KPMG

AUDIT COMMITTEE INSTITUTE

Quarterly 33

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Background

About the Audit Committee Institute

Recognising the increasing importance of governance issues, the Audit Committee Institute Ireland (ACI) was established to serve both audit committee members and non-executive directors to help them to adapt to their changing roles.

Historically, those charged with governance responsibilities have largely been left on their own to keep pace with rapidly changing information relating to governance, remuneration, audit issues, accounting and financial reporting. Supported by KPMG, the ACI provides knowledge to non-executive directors and a resource to which they can turn at any time for information, or to share knowledge.

Our primary objective is to communicate with all senior business people to enhance their awareness and ability to implement effective board processes.

The ACI aims to serve as a useful, informative resource for members in such key areas as:

- Governance, technical and regulatory issues
- Sounding board for enhancing all board committees' processes and policies
- Surveys of trends and concerns.

The ACI is in direct contact with over 1,100 members. For more information on the activities of the ACI, please visit our website at: www.kpmg.ie/aci.

Contents

Welcome

Welcome to the latest edition of Quarterly, a publication designed to help keep audit committee members and non-executive directors abreast of developments in areas of corporate governance and related matters.

The key topics covered in this issue include:

- 10 Questions for Audit Committees
- The new mindset in cyber security: The board lens
- The Companies (Accounting) Act 2017 - What are the key considerations for Audit Committees?
- The changing face of VAT compliance and VAT reporting – is your business ready?
- Regulatory updates
- Financial reporting matters

I hope you will continue to enjoy the ongoing benefits of ACI. Please contact us at aci@kpmg.ie with any comments or suggestions of topics you would like to see covered and visit our website at www.kpmg.ie/aci for further information.

David Meagher
Chairman
Audit Committee Institute Ireland
Partner Audit
KPMG in Ireland

10 questions for audit committees

Shortly, the biggest changes in accounting for more than a decade will come into effect. You, as an audit committee member, have a crucial part to play. Regulators are expecting high-quality implementation, and your role is to set the right tone at the top and oversee implementation.

For companies with December year ends, the new revenue and financial instruments requirements are effective in a period of months, so it's time to step up your efforts on the implementation of these mandatory requirements.

Management will implement the new requirements, but the audit committee is tasked with the crucial oversight role: to evaluate management's progress, challenge the judgements and assess the controls.

These questions will help audit committees focus their discussions with management of corporates on implementation of the new standards.

Key decisions and interpretations

1. What are the **key accounting interpretations and judgments** and why are they appropriate?

2. What plans are in place to conclude on **key decisions**, including validating with the external auditors to deliver high-quality implementation by 2018? Is there an audit rail of the analysis performed and the conclusions drawn?

3. How will **implementation decisions** be monitored to ensure they remain appropriate?

Specific impacts

IFRS 9

4. If any new **impairment and hedging methodologies** have been designed, have these been tested?

IFRS 15

5. Will the **timing or pattern of revenue recognition** change? If not, why not?

Transparency

6. How will the **IFRS disclosure requirements** be met and how will those disclosures facilitate **comparability**? What level of **assurance** will you expect your auditors to provide on the **adequacy** of the transition disclosures?

7. What is the plan for communicating **changes in KPIs** to users?

People

8. Is there **sufficient resource** to implement the changes? Have affected members of the workforce received the **appropriate training**?

Systems and controls

9. Have all **changes to existing systems and processes been identified**, including data requirements and internal controls, to ensure they are appropriate for use under the new standards?

10. What steps are being taken to properly document and test any **reporting processes and controls** – both existing and new – particularly where systems and data sources have not previously been subject to audit?

The new mindset in cyber security: The board lens

Has the cyber risk and security conversation in the boardroom kept pace with the business? Better yet, does the board have the assurance that operations, technology, and risk management are communicating on cyber expectations and priorities?

On the most recent KPMG US/NACD Audit Committee Webcast, KPMG Global Cyber Security Co-Leader Greg Bell detailed the components of a cyber-maturity framework that can help corporate directors assess the cyber capabilities of their companies.

"Cyber is much more about your company's business strategy and innovation plans than about technology architecture," said Bell. "When companies talk about cyber risk, that should be the lens."

"We're doing business differently. It's very rare that all of a company's business functions exist within their own walls," said Bell. "Supply chains, business partners, and outsourcing relationships are all handling the company's critical data, including customer data. How do we protect that information and ensure that we are providing due care?"

For example, Bell recounted separate meetings—held within hours of each other—in which executives at the same company detailed their respective approaches to the use of third-party brokers and agents to acquire new customers. The technology executive was preparing to overhaul the company's systems to defend against cyber hacks of customer information via the third party's technology infrastructure. Meanwhile, the business executive had already set plans in place to eliminate third parties altogether.

"The business was moving at such a fast pace that cyber capability just couldn't catch up," said Bell. "That's the risk we all face today." In fact, of the key cyber-related risks identified in a recent Audit Committee Institute survey, technology systems was only one of the top four challenges. The other three were business-focused: supply-chain vulnerability, people risk, and organisational awareness.

The Cyber Maturity Framework

Existing cyber-security frameworks focus very little on governance and the role of the board, said Bell. Extending the reach of a company's existing cyber-security framework to the board can both define and clarify how the board engages with management on cyber issues.

"The most important element is leadership and governance," said Bell. "How is the technology organisation aligned with the business? Management really needs to make sure they can explain that to the board."

Bell discussed lines of inquiry across six areas of board oversight as well as related key performance indicators (KPIs) that can serve as a dashboard to help the board assess the cyber environment.

Board oversight	Lines of inquiry	How does the board gain comfort? (Example KPIs)
Leadership and governance	Understand governance structure and meet executive leadership team Review output of capability assessment Review and approve strategy and funding requests Participate in general board education Request periodic updates of program	Security spend as a percentage of overall IT budget Capability maturity review output Certifications within key leadership positions Number of board education sessions (frequency)
Human factors	Set the tone for the culture Review patterns/trends of personnel issues Understand training and awareness protocols	Percentage of employee/contractors attending training Trends related to cyber from whistleblower or ethics hotline
Information management	Understand risk management approach and linkage to enterprise risk Review and approve risk tolerance Understand third-party supplier program Review and question program metrics	Risk assessment output/linkage to ERM program Risk tolerance measures and metrics Number of high-risk third-party suppliers and review status Review metric output
Business continuity and crisis management	Understand current response capability Review status of overall plan maturity Meet with communications personnel Participate in table-top exercises	Number of mission critical business processes with plans in place Number of table top exercises (frequency) and results
Operations and technology	Understand current maturity of control structure Review relevancy of selected control framework Review relevant incident trend metrics Meet with CIO or equivalent to understand integration of cyber and information technology trends	Percentage of "crown-jewel" assets included in monitoring coverage Risk rating of security vulnerabilities (considering asset value) Cyber incident trends metrics
Legal and compliance	Cyber insurance policy benchmarking with peer organisations	Cyber insurance policy benchmarking with peer organisations

Insights for Directors

Directors need to stay vigilant, but it is more important to stay focused. This is an area that could take up a lot of energy and time. While it is clear that cyber risk is a fact of doing business today—it is going to continue to evolve and pose new challenges.

Boards should consider the following in their discussions with management:

Learn to live with cyber risk. Understand that it is an enterprise-wide challenge and opportunity.

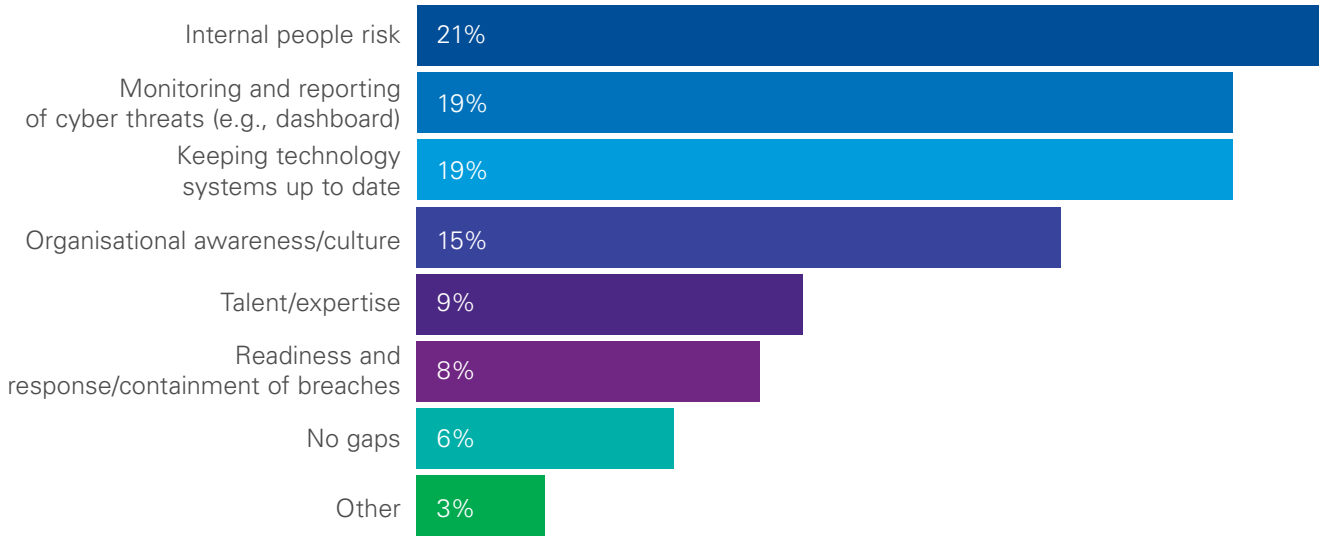
- Cyber is a business issue that impacts the enterprise – strategy, operations, the supply chain, regulation, reputation and more.
- Regular reporting and communications to the board is critical, ideally with a dashboard and robust KPIs. Establish a rhythm, get to know the people, become better educated.
- It's about culture and tone at the top. Are the executives from the CEO on down making their voices heard about the importance of good cyber hygiene?

