



Date: 13 July 2010  
Ref.: CESR/10-834

**8th Extract from EECS's  
Database of Enforcement**



## Table of contents

Introduction .....	3
Decision ref. EECS/0610-01: Fair value of financial instruments .....	4
Decision ref. EECS/0610-02: Disclosure of financial instruments .....	5
Decision ref. EECS/0610-03: Classification of assets and liabilities .....	6
Decision ref. EECS/0610-04: Impairment testing of intangible assets .....	7
Decision ref. EECS/0610-05 Impairment of intangible assets .....	8
Decision ref. EECS/0610-06: Intangible assets .....	8
Decision ref. EECS/0610-07: Revenue recognition .....	9
Decision ref. EECS/0610-08: Impairment of trade receivables .....	11
Decision ref. EECS/0610-09: Disclosure of financial instruments - liquidity risk .....	12
Decision ref. EECS/0610-10: Earnings per share .....	13
Decision ref. EECS/0610-11: Related party disclosures .....	14
Decision ref. EECS/0610-12: Presentation of the income statement .....	15
Decision ref. EECS/0610-13: Impairment of assets .....	16



## Introduction

EU National Enforcers of financial information monitor and review financial statements and consider whether they comply with IFRS and other applicable reporting requirements, including relevant national law.

Operating under the operational CESR group charged with accounting issues, Corporate Reporting Standing Committee, EECS is a forum in which all EU National Enforcers of financial information, whether CESR members or not, meet to exchange views and discuss experiences of enforcement of IFRS. A key function of EECS is the analysis and discussion of decisions taken by independent EU National Enforcers in respect of financial statements published by issuers with securities traded on a regulated market and who prepare their financial statements in accordance with IFRS.

EECS is not a decision-making forum. It neither approves nor rejects decisions taken by EU National Enforcers who apply their judgement, knowledge and experience to the particular circumstances of the cases that they consider. Relevant factors may include other areas of national law beyond the accounting requirements. Interested parties should therefore consider carefully the individual circumstances when reading the cases. As IFRS are principles based, there can be no one particular way of dealing with numerous situations which may seem similar but in substance are different. Consistent application of IFRS means consistent with the principles and treatments permitted by the standards.

Decisions taken by Enforcers do not provide generally applicable interpretations of IFRS, which remains the role of the IASB Interpretation Committee (IASB IC).

As proposed in CESR Standard No 2 on Financial Information, „Co-Ordination of Enforcement Activities“, CESR has developed a confidential database of enforcement decisions taken by individual EECS members as a source of information to foster appropriate application of IFRS. In response to public comment to the Standard, CESR committed to publish extracts of the database to provide issuers and users of financial statements with similar assistance.

Publication of enforcement decisions will inform market participants about which accounting treatments EU National Enforcers may consider as complying with IFRS; that is, whether the treatments are considered as being within the accepted range of those permitted by the standards or IFRIC interpretations. Such publication, together with the rationale behind these decisions, will contribute to a consistent application of IFRS in the European Union.

Decisions that deal with simple or obvious accounting matters, or oversight of IFRS requirements, will not normally be published, even if they were material breaches leading to sanctions. The selection criteria are based on the above stated objectives, and accordingly, only decisions providing market participants with useful guidance will be published.

On this basis, all cases submitted to the enforcement database are considered as appropriate for publication, unless:

- Similar decisions have already been published by CESR, and publication of a new one would not add any substantial value to the fostering of consistent application;
- The decision deals with a simple accounting issue that, even having been considered a material infringement, does not in itself have any accounting merit;
- There is no consensus in the EECS to support the submitted decision.
- A particular EU National Enforcer, on a grounded and justified basis, believes that the decision should not be published;

CESR will continue publishing further extracts from the database on a regular basis.



## **Decision ref. EECS/0610-01: Fair value of financial instruments**

**Financial year end:** 31 December 2008

**Category of issue:** Fair value of financial instruments

**Standards or requirement involved:** IAS 39

**Date decision taken:** 17 November 2009

### **Description of the issuer's accounting treatment**

In its 2008 annual financial statements, the issuer, a bank, valued shares in company A which were traded on a regulated market at approximately 50 % above their quoted share price. The shares were held as collateral for substantial loans advanced to three large customers. At the balance sheet date, there was objective evidence of impairment in respect of all three loans. As a consequence, the issuer authorized an investment bank to initiate negotiations to sell the shares.

