sources of revenue. There were several common areas requiring further explanation.

First, some companies disclosed revenue arising from the rendering of services separate from the sale of goods, as required, but then failed to describe how the underlying principles of the standard were applied to each revenue stream. On occasion it was unclear whether revenue from services had been recognised in accordance with the stage of completion and, if so, what methods were adopted to determine the stages reached. The absence of this disclosure raised a concern that revenue may be recognised too early as there was a question whether the necessary criteria had been satisfied which allowed revenue to be estimated reliably.

Second, particularly where a range of goods and services is provided, the Panel had occasional difficulty in appreciating the links between the company's business model and the revenue policies applied. Several of the technical meetings held with companies in the period were prompted by the Panel's need to obtain a good understanding of a company's business in order to help it assess the appropriateness of the accounting policies adopted and the manner in which they were applied.

In managing company responses, the Panel took account of the relative significance of the revenue source in determining whether additional or more focused disclosure was necessary.

The reporting of revenue recognition criteria is likely to require greater attention during the coming reporting season. For example, uncertainties about changes in market and other conditions will require some companies to consider whether revenue should be deferred due to an unacceptable level of uncertainty about the reliability of measurement.

IAS 27 “Consolidated and Separate Financial Statements”

The Panel continues to ask questions of companies where it is not clear from their stated accounting policies how they apply the concept of control when determining whether entities should be consolidated in accordance with IAS 27 and SIC-12 ‘Consolidation – Special Purpose Entities’.

The Panel challenged a number of companies to provide the rationale to support their treatment, particularly where it seemed likely that considerable judgment had been exercised in the decision. This included cases where the reporting entity owned more than half of the voting power but did not consolidate the entity concerned. IAS 27 notes that only in ‘exceptional circumstances’ would it be clearly demonstrable that such ownership does not constitute control.

The nature of the relationship is also required to be disclosed where the parent company has less than half of the voting power but consolidates the interest because it nevertheless exercises control. The Panel enquired into several instances where companies claimed to hold the power to govern an entity’s financial and operating policies other than through voting rights.

The Panel also raised questions about the treatment of an entity as a joint venture when consideration of SIC 12 indicated that the entity might be a special purpose entity that is controlled by the reporting entity. It also challenged a small number of companies to explain why they had changed the status of an investment so that the Panel could satisfy itself that this was justified by changes in facts and circumstances and did not indicate a prior period classification error.

Another common issue raised with companies was the sufficiency of disclosures provided, in aggregate, to support information about the purchase or disposal of material subsidiaries and other business units.

Judgements about when to consolidate an entity can be amongst the most difficult faced by directors and the Panel will continue to take a keen interest where there appears to be a question about the approach adopted by

management. Current economic conditions will have forced some companies to amend their contractual and other relationships with special purpose entities. Thus, there will be a need for directors to reconsider their evaluations. There may also be a need to make additional disclosure where decisions about whether an entity should be consolidated constitute a material judgment about the application of the company's consolidation policy.

Banks' annual financial statements

During the year to March 2008, the Panel reviewed the accounts of 10 retail and investment banks reporting under IFRS. The Panel considered compliance with all applicable reporting standards.

The Panel identified banks as a priority sector in its accounts selection for 2008/09. Reviews conducted in the current year have concentrated on disclosures of financial risks as required by IFRS 7, the results of which will be reflected in the 2009 Panel Report.

Issues raised varied between banks and there was no evidence of systemic reporting weaknesses. Most of the points raised indicated a need for refinement of certain disclosures rather than significant changes in recognition or measurement policies

Accounting Policies

Summaries of accounting policies continued to give rise to a number of queries either because of a lack of specific details or because descriptions covered accounting treatments of financial instruments that were not otherwise referred to in the financial statements.

IAS 39, 'Financial Instruments: Recognition and Measurement', requires impairment testing for financial assets either individually or collectively. It was not always clear from a review of the accounts when individual rather than collective impairment testing was applied or, in the latter case, what objective evidence was used to determine the extent of any impairment. As IAS 39 does not specify when an impaired loan is considered to be written off, the Panel also sought clarification on this issue.

IAS 39 permits companies to designate financial instruments at fair value through profit or loss. This designation may only be used for instruments held for trading, certain contracts containing embedded derivatives or when doing so results in more relevant information. Where this fair value option is applied to specific financial instruments, the instruments should be identified. As last year however, this was not always clear from the financial statements.