Stay abreast of industry practices and connect with law enforcement. How attuned is the board to industry trends and best practices? Is the company reaching out to law enforcement agencies proactively to understand trends in cyber risk and response?

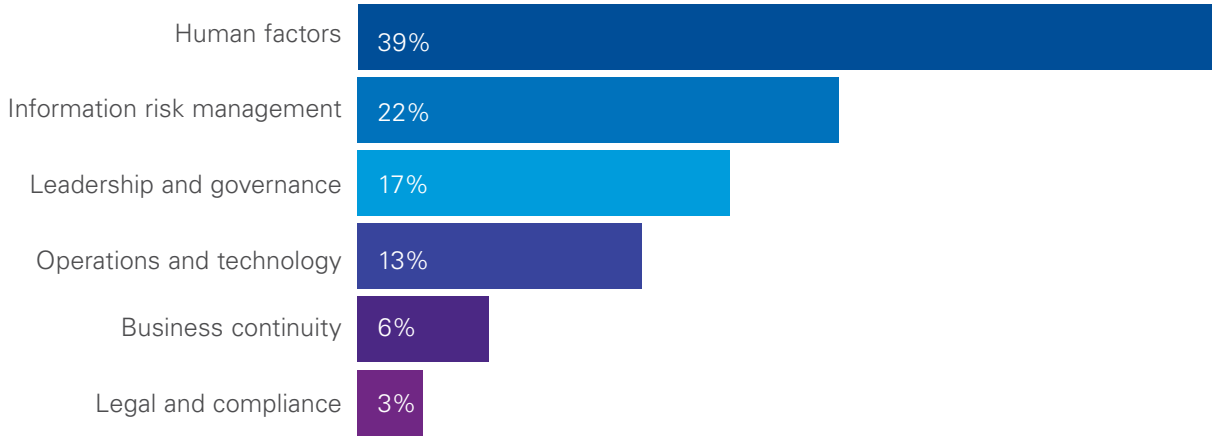
Have an incident readiness and response plan. Breaches will happen. Does the company have a clear "table-topped" response plan that has been reviewed and tested? Who leads the cyber incident response team? What about business continuity plans?

Webcast Survey Results*

From a board perspective, what is the most significant gap in your company's ability to manage cyber risk?



From a board perspective, which aspect of this cyber maturity framework is the most challenging to monitor and assess?



*Of 310 directors and senior executives surveyed during the 23 March Webcast.

The Companies (Accounting) Act 2017

- What are the key considerations for audit committees?

The Companies (Accounting) Act 2017 ('Act of 2017') was signed into Irish law on 17 May 2017. Its main purpose was to transpose the EU Accounting Directive 2013/34/EU ('the Accounting Directive') into Irish Law. It amends Part 6 of the Companies Act 2014 ('Act of 2014') to give effect to the provisions in the Accounting Directive relating to the annual financial statements and related reports of companies, including the introduction of optional simplified regimes for small and micro companies. The Act of 2017 also incorporates some other miscellaneous amendments to amend and clarify provisions in the Act of 2014.

The changes will impact Companies Acts statutory financial statements and some will also impact statutory financial statements prepared under International Financial Reporting Standards as adopted by the EU ('EU IFRS'). EU IFRS statutory financial statements do not need to comply with the provisions of the Schedules in the Act of 2014 (as inserted by the Act of 2017).

The legislation giving effect to the commencement of the Act of 2017 is set out in S.I. No. 246 of 2017 'Companies (Accounting) Act 2017 (Commencement) Order 2017', amended by S.I. No. 250 of 2017 'Companies (Accounting) Act 2017 (Commencement) (No. 2) Order 2017'. All requirements in relation to the small and micro companies regimes are available for early adoption in financial statements relating to financial years beginning on or after 1 January 2015 (although in practice most 2015 financial statements will already have been filed, but the regimes will be available for most 2016 year ends as those financial statements may not yet have been approved), and are effective for financial statements of financial years beginning on or after 1 January 2017. The miscellaneous amendments to adjust various other provisions of the Act of 2014 are effective from the date of commencement of the legislation, being 9 June 2017. The commencement of certain specific provisions (such as the requirement for certain designated unlimited companies to file financial statements) has been deferred (See Section 8 on page 18).

The main considerations for Audit Committees in respect of the changes are as follows:

1. Introduction of new micro and small companies regimes

The Act of 2017 increases the size thresholds for qualification as small and medium companies and introduces a new specific reporting regime for micro companies.

1.1 Micro companies

Section 15 of the Act of 2017 has introduced a simpler reporting regime for micro companies through the insertion of a new Chapter 1A into the Act of 2014, the amendment of various sections of the Act and the insertion of a new Schedule 3B, detailing the required accounting principles, form and content of financial statements of a company qualifying for the micro companies regime.

The micro companies regime is optional for eligible entities. A micro company may alternatively choose to

prepare its financial statements under a financial reporting regime applicable to larger sized entities.

Micro company qualifying conditions – size test
Subject to (i) the various criteria set out in the table below and (ii) the exclusions set out in the 'Specific exclusions from qualification as a micro company' section below, the micro companies regime is available to a private company (or holding company of a private group not preparing group financial statements) in relation to a financial year in which it fulfils two or more of the qualifying conditions set out in the table below, generally for at least two consecutive financial years:

	Qualifying condition
Turnover [(a)]	</= €700,000
Balance sheet total	</= €350,000
Average number of employees	</= 10

(a) The turnover criterion is adjusted proportionally if the financial year is less than or greater than 12 months.

Specific exclusions from qualification as a micro company
Despite meeting the size test criteria above, a 'micro company' must qualify for the small companies regime and therefore it cannot be an 'ineligible entity'.

'Ineligible entities' include undertakings that –

(a) have transferable securities admitted to trading on any EU regulated market;

(b) are credit institutions (see Section 1.2 below for change in definition);

(c) are insurance undertakings;

(d) are various other undertakings, most of which are regulated by the Central Bank of Ireland (as set out in Schedule 5 of the Act of 2014); and

(e) are other undertakings that are designated as public interest entities ('PIEs') either in Ireland or in another EU member State.

Also, investment undertakings, financial holding undertakings, holding companies that prepare group financial statements and subsidiary companies that are included in the group financial statements of a higher undertaking cannot qualify to be micro companies.

Main features of the micro companies regime

- The main features of the micro companies regime are:
- A simpler balance sheet and profit and loss account. There are two formats for the balance sheet and one format for the profit and loss account.
- A company that elects to adopt the micro companies regime is not required to prepare a directors' report, provided that information in relation to the acquisition or disposal of own shares by the company is provided elsewhere as a note.
- Limited notes to the financial statements are required under the micro companies regime; no requirement to disclose directors' remuneration.
- If a micro entity chooses to disclose additional information above and beyond those mandated, it should follow the disclosure requirements of the relevant accounting standard.
- The fair value accounting and alternative accounting rules cannot be applied in micro entity financial statements. This means that no revaluations or subsequent measurement at fair value is permitted under the micro companies regime.
- Micro company financial statements prepared in accordance with applicable accounting standards, the micro companies regime and other relevant provisions of the Act of 2017, are presumed by law to give a true and fair view.

1.2 Small companies / groups
Section 15 of the Act of 2017 has also introduced a simpler financial reporting regime for small companies through the insertion of that same Chapter 1A into the Act of 2014, the amendment of various sections of the Act and the insertion of new Schedules 3A and 4A specifically designed for small companies and groups.

Small company / group qualifying conditions – size test
Subject to (i) the various criteria set out in the table below and (ii) the exclusions set out in the 'Specific exclusions from qualification as a small company / group' section below, the small companies regime is available to a private company (or holding company of a private group) in relation to a financial year in which it fulfils two or more of the qualifying conditions set out in the table below, generally for at least two consecutive financial years:

	Qualifying condition – Individual company[(a)]	Qualifying condition – Group[(a)(d)]
Turnover[(b)(c)]	</= €12m	</= €12m net (€14.4m gross)(d)
Balance sheet total[(b)]	</= €6m	</= €6m net (€7.2m gross)[(d)]
Average number of employees[(b)]	</= 50	</= 50

(a) A holding company is small only if the group it heads up is a small group.

(b) Turnover, balance sheet total and the average number of employees are determined by aggregating the equivalent figures for each member of the group.

(c) The turnover criterion is adjusted proportionally if the financial year is less than or greater than 12 months.

(d) 'Net' means after set offs and other adjustments made to eliminate group transactions. 'Gross' means without those set-offs and other adjustments. The qualifying conditions must be met on either a net or a gross basis.

The previous thresholds for a small company under the Act of 2014 were €8.8m for turnover and €4.4m for balance sheet total, while the average number of employees was the same at 50.

Specific exclusions from qualification as a small company / group

Small individual company

Despite meeting the size test criteria in the table above, 'ineligible entities' (see definition in section 1.1) cannot be small companies.

The Act of 2017 amends the definition of a 'credit institution' to state that a credit institution means an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account. The Act of 2014 did not restrict the definition of a credit institution to taking deposits 'from the public' and therefore may have been interpreted too broadly such that a group company taking deposits from other group entities may have been considered a credit institution.

Small holding company

A holding company of a group cannot qualify as small if any member of the group is an 'ineligible entity'.

Main features of the small companies regime

The main features of the small companies regime are:

- Subject to the true and fair view, a limited number of notes to the financial statements are mandated in company law under the small companies regime, however, unlike the micro companies regime, directors' remuneration disclosures must be provided.
- A holding company that qualifies for the small companies regime is exempt from the requirement to prepare group financial statements.
- While a company that qualifies for the small companies regime is required to prepare a directors' report, it is exempt from the requirement to give a business review and to describe its use of financial instruments.
- The formats of the financial statements are the same as those required for larger companies. The formats may also be adapted in the same manner as for larger companies (for example, the balance sheet can be adapted to distinguish between current/non-current items as is currently required under EU IFRS).
- Small companies may still file abridged financial statements. However, the note disclosure requirements in respect of abridged financial statements have increased.

