Report Back on Proactive Monitoring of Financial Statements in 2012

Date of issue: 19 February 2013

JOHANNESBURG STOCK EXCHANGE

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INTRODUCTION

During the first quarter of 2011 the Johannesburg Stock Exchange **(“JSE”)** commenced a process of reviewing Annual Financial Statements (**“AFS”**) for compliance with International Financial Reporting Standards (**“IFRS”**). The integrity of financial information is a critical element of a well functioning market. The objective of the review process is therefore to contribute towards the production of quality financial reporting of entities listed on the JSE.

This report provides an overview of the proactive monitoring activities undertaken by the JSE during 2012.

This report is intended to be of interest to all market participants, including Issuers, investors, auditors, other regulators and the general public. It sets out the important points which came to our attention during the year with a view to assisting listed entities (**“Issuers”**). By presenting the points in an uncomplicated manner we also hope that this will help demystify IFRS for the public.

We continued to seek a pragmatic approach to our review process. This requires a fine balance between not getting bogged down in trivial matters but also not overlooking something that, once unravelled, could materially alter the users understanding of the financial position of Issuer.

We were once again pleased with the positive approach adopted by the majority of the Issuers who have been subject to our review process. We encourage Issuers to provide detailed, considered IFRS arguments, in their responses to us. Such an approach aids with the speedy resolution of matters.

REVIEW PROCESS

Selection process

We have stated that we intend to review every Issuer's AFS at least once within a 5 year cycle and therefore our selection process was largely random. However, we aimed to ensure we had a view of the entire market. Our selection process therefore was directed to proportional representation across all sectors and all markets. In this regard we also ensured that we covered Issuers of all sizes from the Top 40 to those with a very small market capitalisation.

Risk based approach

The review process is not a detailed review of the AFS for compliance with every paragraph of IFRS. Detailed IFRS disclosure checklists are often standard armoury for an Issuer and their auditor and we do not intend to replicate this process. Instead we follow a risk-based approach. Risk areas will change from year to year and from entity to entity and could include:

(i) Consideration of a specific accounting standard where, at a point in time, we have concerns with regards to the level of compliance;

(ii) Consideration of issues driven by the business environment ; and/or

(iii) Matters that are peculiar to the specific circumstances of an entity in that specific year.

At all times our focus is on aspects that are potentially price sensitive or could impact investors understanding of the business.

Collaboration with the University of Johannesburg ("UJ")

A crucial part of this proactive monitoring process is the partnership that the JSE entered into with UJ. Whilst the initial review is based on the predetermined risk areas it is imperative to ensure that the reviewers have comprehensive IFRS knowledge. It is not just a case of ensuring compliance with a specific IFRS disclosure paragraph. Rather the reviewer needs to have a full understanding of all aspects of IFRS in order to understand the potential implications and impact on the AFS of a particular matter and as well as assessing the potential non-compliance within the objective of financial reporting . Each AFS has at least two reviewers working on it, with the final sign off being done by a senior member of the UJ academic staff. The volume of Issuers covered in a year means a large number of skilled

staff is required to do the initial reviews. Through the partnership with UJ, the JSE effectively had access to 22 addition qualified personnel.

The following process is followed:

- The selected AFS are sent to the staff of UJ for the initial review;
- A detailed report is prepared for each set of AFS; and
- The handing over of the report marks the end of the involvement in the case by the UJ staff.

Communication with Issuers

The detailed UJ report forms the basis of a potential enquiry by the JSE. JSE staff members then engage with the Issuer and consider and debate the responses.

Aiming to be pragmatic, we have addressed our communication to Issuers in two separate sections. The first sets out matters of a potentially immaterial nature which could assist an Issuer in improving the quality of their financial reporting. The JSE did not require any further action or ask for any response on these matters but simply encouraged Issuers to take account of them with their next results. The second and more important section contains matters that could be price sensitive and therefore required further clarity. In our letter we note that some of these matters could be easily resolved if satisfactory responses are provided in the communication.