Some banks referred to embedded derivatives in their accounting policies but did not specify which financial instruments contained embedded derivatives nor why such instruments were held.

Transparency of Disclosures about Financial Instruments

Many of the points raised with banks arose from lack of disclosure about financial instruments sufficient to understand the risks attaching. For the period under review one bank had early adopted IFRS 7, 'Financial Instruments: Disclosures', which is mandatory for all accounts prepared for periods beginning on or after 1 January 2007. This standard is more explicit than IAS 32 in requiring information that enables users to evaluate the nature and extent of risks arising from financial instruments at the balance sheet date.

This is a significant new disclosure for all companies in the last year which the Panel is addressing as part of its current reviews of December 2007 accounts.

Following the Panel's enquiries, one bank agreed to provide more comprehensive information in future about its holdings of debt securities and structured investment vehicles. The same bank also volunteered to revise its disclosures in respect of special purpose vehicles to clarify the nature of the entities and the accounting treatment applied.

One bank did not indicate sufficiently clearly which of its financial instruments were exposed to fair value interest rate risk and cash flow interest rate risk as required by IAS 32, paragraph 71.

IAS 39 identifies different types of hedging relationships; one bank utilised both fair value and cash flow hedges but did not explain the nature of the risks being hedged as required by IAS 32, paragraph 58. Derivatives not designated as an effective hedging instrument must be classified as a financial asset or liability held for trading in accordance with IAS 39. Some banks holding derivatives which were not accounted for as hedges under IAS 39 did not make clear whether the instruments were held to achieve economic hedging or for other purposes such as trading as required by IAS 32, paragraph 60.

Common disclosure points raised with companies

The Panel often makes management aware of 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. Alternatively, they may have been overlooked. The following most common disclosure requirements raised with companies are, in the main, the same as those reported last year. In many cases the Panel accepted assurances that the deficiency would, if relevant to their future financial reporting, be corrected in future sets of accounts.

IAS 1 'Presentation of Financial Statements'

Each reserve within equity should be supported by a description of its nature and purpose (IAS 1 76(b)).

Except when IFRS specifically permits or requires, 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. 36)

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 2.36b (e) and (f)).

IAS 11 'Construction Contracts'

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

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 on the balance sheet 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 balance sheet should be presented, and the amount of the deferred tax income or expense recognised in the income statement if it is not apparent from the changes in amounts recognised in the balance sheet (IAS 12.81(g)).

IAS 17 'Leases'

The total of future minimum lease payments under non-cancellable operating leases analysed for the periods specified by IAS 17 should be disclosed and not simply the annual commitment as required by UK GAAP (IAS 17.35(a)).

IAS 21 'The Effects of Changes in Foreign Exchange Rates'

The amount of foreign exchange gains and losses charged/credited to profit or loss (other than those arising on financial instruments measured at fair value through profit or loss) should be disclosed (IAS 21.52(a)).

The net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity should be disclosed and a reconciliation of the amounts at the beginning and end of the period should be provided (IAS 21.52(b)).

IAS 23 'Borrowing Costs'

Where borrowing costs have been capitalised in the period, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation should be disclosed (IAS 23.29).

IAS 24 'Related Party Disclosures'

If there have been transactions between related parties, the nature of the relationship should be disclosed as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements (IAS 24.17)

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. 40(c)).

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. 40(d)).

IAS 36 'Impairment of Assets'

Key assumptions on which management bases its cash flow projections should be described (IAS 36. 134(d)(i)).

The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts should be disclosed and any growth rate that exceeds the relevant long term average growth rate should be justified (IAS 36.134(d)(iv)).

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)).

IFRS 3 'Business Combinations'

Disclosure is required of the factors that contributed to the cost of a business that results in the recognition of goodwill - each intangible asset not recognised separately from goodwill should be described, with an explanation why it could not be measured reliably (IFRS 3.67 (h)).

The revenue and profit or loss of the combined entity should be disclosed as though all business combinations during the period had been entered into on the first day of the period (IFRS 3. 70(a)(b)).

SECTION THREE : *Other reviews*

Directors' reports

The Panel's remit was extended during the year to cover directors' reports, including the business review, for periods commencing on or after 1 April 2006; effectively 31 March 2007 year ends. The following summarised findings therefore relate only to a minority of accounts reviewed in the period to March 2008. Comments on business reviews now feature regularly in the Panel's correspondence with companies.