2. Impact on medium and large companies / groups

2.1 Medium companies / groups

The accounting principles, formats and disclosures required in the Companies Acts statutory financial statements of a medium or large company / group are outlined in Schedules 3 and 4 of the Act of 2014, inserted by Schedules 1 and 4 of the Act of 2017. There are also additional disclosures in the main body of the Act of 2014, some of which are also amended by the Act of 2017.

Medium individual company / medium holding company qualifying conditions – size test

Subject to (i) the various additional criteria set out below and (ii) the exclusions set out in the 'Specific exclusions from qualification as a medium individual company / group' section below, a private company (or holding company of a private group) can qualify as a medium company in relation to a financial year in which it fulfils two or more of the qualifying conditions set out in the table below, generally for at least two consecutive years:

	Qualifying condition – Individual company[a]	Qualifying condition – Group[a][d]
Turnover[b][c]	</= €12m	</= €12m net (€14.4m gross)(d)
Balance sheet total[b]	</= €6m	</= €6m net (€7.2m gross)[d]
Average number of employees[b]	</= 50	</= 50

(a) A holding company is medium only if the group it heads up is a medium group.

(b) Turnover, balance sheet total and the average number of employees are determined by aggregating the equivalent figures for each member of the group.

(c) The turnover criterion is adjusted proportionally if the financial year is less than or greater than 12 months.

(d) 'Net' means after set offs and other adjustments made to eliminate group transactions. 'Gross' means without those set-offs and other adjustments. The qualifying conditions must be met on either a net or a gross basis.

The previous thresholds for a medium company under the Act of 2014 were €20m for turnover and €10m for balance sheet total, while the average number of employees was the same at 250.

Specific exclusions from qualification as a medium individual company / group

Medium individual company

Despite meeting the size test criteria in the table above, 'ineligible entities' (see definition in section 1.1) cannot be medium companies. Also, a small company cannot be a medium company.

Medium holding company

A holding company of a group cannot qualify as medium if any member of the group is an 'ineligible entity'.

Principal impacts on the statutory financial statements of medium individual companies / medium holding companies

The principal impact of the changes on medium companies are:

- Due to the significant increase in the size thresholds to qualify as a medium company, the consolidation exemption on grounds of size is no longer available to them. Only a holding company of a small group qualifying for the new small companies regime may take this exemption. As the size thresholds for small groups have increased however, holding companies of certain medium groups (under the previous Act of 2014) will still qualify for the consolidation relief.

- Certain medium companies* must provide a Directors' Compliance Statement as part of their directors' report.

- A medium company must now give information in its directors' report on the use of financial instruments and provide an analysis of key performance indicators, both financial and non-financial, during the financial year (as provided for under Section 351 of the Act of 2014); the previous exemption has been repealed.

- The only disclosure exemption now available to a medium company is in respect of the disclosure of remuneration for audit, audit-related and non-audit work (as required by Section 322 of the Act of 2014).

- Abridgement of financial statements for filing purposes is no longer available to a medium company.

2.2 Large companies / groups

A company is considered to be a large company if it fails to qualify as a micro, small or medium company due to its size, but also due to it being an 'ineligible entity'.

3. General changes to accounting principles, formats and disclosure requirements

Some of the key changes to the accounting principles and disclosure requirements introduced by the Act of 2017 include:

- Appropriation of profit note required either at the foot of the profit and loss account, the face of the balance sheet or as a note to the financial statements.

- Where the useful life of goodwill acquired, development costs or other intangible assets cannot be reliably estimated, the period chosen must not exceed more than 10 years.

- No reversals of impairment adjustments on goodwill permitted.

- Equity accounting permitted in individual entity financial statements for participating interests in associates.

- Financial instruments may be accounted for at fair value to the extent they qualify for fair value accounting under current EU IFRS; previously the legislation referred to the relevant IFRS standard as endorsed in 2006.

- Directors' remuneration disclosures expanded to capture payments to third parties for services of directors.

- Requirement for disclosure of holdings of own shares or shares in holding undertakings expanded to capture where 'a person acting in their own name but on behalf of the company' holds shares or an interest in shares in the company or its holding and additional disclosures required for all holdings.

- Definition of subsidiary amended to state that in determining whether a company is a subsidiary of another company, any shares held or power exercisable by any person acting in that person's own name but on behalf of that other company, should be treated as being held or exercisable by that other company.

- Conditions for use of merger accounting have been revised to be based on the concept of common control transactions.

- Some terminology and other minor amendments within the formats.

4. Disclosure of payments to third parties for services as directors

The Act of 2017 introduces a new requirement under law to disclose the aggregate payments made to or receivable by third parties for making available the services of directors. This will be of relevance where companies outsource certain responsibilities of directors to a third party, as an example.

5. Obligation on Investment companies and Irish UCITS plc corporates to file financial statements

Investment companies falling under Part 24 of the Act of 2014 and Irish UCITS plc corporates will be required to file annually their statutory financial statements with the Companies Registration Office ('CRO').

6. Share for share acquisitions – Section 72 merger relief

Previously, an Irish company acquiring a non-Irish company through a share for share transaction was subject to Section 72 'merger relief' under the Companies Act 2014 which required it to not record any share premium on the transaction. The Act of 2017 extends this Section to now refer to the acquisition of 'body corporates' which means it covers the acquisition of companies established in any jurisdiction. Therefore, although the issuing company must be Irish to fall into scope of Section 72 'merger relief' in the first instance, the company it is acquiring on a share for share transaction basis, will no longer have to be an Irish entity.

* The requirement applies to all Public Limited Companies (PLC's) [i.e. including UCITS plc's but excluding Part 24 Investment Companies], Section 110 companies and certain private companies where their balance sheet total exceeds €12.5m and turnover exceeds €25m in respect of its financial year. However the requirement is not applicable to unlimited companies or external companies with Irish branches.

7. Group re-organisations

The legal ability to apply merger accounting has changed and now permits its use in the case of all 'common control' transactions. Previously, the legal ability to use merger accounting was restricted to essentially share for share transactions (i.e. the cash consideration had to be less than 10% of the nominal value of the shares issued). This will now permit merger accounting in cases where the consideration is cash or intercompany balances, provided the other criteria are met.

8. Obligation on Designated Unlimited Companies to file financial statements

In the Act of 2014 and prior legislation, certain corporate groups involving Irish unlimited companies and various limited and unlimited companies incorporated both inside and outside of the EU, were able to qualify for an exemption from filing their financial statements with the CRO.

The Act of 2017 changes the Act of 2014 to expand considerably the definition of 'designated ULCs' to include more Irish unlimited companies. The revision establishes filing obligations where there is a limited company anywhere in the overall group structure (whether as parent or subsidiary of the Irish unlimited company). Also, as a general principle, any Irish body corporate 'whose ultimate beneficial owners enjoy the protection of limited liability' will fall into scope for filing. Any ULC that is a credit institution or an insurance undertaking (or a holding company of a credit institution or insurance undertaking) will also fall into the designed ULC definition.

There is a narrow scope deferral available to certain companies in respect of the commencement of this provision to financial years commencing on or after 1 January 2022. The deferral only applies to an unlimited company where that company is the top company in the holding chain. It defers its obligation to file financial statements merely because it has one or more limited liability subsidiaries. If an unlimited company has a limited liability parent anywhere in the world it cannot benefit from the deferral and that unlimited company will have to file financial statements within the mandatory timeframe, being for financial years commencing on or after 1 January 2017.

9. Report on payments to Governments

Certain large and publicly listed entities are required to prepare and file a 'Report on payments to governments' if they are engaged in mining, oil and gas or primary logging activities. Irish registered companies falling into the obligation to report will be required annually to disclose the payments they make to governments on a country-by-country basis, in respect of the countries in which they undertake those activities. The report on payments to governments must be filed annually with the CRO. It can be filed separately or it may be included as part of the statutory financial statements.

10. Companies (Amendment) Act 2017 – US GAAP

The Act of 2014 permits Irish-incorporated holding companies whose securities are registered with the Securities and Exchange Commission and who have not previously filed non-US GAAP financial statements with the CRO, to prepare their consolidated financial statements under US GAAP. This currently applies to financial statements prepared for financial years ending not later than 31 December 2020.

The Companies (Amendment) Act 2017 extends the ability to use US GAAP for such companies up to 31 December 2030. This is subject to the same conditions as those previously existing under the Act of 2014, with an additional stipulation that the company must have been incorporated in the State prior to the commencement of the Companies (Amendment) Act 2017.

Appendix A

1.1 Micro companies

Section 15 of the Act of 2017 has introduced a simpler reporting regime for micro companies through the insertion of a new Chapter 1A into the Act of 2014, the amendment of various sections of the Act and the insertion of a new Schedule 3B, detailing the required accounting principles, form and content of financial statements of a company qualifying for the micro companies regime.

The micro companies' regime is optional for eligible entities. A micro company may alternatively choose to prepare its financial statements under a financial reporting regime applicable to larger sized entities.

Micro company qualifying conditions

Subject to (i) the various criteria set out in the table below and (ii) the exclusions set out in the 'Micro company specific exclusions' section below, the micro companies regime is available to a private company (or holding company of a private group not preparing group financial statements) in relation to a financial year in which it fulfils two or more of the qualifying conditions set out in the table below, generally for at least two consecutive financial years:

	Qualifying condition
Turnover [(a)]	</= €700,000
Balance sheet total	</= €350,000
Average number of employees(b)	</= 10

(a) The turnover criterion is adjusted proportionally if the financial year is less than or greater than 12 months.

Micro company specific exclusions

A 'micro entity' must qualify for the small companies' regime and therefore it cannot be an 'ineligible entity'.

'Ineligible entities' include undertakings that –

(a) have transferable securities admitted to trading on any EU regulated market;

(b) are credit institutions (see below);

(c) are insurance undertakings;

(d) are various other undertakings, most of which are regulated by the Central Bank of Ireland (as set out in Schedule 5 of the Act of 2014); and

(e) are other undertakings that are designated as public interest entities (PIEs) either in Ireland or in another EU member state.