The issuer was of the opinion that company A's shares were not traded on an active market on the basis that there was no regular trading activity. Furthermore 90 % of the shares were held as collateral by three different financial institutions. According to the issuer the investment bank expected to be able to sell the shares at a price of 50 % above the quoted price. This value was based on indications of possible bid offers from potential buyers (non-binding). This information was unknown to the market and supported by various company valuation techniques such as the discounted cash flow methodology.

In the light of this information, the issuer valued the collateral at 50 % above the quoted price, thereby reducing the amount recognized as an impairment loss in accordance with IAS 39, paragraph 63 in the issuer's 2008 financial statements and which was approximately 12 million Euros.

### **The enforcement decision**

The enforcer concluded that the shares were traded in an active market and therefore, that they should be valued at their quoted price in accordance with AG 71 of IAS 39.

### **Rationale for the enforcement decision**

According to IAS 39, AG 71, shares are traded in an active market if quoted prices are:

1. Readily and regularly available from an exchange, dealer, broker or industry group, pricing service or regulatory agency; and
2. Those prices represent actual and regularly occurring market transactions on an arm's length basis

In the case described, the shares were traded on a regulated market which means that the share price was readily available. A review of the trading activity during the financial reporting period indicated that trading had occurred on 98 % of trading days and that on 62% of these days, more than 1, 000 shares had been traded. Moreover, the enforcer did not find any information that might have indicated that trades did not occur between a willing buyer and a willing seller in an arm's length transaction.

The additional information provided by the issuer about indications of possible bid offers and various company valuation techniques such as the discounted cash flow methodology was not taken into account, since the enforcer concluded that the shares were traded in an active market.

\*\*\*



## **Decision ref. EECS/0610-02: Disclosure of financial instruments**

**Financial year end:** 31 December 2008

**Category of issue:** Disclosure of financial instruments

**Standards or requirements involved:** IFRS 7, IAS 39

**Date decision taken:** 02 September 2009

### **Description of the issuer's accounting treatment**

The issuer's principal activity is to issue limited recourse debt in series and use the proceeds to invest in corporate bonds and loans.

The notes to the 2008 annual financial statements lacked clarity in that they disclosed that the determination of fair values of financial instruments was either based on quoted market prices or dealer price quotations and that they were reliably determined within a range of estimates. As the notes contained no further disclosure about the nature of the fair values, it was unclear the extent to which the fair values were based on market prices in an active market or on valuation techniques. Furthermore, there was no apparent reference to reasonably possible changes in any of the assumptions which would significantly change the fair values recognised in the financial statements.

### **The enforcement decision**

The enforcer concluded that the issuer had not adequately disclosed the basis for the determination of the fair value of financial instruments as required by paragraph 27 of IFRS 7. The enforcer also concluded that the financial report did not contain disclosures sufficient to allow users to understand whether a reasonably possible change in one or more of the assumptions would significantly change the fair value recognised in the income statement.

### **Rationale for the enforcement decision**

Paragraphs 48, 48A, 49 and AG69 to AG82 of IAS 39 set out the requirements for determining a reliable measure of the fair value of a financial asset or financial liability. Paragraph AG 72 of IAS 39 states that 'The appropriate quoted market price for an asset or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price'.

Paragraph 27 (a) of IFRS 7 requires an entity to disclose the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. Paragraph 27(c) of IFRS 7 requires disclosure of whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change the fair value significantly, the entity is required both to state that fact and to disclose the effect of those changes.

The issuer explained that the fair values of financial assets and liabilities had been provided by the arranger and based on valuations which might be based on market data or other valuation techniques such as net present value, discounted cash flow methods, comparison to similar instruments for which market observable prices exist and valuation models. In addition, the issuer stated that the fair values provided were the arranger's prices, the directors did not have access to the assumptions used within the valuation techniques and the directors relied upon the independent valuations.

The issuer conceded that the use of different methodologies or assumptions could lead to different measurements of fair values and acknowledged that the fair value estimates were subjective in



nature involving uncertainties and matters of significant judgement e.g. interest rates, volatility, credit spreads, probability of defaults, and estimated cash flows.

