Ten key financial reporting reminders for corporate treasurers.

As the year end reporting season takes full flight, we outline our top 10 reminders and developments for the reporting of the treasury numbers in the annual accounts.

Debt Restructurings

Under IFRS, where debt is exchanged or its terms are modified but the liability remains between the same borrower and the same lender, it is necessary to assess if the terms are substantially different. If they are substantially different, the transaction should be accounted for as an extinguishment of the original and the recognition of a new liability. There are a number of key differences to the accounting depending on the result, including the treatment of deferred fees and the calculation of the interest rate.

When a corporate wants to change the terms or maturity date of an existing bond, it may use a bank as an intermediary to buy back the original bonds and place the modified bonds with investors. The accounting for this is complex and depends on whether the bank is acting as an agent or as principal in the transaction.

Fair value – explicitly includes own credit risk

IFRS 13 requires entities to take the risk of non-performance into account when calculating the fair value of liabilities and specifically states that this includes own credit risk. There is little guidance on how to apply adjustments for own credit risk in practice, but entities should start to develop a consistent methodology. This may include the use of CDS spreads, credit ratings, bond spreads or other financial modelling.

Offsetting Assets and Liabilities

IAS 32 was amended for years beginning on 1 January 2014. Offsetting can only be applied if, and only if, an entity currently has a legally enforceable right to set-off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment to IAS 32 clarifies that to have a currently legally enforceable right of set-off, the right of set-off which must not be contingent on a future event and must be legally enforceable in both the normal course of business and in the event of default or insolvency

Many groups have entered into forms of cash pooling arrangements where the cash may be swept into a single account. In some cases these sweeping arrangements are notional. Offsetting would not be appropriate as there is no actual sweeping taking place and no intention to offset the cash positions. A right of offset is also common in overdraft situations where the group holds a number of accounts at the same bank.. Offsetting would not be appropriate for the group as the right of offset is not enforceable for them in the ordinary course of business.

Impairment reviews

Regulators remain focused on impairment given the challenging economic environment. Groups holding significant amounts of goodwill and indefinite lived intangible assets risk challenge to their accounting and disclosures. Listed entities should pay specific attention if market capitalisation is significantly lower than the carrying value of net assets. This is an indicator of impairment under IAS 36. The challenge is to understand whether there are good underlying reasons for a spread between the two measures.

Specifically, key assumptions must stand up against external market data. Cash flow growth assumptions should be comparable with up-to-date economic forecasts.

Externally imposed capital requirements, including covenants

IAS 1 requires disclosures of whether the entity complied with externally imposed capital requirements during the period and, if not, the consequences of non-compliance. The requirements include those established through contractual relationships (for example, with banks); so loan covenants are captured where loans are included in an entity's definition of capital.

IFRS 7 also requires disclosure of defaults and breaches of loan covenants).

Supplier Finance Arrangements

Supplier finance arrangements involve three parties: a supplier who supplies goods to a purchaser and a bank. The bank offers to facilitate payments of the trade payables arising between the supplier and purchaser and may provide finance so that the supplier can be paid earlier than the due date of the trade payable.

A financial liability is removed from an entity's balance sheet when it is extinguished. Supplier Finance arrangements need to be reviewed to assess whether there has been an extinguishment of the trade payable, resulting in a new liability, or whether the existing classification remains. A new liability to a bank should be presented as bank financing (or under another suitable heading rather than 'trade payables'.

Disclosures for associates and JVs that are not consolidated

IFRS defines a structured entity as one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. It is therefore possible that an entity that has been assessed as an associate or a joint venture might also fall within the definition of a structured entity. Extensive disclosures are required if this is the case.

'"Control" of Special Purpose Vehicles

There is now clearer guidance on de facto control. De facto control is the situation where an entity owning less than 50% of the voting shares in another entity that is controlled by voting rights is deemed to have control when it has the practical ability to direct the relevant activities. This is an area of focus of regulators (in particular, to ensure that the requirements are applied carefully and objectively to the particular circumstances).

Industry-specific tariffs

Industry-specific tariffs (often referred to as 'taxes' or 'levies') continue to emerge as governments seek to increase tax revenues. The accounting will depend on the nature of the payment. The first consideration is which standard to apply. In many cases, these tariffs are not based on taxable profit and are accounted for as provisions Guidance is provided on when the provision should be recognised. This depends partly on the point in time at which the entity becomes obligated to pay the levy. The obligation to pay the levy does not depend on the economic compulsion to continue operating in a future period where the levy will arise from future operations

New Accounting Standards

IFRS 9 has been finalized during 2014. Although the effective date is some years away, the changes brought about by the new rules on hedging and classification of financial assets and liabilities are extensive and broad reaching. Specifically, a number of existing hedging strategies may need revisiting to ensure continued applicability of hedge accounting

FRS 101 and 102 are the replacements for the current collection of UK/Irish GAAP. They are effective for December 2015 year ends. As they are primarily designed for non complex entities, their requirements will change the accounting for a number of items typically engaged in by a treasury. Areas such as accrual accounting for derivatives, cost accounting for financial assets and deferral of foreign exchange movements relating to investments in group entities into equity are radically different.

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