Also, investment undertakings, financial holding undertakings, holding companies that prepare group financial statements and subsidiary companies that are included in the consolidated financial statements of a higher undertaking cannot qualify to be micro companies.

Micro company financial statements

The main features of the micro companies' regime are:

- A simpler balance sheet and profit and loss account. There are two formats for the balance sheet and one format for the profit and loss account.
- A company that elects to adopt the micro companies regime is not required to prepare a directors' report, provided that information in relation to the acquisition or disposal of own shares by the company is provided elsewhere as a note.
- Limited notes to the financial statements are required under the micro companies regime; no requirement to disclose directors' remuneration.
- If a micro entity chooses to disclose additional information above and beyond those mandated, it should follow the disclosure requirements of the relevant accounting standard.
- The fair value accounting and alternative accounting rules cannot be applied in micro entity financial statements. This means that no revaluations or subsequent measurement at fair value is permitted under the micro companies' regime.
- Micro company financial statements prepared in accordance with applicable accounting standards, the micro companies regime and other relevant provisions of the Act of 2017, are presumed by law to give a true and fair view.

1.2 Small companies / groups

Section 15 of the Act of 2017 has also introduced a simpler financial reporting regime for small companies through the insertion of that same Chapter 1A into the Act of 2014, the amendment of various sections of the Act and the insertion of new Schedules 3A and 4A specifically designed for small companies and groups.

Small company qualifying conditions
Subject to (i) the various criteria set out in the table below and (ii) the exclusions set out in the 'Small company specific exclusions' section below, the small companies regime is available to a private company (or holding company of a private group) in relation to a financial year in which it fulfils two or more of the qualifying conditions set out in the table below, generally for at least two consecutive financial years:

	Qualifying condition – Individual company(a)	Qualifying condition – Group(a)(d)
Turnover[(b)(c)]	</= €12m	</= €12m net (€14.4m gross)[(d)]
Balance sheet total[(b)]	</= €6m	</= €6m net (€7.2m gross)[(d)]
Average number of employees[(b)]	</= 50	</= 50

(a) A holding company is small only if the group it heads up is a small group.

(b) Turnover, balance sheet total and the average number of employees are determined by aggregating the equivalent figures for each member of the group.

(c) The turnover criterion is adjusted proportionally if the financial year is less than or greater than 12 months.

(d) 'Net' means after set offs and other adjustments made to eliminate group transactions. 'Gross' means without those set-offs and other adjustments. The qualifying conditions must be met on either a net or a gross basis.

The previous thresholds for a small company under the Act of 2014 were €8.8m for turnover and €4.4m for balance sheet total, while the average number of employees was the same at 50.

Small company specific exclusions
Small individual company
Despite meeting the size test criteria in the table above, 'ineligible entities' (see definition in section 1.1) cannot be small companies.

The Act of 2017 amends the definition of a 'credit institution' to state that a credit institution means an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account. The Act of 2014 did not restrict the definition of a credit institution to taking deposits 'from the public' and therefore may have been interpreted too broadly such that a group company taking deposits from other group entities may have been considered a credit institution.

Small holding company
A holding company of a group cannot qualify as small if any member of the group is an 'ineligible entity'.

Small company financial statements
The main features of the small companies' regime are:

- While a company that qualifies for the small companies' regime is required to prepare a directors' report, it is exempt from the requirement to give a business review and to describe its use of financial instruments.
- A holding company that qualifies for the small companies' regime is exempt from the requirement to prepare group financial statements.
- Subject to the true and fair view, a limited number of notes to the financial statements are mandated in company law under the small companies' regime, however, unlike the micro companies' regime, directors' remuneration disclosures must be provided.
- The formats of the financial statements are the same as those required for larger companies. The formats may also be adapted in the same manner as for larger companies (for example, the balance sheet can be adapted to distinguish between current/non-current items as is currently required under EU IFRS).
- Small companies may still file abridged financial statements. However, the note disclosure requirements in respect of abridged financial statements have increased.

The changing face of VAT compliance and VAT reporting

- Is your business ready?

Developments in technology impact every aspect of our daily lives from how we communicate with each other, how we travel, how we work, how we pay for goods and services. A natural consequence of this is that technology is and will continue to impact on how taxes are calculated, collected and reported to tax authorities.

In this article we will explore some of the current trends on how managing VAT compliance is being influenced from both a domestic and international perspective and how Tax Authorities are increasingly using technology to move from a "look back" approach to VAT compliance to "real time" reporting and review.

Some of the key questions that an audit committee member may consider raising with management include:

- How complex is VAT in the company and what are those complexities?
- Have we appropriately specialised resources for managing the VAT complexities in the company? Do we have specialist VAT professionals or is VAT under the remit of the finance function? Does the skill set cover both domestic and international knowledge, if relevant?
- What level of automation is involved in the calculation and reporting of VAT? Do our systems support Revenue's requests under their e-audit techniques? Do we understand those e-audit techniques, and do we perform readiness checks? Are the IT systems supported by in-house resources or outsourced providers, and what risks does this bring?
- Is there a cost and resource savings opportunity by automating or increasing automation in this area?
- What is the control environment specific to VAT? Does the company have an appropriate mixture of preventative and detective controls in the process, is the VAT control process appropriately documented?
- When was the last Revenue audit in VAT and what were the findings? Have there been any new lines of business or complex transactions since the last Revenue audit in VAT, and what impact if any have these had these on processes and controls?

At a basic level, VAT is a tax on the supply of goods and or services.

The theory is that VAT is a relatively simple and inexpensive tax to operate which is collected by businesses on behalf of the exchequer. VAT is calculated on the "value added" by a supplier at each stage of the production process requiring a supplier to account for VAT on its supplies but claim a credit for VAT suffered on business purchases.

The on the ground reality is very different. VAT is a real time operational tax which can permeate thorough all aspects of a company's sale and purchase activity. VAT can be a complex, costly and difficult tax to administer especially for large scale businesses with different product and service offerings or complex business models. The cost of making errors can be enormous due to the potential for system errors to be duplicated in a system on a transitional basis.

In some organisations VAT may be managed by specialist VAT professionals, but in many organisations management of VAT compliance is the preserve of the finance function. The layers of complexity increase for businesses for whom VAT represents an irrecoverable cost, for example, financial institutions such as banks, insurance companies and funds.

The real time, transactional and systematic nature of VAT makes it an ideal tax for automation in terms of tax calculation and reporting automation. Advances in technology have revolutionised how VAT is calculated and reported in many businesses with the advent of specific VAT modules in ERP systems which calculate and record VAT, and tax technology tools such as "tax engines" which can calculate and apply VAT to thousands of products types on both a domestic and global basis. Companies are also implementing software applications that can automate VAT reporting and detective controls that were historically completed using MS Excel and manual reviews of individual transactions.

These developments are welcome, bringing efficiencies, cost reductions and controls to VAT compliance and reducing the risk of human error. However, the output of these technology tools is only as good as the data input into the system in the first case and the controls around this.

The use of technology and advanced VAT reporting techniques is not confined to the tax payer.

Technology is also transforming the way tax authorities collect and enforce taxes generally. Historically tax payers submitted periodic VAT returns with summary information of the VAT due or recoverable on business transactions in the period covered by the returns. Tax authorities carried out infrequent and time-consuming paper-based audits to validate compliance.

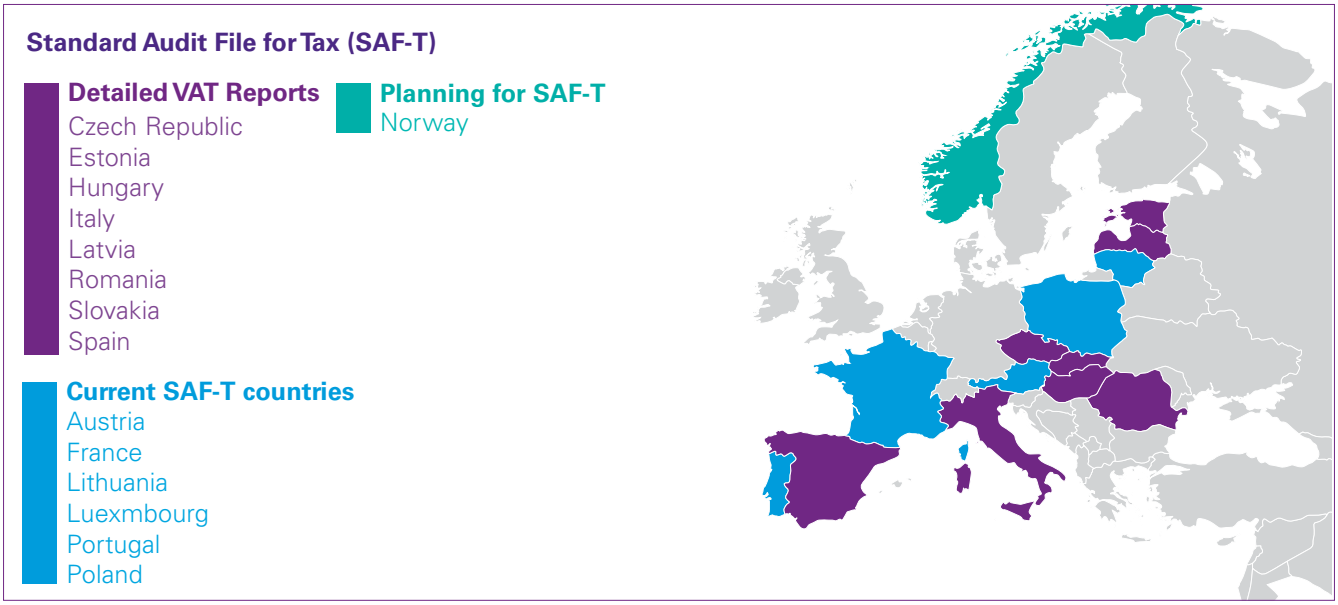
The world's tax authorities are now moving to real time VAT reporting to take advantage of new technologies and data analytic techniques to ensure compliance. This is presenting immediate challenges in managing tax relevant information flows. With expectations that periodic tax reporting will be replaced by real-time reporting over the next decade or so, businesses need better, more reliable processes for generating immediate tax information, and efficient data management is becoming even more complex.