\*\*\*

### **Decision ref. EECS/0610-03: Classification of assets and liabilities**

**Financial year end:** 30 June 2008

**Category of issue:** Classification of assets and liabilities

**Standards or requirements involved:** IAS 1

**Date decision taken:** 02 April 2009

#### **Description of the issuer's accounting treatment**

The issuer is a closed-ended fund whose principal activity is to invest in a portfolio of shares and debt on listed Asian exchanges. The investment objective of the Fund is to achieve long term capital appreciation through investment in securities. The investment manager's report indicated it was not the Fund's intention to engage in short term trading positions.

The balance sheet classified all assets and liabilities as current.

#### **The enforcement decision**

The issuer found that the issuer's classification of all of its assets and liabilities as current did not comply with the detailed requirements of IAS 1.

#### **Rationale for the enforcement decision**

Paragraph 60 of IAS 1 states that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 66-76 of the standard except when a presentation based on liquidity provides information that is reliable and is more relevant.

Paragraph 61 of IAS 1 requires that, whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

- (a) No more than twelve months after the reporting period, and
- (b) More than twelve months after the reporting period.

Paragraph 66 of IAS 1 states that an entity shall classify an asset as current when:

- (a) It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) It holds the asset primarily for the purpose of trading;
- (c) It expects to realise the asset within twelve months after the reporting period; or
- (d) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current and includes tangible, intangible, and financial assets of a long term nature.

The issuer explained that the directors had chosen to adopt the current/non-current presentation in the light of the following facts:

- the investments were traded on recognised exchanges and could be converted to cash within one year
- investments had not been purchased for trading; and
- Over 77% of the portfolio of investments had been purchased over 1 year ago.



The enforcer did not agree that the classification and consequently the presentation of investments as current assets was either appropriate or justified in the context of the requirement of paragraphs 66 and 67 of IAS 1 and the explanations provided by the issuer.

\*\*\*

### **Decision ref. EECS/0610-04: Impairment testing of intangible assets**

**Financial year end:** 31 December 2007

**Category of issue:** Impairment testing of intangible assets

**Standards or requirements involved:** IAS36

**Date decision taken:** 06 November 2008

#### **Description of the issuer's accounting treatment**

At 31 December 2007, 53% of the issuer's total assets were represented by mainly internally developed intangible assets comprising the capitalised costs of the acquisition and production of database which generates 100% of the issuer's revenue.

The issuer has constructed a database of information accessible at both global and national levels. The information is available in much more detail at the national level where it can be modified to match particular customer specifications.

The costs incurred in bringing together information about a certain area to a higher standard of performance are capitalised. The costs incurred in relation to maintaining the information at that same standard of performance are expensed to income statement.

The issuer's accounting policy note states that intangible assets are valued at historical cost. The issuer considers the database to have an indefinite useful life, which is reconsidered annually when the database is tested for impairment. A note to the financial statements describes the way in which the issuer determines value in use using the estimated future cash flows and which include:

- Maintenance expenses,
- Capital expenses incurred in bringing the data to a level suitable for use and
- The expected increase in turnover resulting from the above mentioned cash outflows.

#### **The enforcement decision**

The enforcer found that the issuer's determination of its cash flows for impairment testing purposes did not comply with IAS 36 paragraph 44 which requires that future cash flows for value in use calculations be estimated for the asset in its current condition.

#### **Rationale for the enforcement decision**

IAS 36, paragraph 44 states that when measuring value in use, future cash flows should be estimated for the asset in its current condition. Estimates of future cash flows should not include inflows or outflows that are expected to arise from:

- (a) a future restructuring to which an entity is not yet committed; or
- (b) improving or enhancing the asset's performance.

Based on the issuer's description of the cash flows utilised to determine the value in use the enforcer concluded that the cash flows were not estimated for the asset in its current condition as they included those which were expected to be incurred in improving the performance of the database and cash inflows expected as a result of those improvements.