Collaboration with The South African Institute of Chartered Accountants ("SAICA")

In 2002 the JSE and SAICA formed the GAAP Monitoring Panel (**"GMP"**), an advisory body of accounting experts to assist the JSE to enforce compliance with IFRS. With the launch of the proactive monitoring process the GMP was renamed the Financial Reporting Investigation Panel (**"FRIP"**). The role of the FRIP under the new process continued as it did in the past. More specifically, the FRIP provides advice to the JSE on cases of possible non-compliance with financial reporting requirements.

The intention of the review process is that only certain cases may be referred to the FRIP. These would be cases where the JSE needed detailed technical advice, for example:

(i) Complex and technical matters; or

(ii) Where there is disagreement between the JSE and an Issuer on a specific matter.

Once referred to the FRIP, a case follows the FRIP process as set out in the FRIP Charter (a copy of which is available on the SAICA website). In summary, each case is considered by a review panel of 5 members selected from the 16 FRIP members (the list of names is also available on the SAICA website). Where a restatement is brought about after a FRIP investigation, reference is normally made in the restatement announcement to the FRIP.

AFS covered

The timing of reviews is impacted by two factors. Firstly, Issuers have 6 months after their year-end within which to distribute their AFS. Secondly, engagement with Issuers only commences once the initial review is performed by UJ and the detailed findings report is delivered to the JSE. Therefore, ignoring cases brought forward from the previous year, our reviews during the 2012 calendar year covered AFS for the years ending between 28 February 2011 and 31 March 2012.

RESULTS

Statistics –what we did

From January to December 2012, 82 AFS were proactively reviewed. The increased number compared to 2011 is reflective of the fact that 2011 was our first year of reviews, and we only commenced the process in April 2011. We wrote query letters to 70 of the Issuers, of which 3 (2011-2) resulted in a further referral to the FRIP for advice. By January 2013, 15 of the 70 cases of enquiry were still pending finalisation.

	2012	2011
Letters of query	70	40
Cases closed immediately	12	16
Number of AFS reviewed	**82**	**56**
Cases b/f from previous year	11	
Total cases reviewed during period	*93*	*56*
Cases still pending	(15)	(11)
Cases completed during period	78	45

Twelve cases were closed either with no comments or with a letter of potential areas of improvement being sent to the Issuer. The reduced number of cases that could be closed immediately was a reflection in the change of the nature of our queries as we strived to focus on asking probing questions.

Whilst our objective is to cover every Issuer at least once within a 5 year cycle, we have indicated that we may select Issuers more than once. To date therefore we have reviewed the AFS of 134 Issuers, with 4 repeat reviews.

Statistics – what we found

Seven cases resulted in restatements of the AFS and public announcements. In consultation with the Issuers, these restatements were made as soon as possible. For a further 2 cases the misstatement was such that we agreed with the Issuer that it could be corrected within the next published results. For a further 10 cases, whilst fortuitously there was no material misstatement, adjustments needed to be made in future to avoid potential investor prejudice. The remaining 28 cases revolved around the smaller disclosure issues that will be clarified or corrected in the future by the Issuer.

	2012	2011
AFS needed restatement and public announcement made	7	2
Non compliance such that we agreed to a correction within the next published results	2	2
Non compliance not material this year, but must be corrected in the next results in order to avoid potential investor prejudice	10	10
Subtotal of forced corrections	**19**	**14**
Smaller disclosure issues that will be corrected in the future	28	15
Subtotal of cases with corrections	**47**	**29**
Other AFS in respect of which no issues were identified, or only potential areas of improvement were identified	31	16
Total cases closed	**78**	**45**

Whilst the number of cases with material infringements increased in 2012 this was in part due to the increased number of cases that were closed during the period. Furthermore, 4 of these cases were included in those brought forward from 2011. Nevertheless in 2012, 9% of the closed cases identified material infringements compared to 4.4% in the previous year.

The number of cases where corrections were required in future reporting periods however decreased to15.4% (2011-26.7%) bringing the total number of forced corrections down to 24.4% (2011-31.1%) of the closed cases.

In assessing the potential impact of the matter, consideration was given to the number of different issues as well as whether the impact was an IFRS disclosure matter and/or affected the measurement of items within the AFS. For the current period 68% (2011- 66%) of the 47 cases that needed correction dealt with IFRS disclosures matters, with the remaining 32% (2011-34%) impacting both IFRS disclosure and measurement.