The Panel's approach to the business review was set out in a press notice published in September 2007 and also in a paper made available on the FRRP website. In considering whether or not to raise a question in respect of a business review, the Panel takes into a number of factors into account, including whether:

- the information in the business review is consistent with that disclosed in the accounts, the related notes and with other material included in the annual report and, where appropriate, refers to and expands upon, figures reported in the accounts;
- the information in the business review is consistent with that disclosed in the company's other announcements;
- the business review is balanced and comprehensive in the sense that it deals even-handedly with the positive and negative aspects of the development, performance and position of the business ;
- the discussion of the risks and uncertainties facing the company identifies and describes the principal ones;
- the business review includes appropriate analysis using those key performance indicators necessary to provide an understanding of the development, performance and position of the business; and
- the directors' report contains an explicit cross-reference where a company seeks to satisfy the requirements of the review by incorporating matter elsewhere in the report and accounts.

The issues raised most frequently by the Panel to date relate to the disclosure of principal risks and uncertainties and identification of key performance indicators ("KPIs").

Principal risks and uncertainties

The Act requires a description of the principal risks and uncertainties facing the company. Some companies provided a long list, which fell short of the requirements in two respects. First, the *principal* risks and uncertainties were

not identified and second, there was no proper description of them. A few companies did not disclose any risks or uncertainties at all. In a small number of cases, the Panel queried the omission of specific risks.

Boards of quoted companies should give particular attention to the business review in their reports in the light of the enhanced disclosure requirements, effective for reports prepared for periods beginning on or after 1 October 2007. The review extends to a discussion of the main trends and factors likely to affect the future development, performance and position of the company.

On a related area, the Panel also noted a number of instances where companies had not provided any reference to their use of financial instruments as required by schedule 7 to the Companies Act 1985 although the accounts and summaries of accounting policies clearly showed their existence. If material, companies are required to describe their financial risk management objectives and policies, including hedging policy and the company's exposure to price risk, credit risk, liquidity risk and cash flow risk. In a number of cases where such disclosures were expected, none were provided.

The disclosure of principal risks and uncertainties is likely to warrant greater attention during the forthcoming reporting season. The extent and speed of change in market conditions as a result of the financial crisis affecting banks and, more recently, other sectors of the economy, together with unprecedented increases in some commodity prices means that all companies are facing increased, and possibly different, risks when compared to prior years. Experience has shown that risk to a company's business model cannot be disregarded on the grounds that its materialisation would require a fundamental change in the market in which a company operates.

Key performance indicators

The Act requires that the business review should include, to the extent necessary for an understanding of the development, performance or position of the business of a company, analysis using key performance indicators (KPIs).

Non-disclosure of KPIs could be justified if not required for such an understanding. It is likely that the Panel will challenge boards to support the absence of any KPIs. The Panel's experience is that companies have generally been able to demonstrate that KPIs have been referred to in the business review although they had not been described as such. Companies generally agreed to identify them more clearly in their next report and accounts. The Panel also encountered some instances where lists of KPIs were given but not applied in the accompanying analysis of the company's performance. At times, alternative earnings measures were highlighted including some

disclosed on the face of the income statement but they had not been identified as KPIs.

The review must, where appropriate, include references to, and additional explanations of, amounts included in the accounts. The Panel raised queries in a number of cases where material items disclosed in the accounts were not referred to in the review. Examples that the Panel queried include a material loss on disposal and a significant impairment, neither of which was discussed in the reviews concerned.

The Panel also asked for explanations in cases where statements made in the review were not clear or where there was a question as to whether the statements were correct, for example, where the statements appeared to be inconsistent with the audited accounts.

Generally, queries in both types of cases were resolved either by the supply of satisfactory explanations or by undertakings to improve matters in future reports. No issue identified so far has been of such significance as to warrant immediate corrective action.

Following interim regulations implementing the Takeover Directive, new disclosure requirements came into force in respect of directors' reports of relevant companies for financial years beginning on or after 20 May 2006. The requirements therefore applied to many companies with June and September 2007 years ends.

The Panel noticed that a number of publicly traded companies reporting at these dates did not provide the required disclosures. In February 2008, the Panel issued a press notice drawing attention to the detailed disclosures required by the regulations, and which are required irrespective of whether a takeover bid is contemplated. Early reviews of more recent annual accounts indicate that the level of compliance with the regulations is improving.

The Panel also raised a small number of queries regarding other matters required to be included in the directors' report. The most common of these related to the statement concerning the disclosure of information by directors to auditors (the form of which is prescribed in detail in the Act) and the adequacy of disclosures about the use of financial instruments as required by the Act.