\*\*\*

## **Decision ref. EECS/0610-05 Impairment of intangible assets**

**Financial year end:** 31 January 2008

**Category of issue:** Disclosure related to impairment of intangible assets

**Standards or requirement involved:** IAS 36

**Date decision taken:** 31 January 2008

### **Description of the issuer's accounting treatment**

The issuer is a developer specializing in online games. As at 31 December 2008, 37% of the issuer's total assets were represented by mainly internally developed intangible assets comprising the capitalised expenses of development of games and related technologies. The intangible assets generate 100% of the issuer's revenue.

Two cash generating units (CGU 1 and CGU 2) include 90% of the internally developed intangible assets. The issuer reported a consolidated net loss for the periods and an impairment charge in respect of the two CGU's representing 63% of the consolidated result before tax and 29% of the total costs in the period.

The financial statements did not disclose either the events and circumstances that led to the recognition of the impairment loss nor the amount of the loss recognised in respect of each cash generating unit.

The events and circumstances that led to the recognition of a loss in respect of CGU 1 were common knowledge in the market, the events and the circumstances that led to the recognition loss of CGU 2 were not. Indeed, there was nothing in the accounts to indicate that part of the loss was related to CGU 2, which included intangible assets under development but which product was expected by the market to be very successful.

### **The enforcement decision**

The enforcer found that the issuer had not complied with the disclosure requirements of IAS 36, paragraphs 130(a) or (d) (ii) in that neither the events and circumstances that led to the impairment loss nor the amounts attributable to the two CGUs were separately disclosed.

### **Rationale for the enforcement decision**

The issuer drew the enforcer's attention to the fact that the financial statements disclosed that the cash flows are driven largely by the number of paying customers and that it is therefore management's expected development of customers that is the most important factor when estimating future cash flows and recoverable amounts. The issuer also noted that as the impairment loss was presented in a table and the recoverable amounts were described in narrative, the reader was able to conclude that the loss was due to the expected number of paying customers for CGU 1 being lower than expected. The issuer also pointed out that the Director's report explained that CGU 1 had not developed as expected.

Notwithstanding these disclosures, the enforcer concluded that the relevant information required by the standard in this respect had not been provided.

\*\*\*

## **Decision ref. EECS/0610-06: Intangible assets**





**Financial year end:** 30 June 2008  
**Category of issue:** Intangible assets  
**Standards or requirements involved:** IAS38  
**Date decision taken:** 15 December 2008

### **Description**

The issuer is a professional football club. In its financial statements for the year ended 30 June 2008, there were significant intangible assets which, for the largest part, related to acquired players' registration rights comprising registration and agents' fees, amortised on a straight-line basis over the life of the contracts.

Agents' fees are common in the football business. They are paid by clubs to players' agents either when a player is transferred to the club or when the contract of a player is extended. The issuer believes that the fees meet the criteria to be recognised as intangible assets as they are directly attributable to the costs of players' contracts.

### **The enforcement decision**

The enforcer accepted the accounting treatment of the issuer.

### **Rationale for the enforcement decision**

#### *Agents' fees paid on transfer*

According to IAS 38 paragraph 27 "The cost of separately acquired assets comprises : (a) its purchase price, including import duties and non refundable purchase taxes, after deducting trade discounts and rebates ; and (b) any directly attributable cost of preparing the asset for its intended use". IAS 38, paragraph 28 gives examples of directly attributable costs which include "professional fees arising directly from bringing the asset to its working conditions". The enforcer agrees that, in the football business, agents' fees represent professional fees incurred in bringing the asset into use.

#### *Agents' fees paid when a contract is extended*

According to IAS 38, paragraph 68 (a), "Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18-67)". IAS 38, paragraph 18, further notes that "the recognition criteria of an item as an intangible asset requires an entity to demonstrate that the item meets:

- a) The definition of an intangible asset; and
- b) The recognition criteria

This requirement applies to cost incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it".

The enforcer agreed that agents' fees paid on the extension of players' contracts can be considered as costs incurred to service the player registration rights.