As tax authorities adopt increasingly sophisticated data-driven techniques to assess risk and target audits, companies will be expected to provide digital tax filings and electronic data in an increasing number of tax jurisdictions, and in a range of differing, localised electronic formats.

International context

The standard audit file for tax (SAF-T) format has arisen from work completed by the OECD to facilitate and improve tax audits.

A number of European countries have already introduced the concept of a SAF-T whereby companies either submit large volumes of data to support VAT returns or maintain their records in a pre-prescribed format which forms the basis of an audit. This data may include invoicing, inventory, payments, customer and vendor records. Tax Authorities request these SAFT-T data files in order to re-compute tax liabilities based on the data provided and compare this with returns filed by the taxpayer.



A number of Latin American countries have mandated electronic invoicing, where invoices are pre-cleared by tax authorities in advance of sending to customers.

This trend of "real time" reporting is being initiated in Spain with the introduction of new requirements to support the Supply of Immediate Information "SII". With effect from 1 July, certain taxpayers will be required to electronically report sales and purchase invoices within four/eight days of issue and maintain their VAT books and records on the tax authority website.

Developments in Ireland

Ireland is not immune to these developments and advances in tax authority sophistication, technological capability and approach.

The standard Revenue VAT audit today will involve a combination of traditional Revenue audit approach and e-audit techniques providing the ability for Revenue to move from a sample testing to 100% completeness testing focusing on accuracy of VAT rates applied and VAT collected, validity of input VAT claimed and (especially for VAT exempt entities or those with only partial VAT recovery) correct payment of VAT on services or goods procured from non Irish established suppliers.

The use of e-audit techniques allow Revenue to test large amounts of data in hours that, in the past, could have taken days or even weeks.

The use of data analytics technology by Revenue in respect of selecting taxpayers to audit as well as carrying out the audit, is growing swiftly, and non e-audit compliance interventions are becoming the exception from the norm. According to the 2016 Irish Revenue Annual Report, over 44% of audits carried out by the Large Case Division last year were e-audits. Revenue are securing data related to taxpayers from an increasing number of third party sources, both domestic and international (including Tax Authority cross border sharing of information) and combining this with taxpayer data to form a view on a taxpayer's compliance position.

We see a prime example of this today where Revenue are commonly using data collected by Tax Authorities in other EU Member States from suppliers of cross border services or goods in their local Member States to verify that recipients in Ireland are correctly accounting for VAT on purchases of goods and services from these EU suppliers.

In the 2016 Irish Revenue Annual Report, Revenue noted the increased investment in e-Audits can be seen in the redesign of the existing PAYE and VAT Real Time Risk systems as well as the development of new analytics models which detect non-compliance by identifying customers with substantially lower reported incomes in comparison with peer groups. Revenue are also finalising plans for the PAYE modernisation which will include an element of real time reporting.

Revenue have commented in the past that it is reviewing developments in other jurisdictions and that these developments and best practices abroad will influence its approach to data analytics in the future. As these international developments will likely mean that more standardised data will be required by Revenue in order to assess a company's compliance, an expectation is established that

certain standardised information should be available from the taxpayer's IT system.

What is the most effective and efficient way of managing these additional compliance obligations?
VAT reporting is no longer the sole preserve of the tax or finance function. It now also requires support and involvement by the IT function and the wider business.

Meeting compliance obligations, being efficient and cost effective, working with the business, and communicating internally and externally on the group's tax relevant data are essential requirements for an effective VAT compliance tax process.

In our experience the challenges and the solutions can be grouped into the key elements of technology, compliance and governance.

Technology

- Identify and evaluate the "right fit" technology solutions to help enable you to meet your VAT compliance obligations.
- Ensure your existing finance and/or ERP systems are properly configured for VAT determination and reporting functionality across your business.
- If your business is considering updating or replacing your existing ERP system think carefully about how VAT is currently managed in the business and whether there is scope for greater automation. Involve your tax, finance and IT teams early in any discussion or planning on the matter.
- Deliver potential cost and resource savings by reducing the time spent on consolidating, analysing and reporting data through greater automation.

Compliance

- Assess your sourcing options to determine how you can manage your VAT compliance obligations in ways designed to be efficient and effective.
- Streamline, standardize and automate processes applying standardised processes designed to deliver increased efficiency, better management of risks and potential cost savings.
- Gain visibility and control of your local requirements, enabled by workflow tools and VAT process specialists, to aid risk management.

Governance

- Understand the impact of VAT in the business and VAT throughput.
- Implement processes and controls to manage your VAT risks and data.
- Create the right operating model for managing VAT, mapping out the people, processes and technology you need to efficiently deliver the agreed tax strategy.
- Implement a "top down" governance and control framework that defines which activities the finance and/or tax team are responsible for, and how to best partner with key stakeholders in the business that impact VAT compliance.

Conclusion

The advent of data and analytics is transforming the manner in which VAT policy, administration and compliance is viewed, planned and executed.

This gives rise to a new mindset and approach to managing VAT for businesses that operate on a domestic and especially a global scale. Given the rapid pace of change the challenge for businesses will be to prepare and be ready for this new world.

Article by

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Local regulatory update

Since the EU Audit Directive and Regulation was transposed into Irish Law via SI 312 of 2016 - European Union (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) no 537/2014) Regulation 2016, the Irish Auditing and Accounting Supervisory Authority (IAASA) as the responsible body for adopting the auditing framework in Ireland has made significant developments regarding audit regulation.

The Financial Reporting Council (FRC) in the UK continue to make substantial progress regarding implementation of EU legislation. In the Republic of Ireland, the Companies (Accounting) Act 2017 was transposed into Irish law and is effective from the 9th June 2017. The Central Bank of Ireland has been very busy during the period and there have been several developments in relation to financial services regulation. There is also currently two active Central Bank consultations.

IAASA developments

IAASA publishes its summary of financial reporting enforcement activities in 2016

On 10 January 2017, IAASA published a summary of its financial reporting enforcement activities undertaken during 2016. The focus is to examine annual and half-yearly financial statements of listed entities within IAASA's remit. IAASA focused on 45 companies, where 164 separate matters were raised within those companies. As a result of the examination, 19 companies have provided undertakings to improve their financial reporting in future years, while one company voluntarily re-filed its financial report after the IAASA examination.

Read the full report here: https://www.iaasa.ie/News/2017/Snapshot-of-IAASA's-financial-reporting-enforcemen

IAASA adopts the Auditing Framework for Ireland

On 31 January, IAASA adopted the Auditing Framework for statutory audits in Ireland. The Auditing Framework consists of Ethical Standard for Auditors (Ireland) 2016, International Standard on Quality Control (Ireland) 1 and International Standards on Auditing (Ireland). IAASA's Standards are mandatory for statutory audits of entities in the Republic of Ireland for financial periods beginning on or after 17 June 2016 for which audit reports are signed on or after 1 February 2017. The Auditing Framework for Ireland is based on the Financial Reporting Council's Auditing Framework for the UK

Read the full report here: http://www.iaasa.ie/News/2017/IAASA-adopts-the-Auditing-Framework-for-Ireland

IAASA publishes amendments to the Auditing Framework for Ireland

On 28 April 2017, IAASA published amendments to the Auditing Framework for Ireland. These changes were primarily correction of typographical errors or administrative corrections. However one substantial change which was introduced was the removal of the extra territorial application of the Ethical Standard to other network firms whose work is used in the conduct of the audit.

Read the full report here: http://www.iaasa.ie/News/2017/IAASA-publishes-amendments-to-the-Auditing-Framewo

Financial Reporting Council (FRC) developments

FRC published Audit Quality Thematic Review – the use of data analytics in the audit of financial statements

On 30 January 2017, the FRC published its Audit Quality Thematic Review – the use of data analytics in the audit of financial statements. The report outlines the various audit data analytics used by the 6 largest UK audit firms, along with the FRC's findings from the review and examples of good practices observed.

Read the full report here: https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Thematic-Review-The-Use-of-Data-Ana.pdf

FRC published Audit Tenders – Notes on best practice

On 7 February 2017, the FRC published its Audit Tenders – Notes on best practice. The report outlines how the audit tender process can be best supported by the Audit Committee in light of

recent developments in legislation, including requirements arising from the Statutory Audit Regulation and Directive, which came into effect on 17 June 2016.

Read the full report here: https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Tenders-notes-on-best-practice.pdf

FRC published its developments in audit February 2017 update
On 14 February 2017, the FRC published its developments in audit – February 2017 update. The report outlines developments in audit quality since its previous report (Developments in Audit 2015/16) issued in July 2016. The report provides an update on how the FRC, as the competent authority for audit in the UK are fulfilling their requirements and recommends various actions for audit committees, investors and audit firms.

Read the full report here: https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Developments-in-Audit-%E2%80%93-February-2017-update.pdf

Companies (Accounting) Act 2017

The Companies (Accounting) Act ("the Act") transposed the EU Accounting Directive 2013/EU/EU into Irish Law and commenced on the 9 June 2017 with the exception of section 80. Article 4 of the Commencement Order provides that certain aspects in respect of financial statements will apply to any financial year which commenced on or after 1 January 2017. The Act introduces a new category known as micro company and increase the threshold for small and medium companies. The Act also expands the definition of a designated ULC increasing the number of companies that will be required to file financial statements.

Read the full Act here: http://www.irishstatutebook.ie/eli/2017/act/9/enacted/en/pdf

Read the commencement order here: https://www.djei.ie/en/Legislation/Legislation-Files/SI-No-246-of-2017.pdf

Investment Management Regulation

MiFID II
MiFID II presents a major implementation challenge for firms as it is the most substantial overhaul of EU legislation in investment services in a decade. MiFID II takes effect on 3 January 2018, a year later than originally intended due its complexity and the Directive is on track to be transposed in Ireland by 3 July 2017. But with just 8 months to go to full implementation of the regime and with the vast majority of technical and implementing standards now agreed the focus is turning to how prepared industry is.