International comparison

Whilst our counterpart enforcers in Europe (through the European Securities Markets Authority) have not yet released their 2012 findings, their 2011 activity report provides a useful comparison. The report indicates that of the 1 950 reviews undertaken by the 29 European enforcers during the calendar year to December 2011, 8.6% of those reviews identified material infringements, requiring public announcements or reissuing of AFS. For a

further 21.5%, whilst classified as material, the enforcers accepted a correction in the next AFS. Our findings are broadly in line with these international trends.

	South Africa	**South Africa**	**ESMA#**	Note
Coverage				
Period of review	2012	2011	2011	
Reporting date	Feb 2013	Feb 2012	June 2012	
Number of reviews	82	56	1 950	
Percentage coverage of population	23%	16%	28%	1
Reviews closed at reporting date	78	45	1 950	2
Findings				
Material infringement, requested re-issuance or immediate public announcements	9%	4.4%	8.6%	
Corrections required in future financial statements	15.4%	26.6%	21.5%	
Total forced corrections	24.4%	31%	30.1%	

Information extracted from the ESMA report entitled "Activity report on IFRS enforcement in the European Economic Area in 2011"

Note 1 The JSE target coverage is at least 20% per annum. This first review cycle only commenced in April 2011 thus there is a lower coverage in this first reporting year.

Note 2 ESMA only reports back in the last quarter of the year, when all their reviews are completed. The earlier report back by the JSE resulted in some pending cases carried forward to the next period.

DETAILED FINDINGS

This section deals with items of enquiry for 47 of the closed cases, where a correction was needed. It does not discuss the areas of potential improvements highlighted to the Issuers. Without the benefit of detailed correspondence it is difficult to know whether a potential improvement is just that or whether the issue could easily be explained.

This section does not distinguish between cases where the errors resulted in restatements or where the impact might be less significant. The reason for not making this distinction is that the objective of providing this information is to highlight these areas in order to advise Issuers of the potential pitfalls and where the quality could be enhanced.

For ease of use, topics are grouped together in terms of the specific IFRS. They are discussed in numerical order and this should be seen neither as an indication of the order of importance of these matters nor as indication of the number of errors found.

We discuss these problem areas to enable Issuers to take note thereof in order to improve the overall quality of their AFS.

Good reporting practices

Basic compliance with the requirements of IFRS is at the heart of our monitoring activities. Nevertheless, last year we identified some themes that we found in certain reports. We indicated that if these matters were corrected, the quality of reporting would have been higher and would have reduced the number of questions that arose.

Those matters were discussed under the headings of 'creating a single story' and 'cutting the clutter'. It was evident that not all Issuers had taken our recommendations to heart. We continued to raise questions where we found inconsistencies between the AFS and other communications to investors. We therefore wish to reiterate that our review process is such that we not do review the AFS in isolation. Rather we review the AFS together with the directors' reports, management commentary and SENS announcements made by the Issuer throughout the year. We implore Issuers to ensure that such inconsistencies are avoided. Inconsistencies or omissions in the AFS between their various shareholder communications (and even within the AFS themselves) are confusing and potentially misleading.

General

Issuers are reminded that one of the core principles of the Listings Requirements (the "**Requirements**") is to ensure that parties involved in disseminating information into the market place observe the highest standard of care in doing so.

There were several cases of generally poor presentation in AFS including:

- Inconsistencies between information on the face of the financial statements and the notes; and between different notes;
- incorrect and confusing wording within notes; and
- general typographical errors.

These errors led to unnecessary confusion, and all Issuers are reminded to ensure that they have the necessary processes and procedures in place in order to prevent these types of problems from occurring.

Accounting policies

In last years' report we highlighted our concerns with a "boiler plate" approach to accounting policies. Three categories of accounting policy problems were identified: accounting policies that were unnecessary, too generic, or absent. Overall we highlighted our concern for the confusion that is created by these practices. The objective of accounting policies is to inform users so that they can understand the financial statements.