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 Financial Services Authority (FSA).

Implementation of the Transparency Directive, operative for reporting periods beginning on or after 20 January 2007, significantly increased the extent of reporting disclosures for half-yearly reports which must now comply with IAS 34 'Interim Financial Reporting'.

The Panel monitored compliance with the new requirements set out in the FSA's Disclosure and Transparency Rules (DTR) by reviewing 35 sets of half-yearly financial reports. Most of the issues arising on review related to the disclosure requirements of the DTR rather than compliance with IAS 34 where only limited issues were raised.

The Panel reported its general findings to the FSA which considered further the application of DTR in relation to half-yearly accounts and published an article in its LIST! Magazine (Issue No. 18 - March 2008) that clarified how certain of the requirements might be satisfied. Those responsible for preparing half-yearly reports should refer to that article for further information about the requirements, the key points of which are reflected below.

Principal risks and uncertainties

DTR requires 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).

Many of the reports reviewed cross-referred the reader to the business review section of the directors' report, published with the company's last annual accounts, in which principal risks and uncertainties facing the company were disclosed as required by the Act. DTR, however, requires a 'description' of those risks and uncertainties, which is not met by a simple cross-reference.

Where the risks and uncertainties highlighted in the annual report also constitute the principal risks and uncertainties at the half year stage companies can satisfy the DTR requirement by confirming that they remain unchanged from those disclosed in the annual report. They should, however, provide a summary description of them in the half-yearly report.

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 should be given. This may be the case for many companies now facing changed market conditions and funding difficulties that were not anticipated when they signed their last set of annual accounts.

Other reporting requirements

A number of companies did not include a responsibility statement as required by DTR indicating the name and function of the person making the statement. The Panel found little consistency in how companies were seeking to comply with the requirement.

With the exception of the annual financial report, the DTR requires regulated information to be communicated to the media in unedited full text. The half-yearly announcement must also identify the website where the document may be found. All disclosures required by DTR to be included in the half-yearly financial report should be included in the Regulatory Information Service (RIS) announcement. Some issuers included information on their website document which was not included in their RIS announcement.

Companies are no longer required to send the half-yearly financial report individually to their shareholders. A number of issuers may not have been aware of this relaxation as, in some cases, copy reports were sent to all shareholders involving unnecessary cost and administrative effort.

Several reports reviewed made no reference to whether or not the report had been audited or reviewed by its auditors. Readers would not then be aware of the level of assurance, if any, that could be derived from auditor involvement.

IAS 34 'Interim Financial Reporting'

IAS 34 requires a set of minimum disclosures, more onerous than those previously required under Chapter 9 of the Listing Rules in the FSA's Handbook.

The following 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; and
- 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.

The standard also requires companies to provide explanatory comment about the seasonality or cyclicity of their operations. In some instances, although there was no reference to the impact of cyclicity in the explanatory notes, the Chairman's Statement included remarks which indicated seasonal peaks.

The Panel also reviewed some half-yearly reports produced for the retail sector where reference to seasonality might have been expected but was not made.

Preparers should always consider the requirement of IAS 34 to disclose any event or transaction that is material to an understanding of the current interim period.

Companies Act disclosure

Most reports disclosed that the company's last set of accounts had not received a qualified audit report. Few, however, referred to whether or not an emphasis of matter paragraph had been included in the opinion as required by the Act. The comprehensiveness of this disclosure will be of increased relevance in the next reporting season when more audit reports may include an emphasis of matter paragraph in relation to the company's ability to secure necessary funding.

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. However, to help AIM companies with their transition to IFRS for periods ending 31 December 2007, the Panel reviewed thirty-three interim reports prepared in accordance with IFRS in advance of implementation of full IFRS at the year end. Six companies, whose accounts indicated a potential issue of substance, were invited to engage with the Panel to help it understand the accounting adopted with a view to settling any issues arising in advance of the preparation of the IFRS annual accounts. Those approached responded constructively and all but one case, which is continuing, has been concluded satisfactorily.

Accounts with qualified audit reports

A number of sets of accounts reviewed contained qualifications for failure to comply with the accounting requirements of the Act. All were large private companies and included subsidiaries of overseas parent companies. Most prepared accounts in accordance with UK GAAP.