\*\*\*

### **Decision ref. EECS/0610-07: Revenue recognition**

**Financial year end:** 31 December 2009  
**Category of issue:** Revenue recognition  
**Standards or requirements involved:** IAS18  
**Date decision taken:** 10 April 2009

### **Description of the issuer's accounting treatment**



In 2004, the issuer launched an on-line video game with the following characteristics:

- In order to be able to play, the player has to buy an initial pack and a monthly subscription to the on-line game;
- It is impossible to play without an on-line subscription;
- The initial pack is sold with a free subscription for one month. The price of the initial pack is equivalent to the price of a one-month subscription;
- It is a “multi-player” game, which means that the issuer has an implicit obligation to maintain its IT capacity in order to enable players around the world to play with each other;
- The player may also buy expansion packs. An expansion pack is more expensive than the initial pack and does not include a free subscription. It provides players with new options (new characters, new battlegrounds, additional outdoors, rated matches, etc) that are not available with the initial pack. Whether or not a player buys the expansion pack, the price of the monthly subscription remains the same. New expansion packs generate new customers. They also encourage former customers to re-subscribe to the game;
- The initial pack is necessary in order to use the expansion pack;

The licence agreement of the game states explicitly that the issuer has no legal obligation to maintain the on-line game. However, given its commercial success, it would not make economic sense for the issuer to discontinue the game or fail to continue the IT support. The issuer has developed a very efficient add-on policy and regularly improves the interfaces of the game.

Until 30 September 2008, the sale of a game was split into three different transactions. Revenue was recognised as follows:

- The sale of the initial pack was recognised when the player bought the pack;
- The sale of the expansion pack was recognised when the player bought the pack;
- The on-line monthly subscription was recognised over the period of subscription on a straight line basis.

The game has been very successful since 2004 and has more than 11 million players around the world. The issuer launched a second expansion pack in October 2008.

According to statistics, the vast majority of players play - and therefore subscribe - for an average of 10 months. Virtually no players have bought the initial pack or only subscribed for one month.

All these facts led the issuer to reconsider its previous analysis and to conclude that, in reality, the different elements of the game were so inter-linked that considering the sale of the expansion pack and the monthly subscription as two separate transactions did not reflect the substance of the sale. Indeed the commercial effect of the sale of the expansion packs cannot be understood without reference to the monthly subscription. These elements of the sale should, therefore, be considered together in accordance with paragraph 13 of IAS 18.

Therefore, as of 30 September 2008, the issuer changed its accounting policy for revenue, and recognized the sale of the expansion packs over a 10-month period, in alignment with its industry peer. The change in accounting policy was applied retrospectively in accordance with IAS 8.

### **The enforcement decision**

The enforcer accepted the accounting treatment of the issuer.

### **Rationale for the enforcement decision**

IAS 18 usually requires recognition criteria to be applied separately to each transaction. Paragraph 13, however, states that, in certain circumstances, it is necessary to apply the criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.



The enforcer accepted the issuer's argument that the sale of the expansion pack and the monthly subscription should be dealt with together, in accordance with this paragraph. (Moreover, recognising the revenue on the sale of an expansion pack as a single transaction would not correctly reflect the implicit obligation that the issuer has to maintain and develop its service over an average period of 10 months).

The enforcer agreed with the issuer that the new accounting treatment would provide reliable and more relevant information about the sales, and would, therefore, meet the criteria set out in paragraph 14(b) of IAS 8 to be treated as a change in policy and to be applied retrospectively.

\*\*\*

### **Decision ref. EECS/0610-08: Impairment of trade receivables**

**Financial year end:** 31 December 2008

**Category of issue:** Financial instruments, Trade accounts receivable and payable, Impairment

**Standard involved:** IAS 39

**Date of the decision:** 31 December 2009

#### **Description of the issuer's accounting treatment**

The notes to the issuer's 2008 financial statements disclosed that amounts receivable were initially recognised at fair value and subsequently at amortised cost, determined on the basis of the effective interest rate method less provision for impairment. The provision is calculated as being the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original estimated interest rate.

At 31 December 2008, the Group's and the issuer's trade and other receivables overdue for periods between 170 and 1,031 days were as follows:

Group

Name (debtor) // Outstanding amount // Debt overdue in days // Invoice payment deadlines (in days)

Entity A	42,270	394	60/90
Entity B	324,690	450	60
Entity C	34,110	245	15
Entity D	20,000	170	60
Entity E	15,680	452	60/90
Entity F	99,000	256	15
<b>Total:</b>	<b>535,750</b>		

Issuer's

Name (debtor) // Outstanding amount // Debt overdue in days // Invoice payment deadlines (in days)

Group's trade and other amounts receivable from unrelated entities:

Entity A-F	535,750	(See above)	
Issuer's subsidiary H	11,865,000	1,031	30/60
<b>Total:</b>	<b>12,400,750</b>		

The issuer had not estimated the present value of the future cash flows of the amounts receivable discounted at the original effective interest rate as it fully expected to receive all the amounts due.