Whilst we generally ignored the area of unnecessary accounting policies in our reviews this year, concerns over accounting policies continued to plague our reviews. Questions over incorrect or incomplete accounting policies accounted for 22% of the non compliant disclosure issues. Given that the concerns have persisted, this report discusses the matters in more detail below. Through this process we hope that Issuers will pay more careful attention to the accounting policy section of the AFS and we look forward to a marked improvement in this regard in 2013.

We found problems with accounting policies in the following areas:

- Treasury shares;
- Share incentive schemes;
- Revenue recognition;
- Construction contracts;

- Investment property;
- Investments in financial assets;
- Investments in associates;
- Investments in mineral rights;
- Revaluation of land and buildings;
- Measurement of other investments;
- The basis for accounting for reverse acquisitions;
- Deferred consideration in business combinations;
- Basis of accounting for an unbundling;
- Accounting for put options over non controlling interests;
- Accounting for derivatives;
- Initial measurement of debentures;
- Loan liabilities with a unit holders;
- Accounting for the measurement of the separate parts for linked units;
- Loans categorised as equity and included in non controlling interest;
- Convertible instruments;
- Financial liabilities at fair value through profit and loss;
- Loans accounted for at fair value compared to loans accounted for at cost;
- FEC contracts;
- Provisions for audit fees; and
- Earnings per share.

The problems encountered ranged from a complete lack of an accounting policy, to incomplete polices, to inaccurate or confusing polices, to Issuers ignoring their own stated accounting policies. These problems often occurred for transactions that were unusual for the Issuer or where IFRS is not specific on a particular issue and the Issuer had to develop their own accounting policy.

We remind you that paragraphs 117 to 121 of IAS1– *Presentation of Financial Statements* discusses the presentation of accounting policies. Within those paragraphs we wish to emphasis the following:

1) Disclosure is made of significant accounting policies that:
   - deal with the measurement basis of preparing the AFS; and
   - other polices that are relevant to an understanding of the AFS;
2) Management must consider whether disclosure would assist users in understanding how transaction or other events are reflected in the AFS;

3) Disclosure of a policy is useful where policies are selected from alternatives (allowed in IFRS) ;
4) A policy may be significant because of its nature to the entities operations even if the amounts included in the AFS are not material; and
5) It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRS, but where the entity selected and applies that policy in accordance with IAS 8.

Presentation of Financial Statements

IAS 1 contains the overall requirements for the presentation of financial statements. In addition to the accounting policy problems as discussed above, there were various cases where some of the matters covered by this Standard were not adequately addressed,. These are discussed below.

Aggregation

Whilst the inappropriate offsetting trend in the previous period was less evident in this period, aggregation of information caused confusion in AFS. Whilst aggregation is permitted this should not be done to the detriment of the quality of the information provided. In one instance the aggregation of treasury shares and share incentive scheme shares made it very difficult to obtain a full understanding of an entity's share incentive scheme.

Other comprehensive income ("OCI")

The income tax relating to each component of OCI must be disclosed separately either directly in the Statement of Comprehensive Income or in the notes.

Reclassification

Problems in this area continued. There were cases where the requirements of paragraph 41 of IAS 1 (which contain specific requirements with regards to the nature of the information to be disclosed when an entity changes the presentation or classification of items) were ignored. This creates potential confusion for the reader of the AFS and goes against the principle of ensuring inter period comparability in order to assist users in making their decisions.

Significant judgements and assumptions

Paragraph 122 of IAS 1 requires disclosure of the significant judgments that management makes in the process of applying the entity's accounting policies. Paragraph 122 of IAS 1

also requires disclosure of sources of estimation uncertainties. IAS 1 goes on to highlight that these disclosures relate to managements most difficult, subjective or complex judgements, excluding valuations based on observed market prices.

There were several instances of insufficient disclosure in these areas, especially relating to the disclosure of valuation related matters. Some of these types of disclosures are also even required by a specific Standard such as IFRS 7 and IAS 16, and there should be no need to fall back on IAS 1 to ensure the inclusion of the necessary disclosure.

Another example of insufficient disclosure of significant judgements made by management was in the area of disclosure of the factors that determine whether an acquisition is regarded as a business combination or the acquisition of an asset.