The matters in respect of which the accounts were qualified covered a broad range. More common instances of non-compliance related to:

- Failure to apply FRS 17 'Retirement Benefits' to companies defined benefit pensions schemes
- Carrying investment properties at cost contrary to SSAP 19, 'Accounting for Investment Properties'

- Failure to apply FRS 20, 'Share-based Payment' for share-based payment transactions

The Panel wrote to all 17 companies concerned drawing attention to the directors' responsibility to prepare accounts that comply with the relevant accounting requirements. At the date of this report, 11 of those cases have been resolved with 6 companies confirming that they will address the matter of non-compliance in their next set of accounts filed with Companies House.

Review of pensions disclosures

In 2006, the Panel published the results of a review into disclosures made in respect of defined benefit pension schemes both under UK GAAP and IFRS in order to evaluate the comprehensiveness and clarity of the information provided. The review reported a good level of compliance with detailed disclosure requirements of both IAS 19 and FRS 17 but set out a number of omissions and areas where the quality of reporting could be improved.

In September 2007 the Panel published a follow-up review of the same listed companies' pension disclosures in their December 2006 accounts. The review indicated improvement in disclosures about mortality assumptions and some improvement in the provision of sensitivity analysis. There was, however, limited improvement in disclosures about maturity of funds and no evidence of expanded information about assets held within funds, nor about how expected returns were calculated.

APPENDIX A: *Statistical analysis*

	FTSE 100	FTSE 250	Other listed	AiM	Third Country	Unlisted public and private	TOTAL
<i>Accounts reviewed</i>							
Annual	37	64	45	30	3	45	224
Interim	8	8	24	35	1	-	76
<i>Selected by the FRRP</i>							
Annual	31	42	29	14	1	40	157
Interim	7	7	24	32	1	-	71
<i>Complaints/referrals</i>							
Annual	6	22	16	16	2	5	67
Interim	1	1	-	3	-	-	5
<i>Approaches to companies</i>							
Annual	18	37	26	18	1	28	128
Interim	-	1	2	7	-	-	10
<i>Groups established</i>							
Annual	1	1	1	-	-	-	3
Interim	-	-	-	-	-	-	-
<i>Continuing</i>							
Annual	2	2	4	2	-	7	17
Interim							

APPENDIX B: *Panel press notices and other published material*

The Panel issued two company-specific press notices during the year to March 2008 and has issued two press notices in the subsequent period up to the date of this report. All related to annual accounts prepared in accordance with IFRS.

The first concerned the accounts of an AIM quoted company that had implemented IFRS in advance of the mandatory requirement and that did not comply with IFRS in a number of respects.

The directors acknowledged that the accounts failed to comply with the Act and issued revised accounts for the relevant year having made a substantial number of adjustments to the accounts including, but not limited to, its reporting of acquisitions and interests in associates, subsidiaries and other investments.

The second concerned the reclassification of trading properties as investment properties when they were transferred to a wholly owned subsidiary. The reclassification did not comply with the requirements of IAS 40 that limit the circumstances in which transfers to, or from, investment property can be made to those circumstances specified in the standard, that provide evidence of a change in use. No such change in use attended the company's transfer.

The directors, prompted by the Panel's findings on this aspect, conducted a thorough review of all of the group's properties selected for transfer. All were shown to have been originally acquired for the purpose of long term appreciation and capital growth and consequently, should always have been treated as investment rather than trading property. The error was corrected by way of prior year adjustment.

Subsequent to March 2008, two companies have, following Panel enquiry, revised their comparative amounts in relation to the treatment of capital instruments. The first had inappropriately invoked the true and fair override to classify participating preference shares containing a fixed dividend obligation as equity instruments rather than a liability and the second had recorded a put obligation on shares in subsidiaries held by minorities as a contingent rather than an actual liability.

During the year, the European enforcers of financial information (EECS), meeting regularly under the auspices of the Committee of European Securities Regulators (CESR), published selected decisions from their private database to inform users of IFRS application issues. The Panel is an active member of the sub-committee and assists in the preparation of its publications. The CESR publications, together with national reports of other IFRS regulators and reviews conducted by global accounting firms, amongst

others, all contribute to the convergence of appropriate practices and accounting treatments.

APPENDIX C: *Summary of the Panel's approach*

Risk-based selection of accounts

The Panel selected accounts for review broadly in accordance with its risk-based approach, where risk is a combination of the probability of a breach of accounting requirements and the impact that such a breach would have on the market and investor confidence. Companies were identified as higher risk according to a range of factors, their size and profile acting as proxy for the significance of the effect of any departure from the accounting requirements.

The Panel selected accounts from the full range of companies within its remit, including AIM quoted and large private companies.