The largest amount receivable and the longest overdue accounted for 40% of the carrying amount of the issuer's current assets and 60% of its equity.



The issuer had, however, recognised an impairment of 535,750 in respect of amounts due from unrelated entities in the financial statements for the year ended December 2008, amounting to 2 % of group current assets and 14 % of the Group's equity.

### **The enforcement decision**

The enforcer concluded that the accounting treatment did not comply with IAS 39 in a number of respects relating to the measurement of the receivables.

### **Rationale for the enforcement decision**

Paragraph 58 of IAS 39 requires entities, at each balance sheet date, to assess whether there is any objective evidence that a financial asset or group of financial assets is impaired. Paragraph 59(b) of the same standard stipulates that such evidence includes a breach of contract; for example, default in interest or principal payment.

In the enforcer's view, according to the provisions of paragraph 59(b) of 39 IAS (2005), the very fact that amounts receivable were overdue by amounts from 170 to 1,031 days is objective evidence that the trade receivables were impaired. Therefore, under paragraph 63 of IAS 39, the entity should have measured the present value of the future cash flows discounted at the original effective interest rate and recognised the difference in profit and loss as required by the standard.

The issuer argued that, in respect of the largest amount outstanding, from its subsidiary H, it was not in a position to reliably measure the present value of the future cash flows discounted at the original estimated interest rate because of the uncertainty brought about by the onset of the liquidity crisis. The enforcer was informed that subsidiary H was not able to produce full-scale and long term cash flow forecasts due to the prevailing uncertainty in the property market. There was also a question whether the business could continue to be funded by credit institutions. Hence, no measurement exercise was carried out.

The issuer did not accept this explanation, concluding that the issuer had not complied with the requirements of IAS 39 as stated above.

\*\*\*

### **Decision ref. EECS/0610-09: Disclosure of financial instruments - liquidity risk**

**Financial year end:** 31 March 2008

**Category of issue:** Disclosure of financial instruments - liquidity risk

**Standards or requirement involved:** IFRS 7

**Date decision taken:** 25 August 2009

### **Description of the issuer's accounting treatment**

The issuer is a fund management company and holds portfolios of investments which are accounted for under IAS 39 and measured at fair value. In its accounts for the year ended 31 March 2008, the issuer revalued its investment portfolios to fair values which, for certain hedge funds, were based on net asset values published by hedge fund managers.

The issuer confirmed that expected calls from funds are taken into consideration in monitoring cash flow requirements. These calls were not, however, disclosed in the liquidity risk disclosure because the correspondence between the issuer and the fund managers identifying possible timing of calls was regarded as confidential.



## **The enforcement decision**

The enforcer concluded that the issuer's disclosure of its liquidity risk did not comply with paragraph 34(a) of IFRS 7 which requires summary quantitative information based on information provided to the entity's key management personnel.

## **Rationale for the enforcement decision**

The enforcer was concerned about the issuer's liquidity risk disclosure since it gave an incomplete analysis of the issuer's position as the outstanding commitments omitted from the information provided were material to an understanding of the liquidity risk.

The enforcer noted that there is no exemption in IFRS 7 in relation to confidentiality. Consequently, commitments based on expected timing of cash calls should be included in the disclosure about liquidity risk based on the summary quantitative data provided internally to key management personnel of the entity in order to comply with paragraph 34(a) of the standard.

\*\*\*

## **Decision ref. EECS/0610-10: Earnings per share**

**Financial year end:** 31 December 2006

**Category of issue:** Earnings per share, calculation of weighted average outstanding shares

**Standards or requirement involved:** IAS 33

**Date decision taken:** 10 December 2008

## **Description of the issuer's accounting treatment**

When it was founded in March 2006, all of the entity's 0.5 million shares were owned by listed company A. The issuer was not active until June 29 that year, when it acquired the assets demerged from the parent company A. Under the relevant national law, a demerger is the transfer of part of the assets and liabilities of a company (the transferor) to a newly formed or pre-existing company (the transferee) in exchange for shares in the transferee company. In connection with the acquisition of the assets demerged from company A, new shares were issued in two tranches of 14.5 million and 60 million respectively.