There was also an instance were an Issuer had applied their minds to IFRIC 15- *Agreements for the Construction of Real Estate*, but failed to disclose the judgements it made in determining that the contracts should be accounted for in terms of IAS 11 as opposed to IAS18.

Statement of cash flows

IAS 7 continued to be poorly applied by some Issuers. We therefore wish to stress that information about the cash flows of an entity is important to enable investors to evaluate the ability of that entity to generate cash flows and to understand the timing and certainty thereof.

The following errors were identified in the statement of cash flows:

- Reflecting intercompany items eliminated in the group on consolidation as group cash flows;
- Showing transfers between current and non-current assets as cash flows;
- The inclusion of a non cash flow group restructuring as a cash flow item;
- The revaluation of an asset was reflected as a cash flow; and
- The netting of a purchase and a sale of investment property leading to the reflection of the purchase of investment property as a cash inflow.

Furthermore the classification of items within the statement of cash flows is equally important for users and we identified the following cases of incorrect classifications:

- Transaction costs (including due diligence costs) were classified as operating activities as opposed to investing activities;
- A dividend of all post acquisition reverses paid immediately prior to, and as part of, a disposal was reflected as operating as opposed to investing activities; and
- The insurance proceeds received on the derecognition of property plant and equipment was reflected as operating activities as opposed to investing activities.

Note that paragraph 14 of IAS 7 states that cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Investing activities on the other hand represent expenditure made for resources that are intended to generate future income and cash flows (or proceeds from the disposal of such asset).

Accounting Policies, changes in accounting estimates and errors

The required disclosure of impending changes in accounting polices is an important tool for both users and the preparers to understand the potential impact of new Standards. We dealt with one case where there was a 'boiler plate' approach to the required IAS 8 disclosures combined with the omission of a discussion on certain Standards affecting the entity. This is not a cut-and-paste type of exercise and Issuers are advised to pay careful attention to this area of reporting. Questions are likely to be raised where an Issuer indicated that there would be no impact of a particular new Standard and this proves not to be the case in subsequent reporting periods.

Events after the reporting date

In one of the case the directors' report alluded briefly to two substantial business developments. In response to queries raised it was agreed these should have been dealt with in the AFS in terms of IAS 10, and that the level of disclosure in terms of IFRS was not only lacking, but that the reference within the directors' report was confusing. In the resultant proposed disclosure the company indicated that both transactions were non adjusting material transactions for the Issuer. IAS 10 states that non disclosure of these sort of events could influence the economic decisions that users make on the basis of the AFS and thus prescribes certain disclosures.

Another area within this Standard that was neglected was disclosure of the impact of changes in tax legislation, which in certain instances is material to the AFS. Issuers therefore are reminded that assessments in this regard must be made.

Taxation

Problems were found with numerous Issuers with regards to their tax rate reconciliations. These included:

- A complete lack of the required reconciliation;
- The reconciliation not balancing to the average effective tax rate of the group;
- The exclusion of a numerical reconciliation;
- The inclusion of incorrect line items/ amounts in the reconciliation in order to ensure that it balances; and
- The inclusion of incorrect and confusing descriptions of line items within the tax rate reconciliation.

IAS 12 continues to be poorly applied and we ask that Issuers give it the necessary attention when preparing their AFS. We understand that many investors regard the effective tax rate (tax charge as a percentage of profit before tax) as a helpful performance measure and seek to understand factors that could affect it in the future. The information contained in these reconciliations is therefore regarded as important by analysts in understanding the tax consequences of the activities of the entity.

Another disclosure problem relating to the application of this Standard was the omission of the required disclosure of unused assessed losses.

Deferred tax assets

In our previous report we reminded Issuers that disclosure supporting the justification for the recognition of deferred tax assets is not only required by IAS 12 but is an important exercise to be undertaken by the Issuer. A lack of disclosure could ultimately indicate that there is no justification and that the Issuer has incorrectly raised a deferred tax asset in its AFS. Once again we raised numerous queries in this regard, most of which could be cured with the inclusion of the necessary disclosure. Some material misstatement of both earnings and assets were identified.

In addition to the incorrect recognition of deferred tax assets we also uncovered an instance where a deferred tax asset on the revaluation of land and buildings was erroneously not raised.