The Central Bank's expectation is that, at this stage, firms should have completed their gap analysis, have completed an impact assessment and should be well advanced in the development of policies and procedures to support compliance with MiFID II. In order to gauge the level of preparatory work undertaken, the Central Bank has issued firms with a questionnaire. The responses strongly indicate that many firms are still at the early stage of implementation.

Investment Firm Regulations
The Central Bank has used its powers to issue regulations in the form of the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Investment Firms) Regulations 2017 ("Investment Firm Regulations") which it published in March 2017. The new regulations replace and consolidate into one document all of the various conditions and requirements which the Central Bank had imposed on investment firms, certain investment business firms (excluding retail intermediaries) and fund administrators. These requirements have now been put on a statutory footing. They supplement existing legislative requirements, in particular the European Communities (Markets in Financial Instruments) Regulations 2007 and the Investment Intermediaries Act 1995.

The biggest impact of the new regulations is on fund administrators. The new requirements contain provisions on outsourcing and capital, and replace Chapter 5 of the AIF Rulebook.

There is a new requirement for fund administrators to submit an annual return template to the Central Bank concerning its outsourced activities. The Central Bank has issued new Guidance and a letter to industry containing recommendations on this topic.

Read the full guidance here: https://www.centralbank.ie/regulation/industry-market-sectors/funds-service-providers/fund-administrators/regulatory-requirements-and-guidance/fund-administrators

The capital rules for fund administrators aim to ensure that they are subject to capital requirements similar to those set out in the CRD framework. For example own funds are still the higher of €125,000 or the fund administrator's expenditure requirement but the method of calculation of the expenditure requirement, particularly around the treatment of fixed expenses, is more prescriptive. The Central Bank has put additional Guidance in place with regard to own funds and capital planning for fund administrators.

Read the full guidance here: https://www.centralbank.ie/regulation/industry-market-sectors/funds-service-providers/fund-administrators/regulatory-requirements-and-guidance/own-funds-risk-assessment-and-capital-planning-for-fund-administrators

Fund Management Company Effectiveness
The Central Bank issued final rules and guidance on fund management company effectiveness in December 2016. The new rules include a final determination on a controversial proposal on the location of directors and Designated Persons carrying out managerial functions. At least half of directors and Designated Persons need to be located in the EEA, as opposed to the original proposal of "at least two thirds".

The final rules and guidance amalgamates earlier guidance on delegate oversight, organisational effectiveness and directors' time commitments with the new guidance on the performance of managerial functions, various

operational issues and procedural matters and essentially takes effect from 1 July 2018.

Banking

eCB issues final guidance on non-performing loans

In mid-March, the ECB published its final guidance to banks on non-performing loans (NPLs). The final guidance has a broad scope. For example, the ECB clarified in the accompanying feedback statement, that even for a 'low NPL bank' the sections on NPL Strategy and Governance and Operations (and the respective annexes) can be applicable to certain parts of the business such as sectoral/regional portfolios. This dilutes the previous discretionary distinction between high (and low) NPL banks, by shifting the focus from bank-level towards portfolio-level application.

The ECB also clarified that not only NPLs but also foreclosed assets or watch lists could trigger banks being classified as a high NPL bank. Furthermore, the ECB clarified that all significant institutions are expected to implement effective early warning mechanism as suggested in the Guidance. In the final version of the guidance, the ECB clarified that an assessment of banks' NPL-management will be part of the annual SREP cycle, implying indirectly Pillar 2 requirements for non-compliance. Apart from that, the ECB also clarified that the NPL disclosure expectations described in the guidance should be implemented beginning with 2018 reference dates onwards.

Read the full guidance here: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf

Payment Services Directive 2 (PSD2)

PSD2 is the revised version of the Payment Services Directive and takes effect in January 2018. It takes technological advances in payment mechanisms into account and should create a level playing field in the payments sector in order to promote competition, efficiency and innovation.

Third party providers who provide the services of (remote) payment initiation (PISPs) and accessing account information (AISPs) will need to be regulated. PISPs help customers make direct credit transfers from their online payment account for online transactions, eliminating the need for cards. AISPs are account information aggregators, consolidating different current accounts for customers and providing other services for these accounts, for example financial management.

There will be enhanced requirements for security and authentication for payment transactions and increased transparency in respect of all applicable charges. Compliance with PSD 2 should better enable banks to provide higher quality and innovative payment services to their clients on the long term.

Insurance

Packaged Retail and Insurance-based Investment Products (PRIIPs)

The overall objective of the PRIIPs Regulation is to provide pre-contractual information to retail investors in a standard format. It follows on from the introduction of the KID ("Key Information Document") for retail investors under UCITS legislation. Under PRIIPs, the KID will need to be provided for nearly all retail, investment products, including retail AIFs, retail structured products and life assurance based investment products. Banks, insurance companies and fund managers are responsible for producing the KID with the distributor responsible for ensuring that clients receive the document.

Implementation of PRIIPs has been delayed by a year and it is now due to come into effect on 1 January 2018.

The KID comprises a three page A4 document which sets out key features of the product being sold in a consumer friendly, accessible way. It must include:

- a description of the risk-reward profile of the product using prescribed information, called the Summary Risk Indicator;
- Performance scenarios to cover favourable, moderate, unfavourable and stress scenarios to allow retail investors to form a view on potential future performance; and
- Detailed costs and charges disclosures.

Insurance Distribution Directive (IDD)

The IDD attempts to harmonise practices in relation to the distribution of insurance products across Europe. It replaces old regulations from 2005 and needs to be transposed by 23 February 2018, with existing firms not being required to comply until a year later.

It applies to all participants in the sale of insurance products, so it not only applies to (re)insurance intermediaries, but also to insurers and reinsurers themselves where they distribute insurance products and participants that distribute insurance products on an ancillary basis (such as travel agents and car rental companies) unless they fall within a limited exemption.

Many of the requirements of IDD are already in place in Ireland under the Consumer Protection Code. Firms will need to conduct a gap analysis to determine what needs to be done to meet the new standards.

Cross-sectoral

General Data Protection Regulation (GDPR)

GDPR provides for the harmonisation of data protection legislation across Europe. The general principles of data protection remain largely the same, but a new, far more prescriptive regime has been introduced, where, for example there is a huge focus on risk and accountability. GDPR comes into effect on 25 May 2018.

GDPR has a much broader reach than the existing legislation. Changes in terms of scope under GDPR include the following;

- It has extra-territorial effect and will apply to global companies, where they control or process EU citizen's data, as opposed to just EU establishments;
- It applies to both data controllers and processors. There are new direct obligations on data processors, rather than obligations imposed under the

contract with the controller and also a number of the new requirements will apply indirectly to data processors;

- There is a new definition of personal data, which extends to online identifiers such as IP addresses, so that, for example online advertising/marketing companies will be brought in scope;

- There is also an extension of the definition of sensitive data, which now includes genetic data and biometric data.

4th Anti Money Laundering Directive (4AMLD)
Another revision to the anti-money laundering framework is due to take effect in June 2017 with the enactment of 4AMLD. The same principles apply but are extended out and are more detailed than previously was the case.

A draft Bill has been issued in Ireland with the final Act due to be transposed by 26 June 2017. No accompanying guidance has been issued yet. The main changes include the following:

- Beneficial Ownership – Corporates and other legal entities, for example trusts, incorporated in Ireland must obtain and hold adequate, accurate and current information on their beneficial owners. This information will be held eventually on a national, central register.

- Business Risk Assessment – Obliged entities must not only assess the risks the AML/CTF presents but also must document their methodology and rationale for the decisions reached.

- Due Diligence – All transactions and clients require a degree of risk assessment to demonstrate that they present a lower risk and require sufficient on-going monitoring. The effect of this is that obliged entities must justify the use of Simplified Due Diligence which applies a lower level of diligence for certain standard transactions and certain clients, for example regulated entities. Also all due diligence documentation needs to be obtained before an account is open or business commences.

- Politically Exposed Persons (PEPS) – The definition of PEPS has expanded to include domestic individuals occupying prominent public positions. Enhanced customer due diligence will have to be carried out for these individuals.

- Threshold Levels – The threshold levels for conducting customer due diligence for one off transactions in cash will be reduced from €15,000 to €10,000.

Consumer Protection Risk Assessment Model (CPRA)
The Central Bank has announced the introduction a new CPRA Model for regulated firms. The CPRA Model sets out a new approach for supervisory assessments of regulated firms in relation to conduct and consumer protection risk management. This new approach follows a successful cross-sectoral pilot-testing exercise of the Model in a number of banks, insurance and investment firms in 2016.

The Central Bank has published a guide to the new CPRA Model, which outlines its approach to carrying out CPRAs. The guide also describes the Central Bank's expectations of regulated firms in implementing or enhancing their risk management frameworks for managing risks to consumers. In particular, the Central Bank expects:

- boards and senior management to prioritise their responsibilities in relation to the governance and management of Consumer Protection Risks; and

- firms to implement Consumer Protection Risk management frameworks that are proportionate to the nature, scale and complexity of the firm and the risks they are designed to manage.

The Central Bank intends to use the Model throughout 2017 in a series of targeted assessment across retail sectors. These assessments will have a particular focus on culture, performance management, sales incentives and product governance.

Active Central Bank consultations

There are currently two active Central Bank consultations.

Date	Title	Closing Date	CP Number	Status
11/05/2017	CP109 Consultation on Potential Changes to the Investment Framework for Credit Unions	28/06/2017	CP109	Active
23/06/2017	CP110 Consultation on the Implementation of Competent Authority Options and Discretions in the European Union (Capital Requirements) Regulations 2014 and Regulation (EU) No 575/2013	04/08/2017	CP110	Active

The list of closed Central Bank consultations can be accessed:
www.centralbank.ie/regulation/poldocs/consultation-papers/Pages/closed.aspx

Financial reporting update

This section provides an overview of the key developments in accounting standards since our last edition.