Company A had issued a global offering of up to 15 million of the issuer's shares and, subsequent to the demerger, the issuer was listed on June 30, 2006. The demerger was accounted for using the pooling of interests method. The financial statements for the year ended 31 December 2006 were prepared on the basis of company A's historical (book) values, and were presented as if the issuer had been a separate entity for all the periods presented. The profit and loss statement included revenue and expenses for the entire year to 31 December 2006.

In the issuer's 2006 annual accounts, earnings per share were calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding. The weighted average number of shares outstanding was calculated to be 75 million, which appeared to be the number of shares outstanding at December 31 2006 rather than the average of those in issue during the reporting period.

The disclosures in the 2006 annual report did not refer to the principles applied when accounting for the demerger, nor the method adopted in the determination of the average number of shares outstanding for the purpose of the earnings per share calculation.

## **The enforcement decision**



The enforcer accepted the issuer's accounting for the demerger and concluded that the calculation of earnings per share complied with the requirements of IAS 33.

### **Rationale for the enforcement decision**

The principles of IAS 33 imply that there should be consistency between earnings and the capital by which those earnings have been generated; this is normally achieved by adjusting the number of shares outstanding for the purposes of the EPS calculation.

Shares are usually included in the weighted average number of shares from the date consideration is receivable (paragraph 21). If no consideration is receivable or the number of outstanding shares changes without a corresponding changes in resources, for example, a share split, the change in the number of shares outstanding is included as if the event had occurred at the beginning of the earliest period presented (paragraphs 27-28).

Under paragraph 22 of the standard, ordinary shares issued as part of the consideration transferred in a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates the acquiree's profits and losses into its statement of comprehensive income from that date.

Calculation of earnings per share in a business combination accounted for using the pooling of interests method is not discussed in IAS 33. In a business combination accounted for using the pooling of interests method and where the earnings from the acquired entity are included from the beginning of the earliest period presented, it is in accordance with the underlying principle of IAS 33 that the shares issued are included as if the transaction had happened at the beginning of the earliest period presented.

The enforcer therefore accepted that the shares issued in connection with the acquisition of the assets demerged from company A, were properly included in the computation of weighted average outstanding shares from January 1, 2006.

\*\*\*

### **Decision ref. EECS/0610-11: Related party disclosures**

**Financial year end:** 31 December 2008

**Category of issue:** Related party disclosures

**Standards or requirements involved:** IAS24

**Date decision taken:** 20 May 2009

### **Description of the issuer's accounting treatment**

The issuer's 2008 financial statements included a related party transaction note stating that key management personnel comprised the Board of Directors and cross-referencing for further details to the Report on Directors' Remuneration section of the annual report. The Report on Directors' Remuneration was presented as part of the issuer's annual report, but was outside the Financial Statements and had not been subject to audit. There were also some omissions of information required by IAS 24, paragraph 16.

### **The enforcement decision**



The enforcer considered that because the information was not presented within the consolidated financial statements, had not been subject to audit, and omitted certain content required by paragraph 16, the issuer had not complied fully with the requirements of IAS 24.

### **Rationale for the enforcement decision**

The European Regulation requires that consolidated financial statements of listed issuers shall be prepared in accordance with IAS as adopted in the EU. The Transparency Directive (as transposed into law in the jurisdiction) provides that an issuer's annual financial report shall include 'audited financial statements' prepared in accordance with the IAS regulation. IAS 24, paragraph 16 provides that an entity shall disclose key management personnel compensation in total and for the following categories of benefit (i) short-term, (ii) post-employment, (iii) other long-term, (iv) termination and (v) share-based payment. The issuer had not presented this information within the audited financial statements.