In December 2006, the Panel announced that its monitoring activity for the year under review would focus on the travel and leisure, retail, utility, telecommunications and media sectors. The Panel's priority sectors were selected after discussion with the Financial Services Authority (FSA) and the Financial Reporting Council's Standing Advisory Group, an independent committee which comments on the Panel's proposals for priority industries. The Panel publishes these sectors so that companies are aware of the greater probability of review and may give greater consideration than usual to compliance issues in advance of publication of their accounts. Public announcements are intended to reinforce the deterrent effect of the Panel, consistent with its objective of improving the quality of financial reporting.

Accounts with qualified audit reports

An auditor's report that is qualified for failure to comply with the accounting requirements of the Companies Act is a clear indication that the accounts concerned may not give a true and fair view. Historically, the Panel has considered all accounts brought to its attention where the auditors have qualified their report for failure to comply with applicable accounting standards.

The Panel included 17 sets of accounts with qualified audit reports in its sample for the year to assist in its determination of how best to deal with qualified accounts in a manner consistent with its preference for operating on a consensual basis.

In July 2007, the Panel invited views on a proposal to encourage voluntary disclosure of qualified audit reports, the vast majority of which are in respect of private companies. Early notification would enable the Panel to consider the accounts in timely fashion and remove its reliance on shareholder or other referral often some considerable time after the relevant accounting period.

As there was little support for the proposal, the Panel entered into a contractual arrangement with an independent data provider to give early identification of company accounts with qualified audit reports. In June 2008 it announced that it would write to some of the companies concerned, drawing the directors' attention to their responsibilities under the Act to prepare accounts that comply with the law and accounting standards. The Panel indicated that it would not open an enquiry into those accounts but would review the company's next set of filed accounts and would take appropriate action in accordance with its operating procedures if the qualification remained.

This approach, consistent with its preference for consensus gives directors of companies with qualified audit reports the opportunity to put matters right. The warning that the Panel will not hesitate to take appropriate action in future where any such qualified accounts comes to its attention applies to all such companies, whether or not the Panel has previously written to the company.

Referrals and complaints

The Panel also reacted to matters brought to its attention by investors and other users of financial information, by press comment and by referrals from other regulators.

The Panel encourages users of accounts to bring accounts to its attention if they think that there may be a breach of reporting requirements. In particular, the Panel welcomes referrals from professional investors as they are most likely to consider and compare the accounts of companies subject to the regulatory scope of the Panel. The FSA has confirmed that, in its view, such referrals do not give rise to price-sensitive information as they do not necessarily mean that the Panel will conclude, on enquiry, that there are any areas of accounting non-compliance. The FSA Code of Market Conduct provides that disclosure of inside information by market participants does not amount to market abuse (improper disclosure) if it is made to a regulatory body or authority, such as the Panel, in connection with the performance of its functions.

Panel approach

In accordance with its operating procedures, which are available at www.frc-frfp.org.uk the Panel writes to companies asking for additional information, explanation or clarification if there is, or may be, a question of whether the directors' report or accounts comply with the reporting requirements of the Companies Act 1985.

During its reviews, the Panel may also notice possible omissions of information that apply to the company's specific circumstances or are of a nature that warrant separate disclosure. Alternatively the disclosures may not be relevant or may simply have been overlooked in the preparation of the accounts.

The Panel has no intention of requiring disclosures where they relate to immaterial amounts or insignificant accounting policies. This would only contribute to the increasing complexity of corporate reporting and detract from the key messages that a set of accounts may give to readers about company performance and management's stewardship.

Rather than challenge such non-disclosure or possible omissions in the body of a letter to a company the Panel draws potential omissions or inadequacies to a company's attention in an appendix to which it does not request a response. This helps to ensure that company and Panel resources are focused on issues of potential substance and leaves management to exercise its judgment as to whether the disclosures are relevant to its presentation of information to the market or other stakeholders. The fact that the Panel raises such points is not necessarily an indication of what the Panel expects to see disclosed in the company's next set of accounts. Examples of such disclosures are included in Section Two of this report.

By contrast, when the Panel suggests expanding or clarifying disclosure this is in order to dispel a potential question about the company's financial reporting or to improve the understandability of the report and accounts as a means of communicating with the market.

Occasionally, the Panel writes to a company where there are no points of potential substance but where a number of more minor disclosures may have been omitted. This type of letter is more often issued to smaller companies whose accounts are not likely to be reviewed again in the short term and where the letter could help raise the quality of the company's future accounts.