Overview
Since our last edition of ACQ in October 2016, there have been limited amendments to local GAAP (FRS 101 Reduced Disclosure Framework, FRS 102 The financial reporting standard applicable in the UK and Republic of Ireland and FRS 103 Insurance contracts) and to IFRS.

The Companies (Accounting) Act 2017 was signed into Irish law on 17 May 2017. Its primary aim is to reduce the administrative burdens of small and medium enterprises and enable easier comparison between company accounts across the EU. It will also expand the range of corporate structures which are required to file financial statements, with significant effects for non-filing unlimited companies in the future. Audit Committees are encourage to consider the impact that the Companies (Accounting) Act 2017, details of which are outlined on page 13 of this publication.

The amendments to FRS 101 and FRS 102 remove the requirement to notify shareholders of qualifying entities that the entity intends to take advantage of the disclosure exemptions in FRS 101 and FRS 102. The FRC has ongoing projects to improve the effectiveness of FRS 102 through its triennial reviews. The FRC also issued a revised edition of FRS 103 in February 2017 to incorporate amendments arising as a result of Solvency II into FRS 103.

The amendments to IFRS that occurred since October 2016 are limited in nature and again give companies the opportunity to prepare for the forthcoming IFRS 9, IFRS 15 and IFRS 16. Audit Committees are encouraged to ensure that appropriate consideration is being given to the potential impact of these standards in advance of their mandatory effective date.

The Companies (Accounting) Act 2017 was signed into Irish law on 17 May 2017. The main purpose of the Act was to transpose EU Directive 2013/34/ EU into Irish Law.

The main elements to the Act from a financial reporting view are as follows:

- The financial criteria for businesses to qualify as "small" or "medium" have been increased so that more businesses will qualify for each of these regimes.

- The changes in thresholds above are being accompanied by changes to the filing regime for financial statements. The changes reduce the filing requirements for smaller businesses while increasing the requirements for medium and large companies.

- Introduction of a new class of "Ineligible entities" consisting of companies carrying out particular activities, which will be excluded from taking advantage of the audit exemption. Credit institutions, investment companies, insurance undertakings and public interests entities are included in this class. Any ineligible entities or large companies engaging in the mining, quarrying and logging industries are required to file annual reports on any payments made to governments.

- The most topical element of the Act relates to the provision requiring ulimited holding companies (ULCs) of limited undertakings to file financial statements which would render ineffective many "non filing ULC" structures. There is a narrow scope deferral available to ULCs where the ULC is the top company in the chain such that its obligation to file financial statements will commence on or after 1 January 2022. However if there is a limited parent company above the ULC, it will not be able to benefit from the deferral and it will be mandatory to file for financial years commencing on or after 1 January 2017.n

There is more detail provided on each of the provisions above and the Companies Accounting Act 2017 on pages 13 to 20 of this publication.

Audit Committees are encouraged to read pages 13 to 20 to understand the impacts that Companies Accounting Act will have.

FRC Accounting standards – FRS 101, FRS 102 & FRS 103
Amendments to FRS 101 and FRS 102 – Notification of shareholders
In December 2016, the FRC issued amendments to FRS 101 and FRS 102 Notification of shareholders. The amendments remove the requirement for a qualifying entity to notify its shareholders in writing that it intends to take advantage of the disclosure exemptions in FRS 101 and FRS 102.

The amendment applies to qualifying entities for accounting periods beginning on or after 1 January 2016.

For further information, please access the following link on the FRC website:

https://frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Amendments-to-FRS-101-Reduced-Disclosure-Frame-(2).pdf

FRS 103 Insurance Contracts
In February 2017, the FRC issued FRS 103 Insurance Contacts - Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts. The FRC issued a revised edition of FRS 103 to incorporate the amendments arising as a result of Solvency II that were issued in May 2016.

For further information, please access the following link on the FRC website:

https://frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Amendments-to-FRS-103-Insurance-Contracts-Solve.aspx

Ongoing FRC Projects
The FRC has a number of ongoing projects in respect of new UK and Irish GAAP which are set out below.

Project	Status
FRED 67 Draft amendments to FRS 102 Triennial review 2017 – Incremental improvements and clarifications (issued by the FRC on 23 March 2017).	FRED 67 proposes incremental improvements and clarifications to FRS 102, and consequential amendments to other UK and Ireland accounting standards (FRS 105 The Financial Reporting standard applicable to the Micro-entities Regime). The principal areas where changes are proposed are: (i) Directors' loans – small entities will no longer need to estimate a market rate of interest when measuring loans from a director who is also a shareholder (in May 2017, the FRC made this aspect of FRED 67 effective immediately for small entities with retrospective application available); (ii) Intangible assets acquired in a business combination – fewer intangible assets will be required to be separately identified from goodwill and valued. (iii) Investment property rented to another group entity – entities will now be able to choose to measure investment properties at cost less depreciation and impairment instead of fair value. (iv) Classification of financial instruments – additional financial instruments will be considered "basic" (and therefore measured on a cost rather than fair value basis). (v) Definition of a financial institution – the definition of financial institutions is proposed to be amended so that fewer entities should qualify to be financial institutions. The proposed effective date for these amendments is accounting periods beginning on or after 1 January 2019 with early application permitted provided all amendments are applied at the same time.
FRED 66 Draft amendments to FRS 101 – 2016/ 2017 cycle (issued on 13 December 2016).	FRED 66 proposes limited amendments to FRS 101 in relation to IFRS 16 Leases. Specifically, FRED 66 proposes to insert an additional requirement to prohibit qualifying entities that are lessees from taking an exemption from disclosing a maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7 Financial Instruments – Disclosures separately from the maturity analysis of other financial liabilities. Currently FRS 101 provides a general exemption from IFRS 7 as long as equivalent disclosures are included in the consolidated financial statements of the group. Therefore this amendment will require that the disclosures required by the specified IFRS 7 paragraphs above are provided by lessees. Lessors are required to continue to provide the maturity analysis. The FRC believes that the maturity analysis provides useful information of the financial position of a qualifying entity. The proposed amendments are expected to apply from when an entity applying FRS 101 first applies IFRS 16.

Project	Status
Implementation issues (ongoing)	Understand risk management approach and linkage to enterprise risk Review and approve risk tolerance Understand third-party supplier program Review and question program metrics

Further detail on the ongoing projects being undertaken by the FRC can be accessed at the following address: https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/The-future-of-UK-GAAP/On-going-Projects.aspx

IASB activity

Are you ready for the new standards? IFRS 9, IFRS 15 & IFRS 16

IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments are both effective for accounting periods beginning on or after 1 January 2018 for both IASB IFRS and EU IFRS. IFRS 16 Leases is effective for accounting periods beginning on or after 1 January 2019 for IASB IFRS, it is still subject to endorsement under EU IFRS.

Those standards may have significant impact on clients in certain industries and it is important that the potential impact is being considered in advance of their effective date.

KPMG has issued publications providing guidance on the potential impacts of those standards which includes analysis of the potential impact on different industries which is available at the following link: kpmg.ie/ifrs

As summarised in the article earlier in this edition, KPMG has issued a 10 question guide to help audit committees focus their discussions with management of corporates on implementation of the above standards.

New IFRS standards and amendments

The following new IFRS standards and amendments were published by the IASB since our last update:

Standard or amendment	Issued date	Effective date
IFRS 17 Insurance Contracts	May 2017	1 January 2021
Annual improvements 2014-2016 Cycle	December 2016	1 January 2018*
IFRIC Interpretation 22 Foreign currency transactions and advance consideration	December 2016	1 January 2018
Amendments to IAS 40 – Transfers of investment property	December 2016	1 January 2018

*Please note that these amendments have not yet been endorsed for use by IFRS as adopted by the EU.

IFRS 17 Insurance Contracts

- KPMG IFRS Insurance site – provides an overview of the new insurance standard IFRS 17 Insurance Contracts which was issued in May 2017.

https://home.kpmg.com/xx/en/home/insights/2017/05/insurance-contracts-new-standard-first-impressions-ifrs17-ifrs4-180517.html

- IASB press release and related publications on IFRS 17 is available at the following link:

http://archive.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Pages/Insurance-Contracts.aspx

Annual Improvements 2014 – 2016 Cycle

The IASB has released a press release and further guidance on the Annual improvements 2014 to 2016 Cycle which is available at the following link:

http://archive.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Pages/Annual-Improvements-2014-landing.aspx

Foreign currency transactions and advance consideration (IFRIC interpretation 22)

The IASB has released a press release and further guidance on IFRIC Interpretation 22 – Foreign currency transactions and advance consideration which is available at the following link:

http://archive.ifrs.org/Current-Projects/IASB-Projects/date-of-transaction-identifying-applicable-exchange-rate-revenue-recognition/Pages/default.aspx

Amendments to IAS 40 – Transfers of investment property

The IASB has released a press release and related guidance on the amendments to IAS 40 which provides clarification on transfers to, or from, investment properties which is available at the following link:

http://archive.ifrs.org/Current-Projects/IASB-Projects/Investment-Property-under-construct-invetory-investment-change-in-use/Pages/home.aspx

Forthcoming IFRSs, narrow scope amendments and IFRIC Interpretations

The following IFRSs and narrow scope amendments to IFRSs are expected to be released as follows:

IFRSs and narrow scope amendments	Within 3 months	After 6 months
Insurance contracts	✓	
Uncertainty over Income tax treatments (IFRIC interpretation)	✓	
Proposed amendments to IAS 1 Classification of liabilities		✓
Amendments to IAS 19 and IFRIC 14 Plan amendment, curtailment or settlement/ availability of a refund		✓
Conceptual Framework		✓

For further information, please see the following publications:

- IASB press release and related publications on the IFRIC Interpretation on uncertainty over income tax treatments are available at the following link:

  http://archive.ifrs.org/Current-Projects/IASB-Projects/IAS-12-Measurement-income-tax-uncertain-tax-position/Pages/Home.aspx

- IASB press release and related publications on the proposed amendments to IAS 1 for the classification of liabilities is available at the following link:

  http://archive.ifrs.org/Current-Projects/IASB-Projects/IAS-1-classification-liabilities/Pages/IAS-1-classification-liabilities.aspx

- IASB press release and related publications on the amendments to IAS 19 and IFRIC 14 is available at the following link:

  http://archive.ifrs.org/Current-Projects/IASB-Projects/Remeasurement-on-a-Plan-Amendment-Curtailment-or-Settlement-Availability-of-a-Refund-from-a-Defined-Benefit-Plan/Pages/default.aspx

- IASB press release and related publications on the conceptual framework are available at the following link:

  http://www.ifrs.org/projects/work-plan/conceptual-framework/

IASB exposure drafts

The following exposure drafts were published by the IASB during the period since our last edition:

- Exposure Draft: Improvements to IFRS8 Operating Segments (proposed amendments to IFRS 8 and IAS 34). The proposed amendments include amendments:

(i) To clarify and emphasise the criteria that must be met before two operating segments may be aggregated;

(ii) To require companies to disclose the title and role of the person or group that performs the function of the chief operating decision maker; and

(iii) To require companies to provide information in the notes to the financial statements if segments in the financial statements differ from segments reported elsewhere in the annual report and in accompanying materials.