\*\*\*

### **Decision ref. EECS/0610-12: Presentation of the income statement**

**Financial year end:** 31 December 2008

**Category of issue:** Presentation of the income statement

**Standards or requirements involved:** IAS 1

**Date decision taken:** 1 July 2009

### **Description of the issuer's accounting treatment**

The issuer, a Group whose principal business is insurance, presented its return on investment income on the face of the income statement, classified as two separate items comprising a gain shown as 'investment income – longer term rate of return' and a loss shown as 'investment income-fluctuation'. The loss is the difference between the actual short term and expected longer term investment returns during the period. The gain was included within the calculation of a subtotal entitled 'Operating profit' while the loss was presented outside of this subtotal.

The notes to the financial statements presented a table of longer term rates of investment return on various asset categories, which were described as being reviewed annually and reflecting both historical experience and the issuer's current expectations for investment returns.

### **The enforcement decision**

The enforcer found that the issuer's presentation did not comply with the requirements of IAS 1 relating to the presentation of the income statement.

### **Rationale for the enforcement decision**

IAS 1, paragraph 81 (paragraph 82, IAS 1 Revised) prescribes a minimum content for the face of the Income Statement. The standard also provides that additional line items, headings and subtotals are to be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's performance.

While IAS 1 neither requires nor precludes disclosure of results of operating activities on the face of the income statement, paragraph BC13 (BC 56, IAS 1 Revised) states that where an entity discloses such an amount it should be representative of activities that would normally be considered to be 'operating'. It further states that it would be misleading and would impair comparability if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice.



Whilst it could be argued that a measure of operating performance which excludes short term fluctuations in investment return is a key performance indicator within the insurance industry, it was the enforcer's contention, nonetheless, that a categorisation of investment returns between actual short term and expected longer term returns does not represent a distinction between 'operating' and 'non-operating' activities. The actual return for a period would seem to clearly be of an operating nature, notwithstanding that it may reflect actual short term, rather than expected longer term, performance.

\*\*\*

### **Decision ref. EECS/0610-13: Impairment of assets**

**Financial year end:** 31 December 2008

**Category of issue:** Determination of discount rate for impairment testing

**Standards or requirements involved:** IAS 36

**Date decision taken:** 14 August 2009

### **Description of the issuer's accounting treatment**

The issuer allocated goodwill to three cash-generating units (CGUs) for goodwill impairment testing purposes. The issuer defines the recoverable amount of the CGUs as value in use. As the CGU-specific discount rates are not directly available from the market, the issuer estimates the discount rates, taking, as a starting point, its weighted average cost of capital (WACC).

In calculating the cost of debt as an input to the determination of the discount rate, the issuer used the risk-free rate adjusted by the company specific average credit spread of its outstanding debt. The banks had not recently increased the credit spreads of the issuer's existing loans, nor given any indication that they had any intention of doing so. As the issuer did not have any need for additional financing and did not need to repay any of the existing loans before 2010, the issuer did not see any reason for using a higher credit spread on account of the financial crisis than that of its outstanding debt at the moment of testing in 2008. The issuer understood, however, that if it had required additional financing, the credit spread for the new funds would have been higher.

### **The enforcement decision**

The enforcer concluded that the calculation of the discount rate was not wholly in accordance with the requirements of IAS 36 because the discount rate applied did not reflect the market assessment of the contributing factors.

### **Rationale for the enforcement decision**

According to IAS 36 paragraph 55 the discount rate to be applied in these circumstances is a pre-tax rate that reflects the current market assessment of (a) the time value of money; and (b) the risks specific to the assets for which the future cash flow estimated have not been adjusted. IAS 36 paragraph 56 specifies that a rate that reflects the current market assessment of the time value of the money and the risks specific to the assets is the return that the investors would require if they chose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the assets.

BCZ54 of IAS 36 also emphasises that "the enterprise should make its own estimates of future cash flows but that the discount rate should reflect, as far as possible, the market assessment of the time value of the money." According to BCZ53 (a) of IAS 36 a subsequent estimate of recoverable amount has to be based, not on an historical rate but "on prevailing interest rates because management's decisions about whether to keep the assets are based on prevailing economic conditions".





Therefore, the enforcer concluded that the inputs to the determination of the discount rates should be based on current credit spread levels in order to reflect the current market assessment of the time value of the money and asset specific risks.

Based on the above, the enforcer was of the opinion that the credit spread input applied should reflect the current market assessment of the credit spread at the moment of impairment testing, irrespective of the fact that the issuer did not intend taking any additional financing.

\*\*\*