The exposure draft includes a proposal to amend IAS 34 Interim Financial Reporting to require companies that change the composition of its reportable segments in the first interim financial report after that change, restate and disclose the segment information required by IFRS 34 paragraph 16 (g) for each previously reported interim period both of the current financial year and of prior financial year unless the information is not available and the cost to develop it would be excessive. The entity will disclose whether it has restated the segment information for earlier periods.

IASB press release and further guidance regarding the proposed amendments to IFRS 8 and IAS 34 is available at the following link:

http://www.ifrs.org/projects/work-plan/improvements-to-ifrs-8-operating-segments/

- Exposure Draft: Prepayment features with negative compensation (proposed amendments to IFRS 9).

  Under current IFRS 9, if a financial asset includes a contractual feature that allows a borrower to prepay at less than the unpaid balance of principal and interest, then it has to be measured at fair value through profit or loss. The proposed amendment would allow measurement at amortised cost or at fair value through other comprehensive income if certain conditions are met. To be eligible for the exception, the fair value of the prepayment feature would have to be insignificant on initial recognition of the asset.

  The proposed amendment would be effective for annual periods beginning on or after 1 January 2018 – the effective date of IFRS 9 – and retrospective application would be required.

  KPMG has issued guidance on the exposure draft regarding the proposed amendments to IFRS 9 available at the following link:

  https://home.kpmg.com/xx/en/home/insights/2017/04/financial-instruments-prepayment-option-feature-negative-compensation-ifrs9-210417.html

  IASB press release and further guidance regarding the proposed amendments to FRS 9 is available at the following link:

  http://archive.ifrs.org/Current-Projects/IASB-Projects/Symmetric%20Prepayment%20Options/Pages/default.aspx

- Exposure Draft: Annual Improvements to IFRS Standards 2015 – 2017 Cycle.

  The exposure draft includes proposed amendments to three IFRSs as a result of the IASB's annual improvements project. The amendments that have been proposed are as follows:

  (i) Amendments to IAS 12 Income Taxes - to clarify that the requirements for recognition of income tax consequences of dividends where the transactions or events that generated distributable profits are recognized apply to all income tax consequences of dividends.

  (ii) Amendments to IAS 23 Borrowing Costs – to clarify that when an asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that asset as part of the funds that it has borrowed generally.

  (iii) Amendments to IAS 28 Investments in Associates and Joint Ventures - to clarify that an entity should apply IFRS 9 Financial Instruments to long term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture but to which the equity method is not applied.

  It is proposed that the amendments to IAS 28 should be effective for annual periods beginning on or after 1 January 2018 to align their effective date with the effective date of IFRS 9. There are currently no proposed effective dates for the proposed amendments to IAS 12 and IAS 23.

  IASB press release and further guidance regarding the proposed amendments arising from the Annual Improvements 2015 -2017 Cycle is available at the following link:

  http://archive.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Pages/Annual-Improvements-2015-2017-landing.aspx

Further exposure drafts expected are as follows:

Exposure draft	2017 Q3
Accounting policies and accounting estimates (proposed amendments to IAS 8)	✓
Property, plant and equipment: proceeds before intended use (proposed amendments to IAS 16)	✓
Disclosure initiative: definition of materiality	✓

Further information on these projects is available on the IASB website at:
http://www.ifrs.org/projects/work-plan/

Newly-effective IFRSs

IFRSs as adopted by the EU for 30 June 2017 year-end financial statements

For those companies which are preparing their financial statements for the year ended 30 June 2017 i.e. annual periods beginning on or after 1 July 2016, the following will apply for the first time in their financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the consolidation exception
- Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations;
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation;
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Bearer Plants;
- Amendments to IAS 27 Equity method in Separate Financial Statements;
- Amendments to IAS 1: Disclosure Initiative; and
- Annual Improvements to IFRSs 2012-2014 Cycle.

Please note that the same amendments apply to 30 September 2017 year- end financial statements.

IFRSs as adopted by the EU for 30 June 2017 interim financial statements

For those companies which are preparing their interim financial statements for the 6 month period ended 30 June 2017 i.e. annual periods beginning on or after 1 January 2017, there are no new standards or amendments effective.

IASB IFRSs

Newly effective IASB IFRSs for 30 June 2017 year- end financial statements

For those companies which are preparing their year- end financial statements for the year ended 30 June 2017 i.e. annual periods beginning on or after 1 July 2016 under IASB IFRS, the following will apply for the first time in their year-end financial statements:

- Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations;
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation;
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Bearer Plants;
- Amendments to IAS 27 Equity method in Separate Financial Statements;
- Amendments to IAS 1: Disclosure Initiative;
- Annual Improvements to IFRSs 2012-2014 Cycle;
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities - Applying the consolidation exception; and
- IFRS 14 Regulatory Deferral Accounts.

The same amendments apply to 30 September 2017 year- end financial statements.

IASB IFRSs for 30 June 2017 interim financial statements

For those companies which are preparing their interim financial statements for the 6 month period ended 30 June 2017 i.e. annual periods beginning on or after 1 January 2017, the following will apply for the first time in their interim financial statements:

- IFRS 14 Regulatory Deferral Accounts;
- Amendments to IAS 7: Disclosure Initiative;
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses and
- Annual Improvements to IFRS 2014 -2016 Cycle.

A KPMG publication providing an overview of newly-effective IASB IFRSs, which is updated on a quarterly basis, is available at the following link:

https://home.kpmg.com/xx/en/home/insights/2015/07/new-standards-are-you-ready-ifrs.html

Events & Publications

Throughout the year the Audit Committee Institute hosts a number of informative seminars and training sessions.

Upcoming event(s)
Check out the Audit Committee Institute events page at www.kpmg.ie/aci/events, and the KPMG events page at www.kpmg.ie/events to book onto relevant events.

Audit Committee Handbook
The Audit Committee Institute has published a new Global ACI Audit Committee Handbook.

This Audit Committee Handbook integrates all insights and leading practices that ACI gathered over the last decade. The handbook articulates the principles underlying the audit committee's role and provides a vast amount of non-prescriptive guidance to help audit committees and boards gain a better understanding of the processes and practices that help build and sustain effective audit committees. The handbook is supplemented with a complete set of ready-to-use appendices that are intended to provide practical support to audit committees.

A selection of what the book can offer is as follows:

- ACI guiding principles for audit committees reflecting the committee's ever-increasing workload
- Step-by-step guide on how to approach an audit tender process
- Complete set of audit committee fundamentals, leading practices and ready-to-use tools
- Best practice guidance on audit committee member induction
- Extensive guidance to assist audit committee chairs in their important role
- Risk oversight essentials in the digitalized world

The guide is available for download at: https://home.kpmg.com/ie/en/home/services/audit/audit-committee-institute/handbook.html

New standards - Setting the tone at the top - March 2017 at: https://home.kpmg.com/xx/en/home/insights/2017/03/ifrs-blog-audit-oversight-globalisation-ifrs15-ifrs9-ifrs16-ifrs4-220217.html

Global Boardroom Insights - Driving corporate culture from the top - February 2017 at: https://home.kpmg.com/content/dam/kpmg/ie/pdf/2017/03/ie-driving-corporate-culture-from-top-audit-committee-institute-global-boardroom-insights-9.pdf

2017 Global Audit Committee Pulse Survey - January 2017 at: https://home.kpmg.com/content/dam/kpmg/ie/pdf/2016/12/global-audit-committee-pulse-survey-global-interactive-web.pdf

Presenting performance: The journey to greater clarity - December 2016 at: https://home.kpmg.com/uk/en/home/insights/2016/12/presenting-performance-the-journey-to-greater-clarity.html

Let us know what you think

We are always grateful for feedback regarding topics for breakfast seminars, roundtables and *Quarterly*.

Let us know what you would like covered by phoning us at +353 (1) 410 1160 or e-mailing us at aci@kpmg.ie.

Training certificate

If you wish to receive a training certificate in relation to attendance at the ACI events, please e-mail us at aci@kpmg.ie or phone us at +353 (1) 410 1160.

ACI International

The Audit Committee Institute, sponsored by KPMG, is an international initiative with thousands of members sharing resources across borders. A list of affiliated sites is available at home.kpmg.com/ie/en/home/services/audit/audit-committee-institute/aci-international-sites.html.

Many members of ACI in Ireland are board members of international companies, or often spent a significant amount of time in other jurisdictions. Please feel free to follow the links of our affiliated members in order to register for publications from or events in their countries.

For ease of reference registration for ACI UK can be achieved by emailing auditcommittee@kpmg.co.uk. Registration for ACI US can be achieved by following the instructions at www.kpmg-institutes.com/content/kpmg-event-management/registration.html.

Contact us

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