These types of issues were the subject of many of our reviews in this period and we implore Issuers to pay careful attention to this area of compliance.

The effect of changes in Foreign Exchange Rates

We had one specific case whereby the Issuer used US$ as their presentation currency in terms of IAS 21. Questions were raised with regards to the translation of the share capital and share premium of the South African registered holding company (where the functional currency was Rand). After a lengthily debate it was accepted that the accounting policy developed and applied by the Issuer was within the ambits of IFRS, but it was agreed that the disclosure surrounding these items throughout the AFS had to be amended. The existing disclosures (which included an incomplete accounting policy note) were insufficient, confusing and potentially misleading.

Related party transactions

We identified the following deficiencies in related party disclosures as per IAS 24:

- Omitted disclosure of the terms and conditions of outstanding balances with related parties;
- No disclosure of the value of the transactions with related parties; and
- The omission of related party disclosures in their entirely, in circumstances where it was clear from a review of announcements made on SENS that these existed.

We remind you that disclosure of related party transactions is an important feature in the JSE's regulatory approach and an IFRS requirement. For this reason, the JSE has specific and detailed Requirements dealing with these types of transactions. By their very nature, related party transactions are usually material and the disclosure requirements of IAS 24 complement these Requirements and provide valuable information to investors.

Investment in Associates

In one instance, an Issuer erroneously applied the requirements of IAS 28. The Issuer erroneously continued to account for its share of losses of these associates even after the losses had eliminated the initial investment made by the Issuer. This was despite the fact that they had no legal or constructive obligation to make payments on behalf of the associate.

Earnings per Share and Headline Earnings

Our reviews identified certain errors in the earnings per share calculations. These included:

- The incorrect weighting for repurchased shares;
- The omission of the reconciliation between basic and diluted weighted average shares in issue; and
- The use of an incorrect numerator.

The lack of disclosure was not only in itself contrary to IAS 33, but led to questions regarding the accuracy of the measurement of the earnings per share calculations themselves.

Various problems were also identified with the calculation of headline earnings. These included the incorrect inclusion of:

- a gain from a bargain purchase (IFRS 3);
- exchange rate translations differences on monetary items treated as part of the net investment in a foreign operation (IAS 21);
- impairments of assets (IAS 36);
- loss on disposal of intangible assets (IAS 38); and
- re-measurements to investments properties (IAS 40)

The Headline Earnings Circular 3/2012 as issued by SAICA ("**Headline Earnings Circular**") provides a detailed rules table where the above items are clearly excluded from headline earnings, and errors of this nature are unnecessary and concerning.

The Headline Earnings Circular also requires a detailed line-by-line reconciliation for each re-measurement. Paragraph 29 states that these re-measurements can be aggregated per type of re measurement per IFRS, unless the re-measurement is material within the context of the total adjustments. We found instances where this rule was not correctly applied with aggregation of re-measurements across IFRS standards and this reduced the usefulness of the information and raised unnecessary concerns regarding the accuracy of the headline earnings calculations.

Impairment of assets

As in the previous period, compliance with the disclosure requirements of IAS 36 was found wanting. Insufficient application of all of the disclosure requirements of IAS 36 could point to a more fundamental problem of incorrect measurement and the overstatement of assets and thus we continued to tackle Issuers for their lack of disclosure in this regard.

Disclosure of impairment testing was incomplete and often omitted entirely. Flowing from our reviews we remind Issuers that paragraph 134 of IAS 36 requires:

- full details of the key assumptions on which cash flow projections were based;
- a description of managements' approach to determining the value assigned to those key assumptions and how those relate to past experience;
- periods used for cash flow projections;
- growth and discount rates used in those cash flow projections and a justification where the growth rates exceed the norm;
- disclosure for each significant cash generating unit; and
- disclosure, even if there is no impairment in that specific year, as evidence of goodwill impairment testing.

Whilst it was not the only problematic asset class, disclosure regarding impairment testing for goodwill was the biggest problem area that we encountered.

We also identified instances of overstatement of assets when the measurement provisions of IAS 36 were not correctly applied.

Provisions

IAS 37 sets out the specific and detailed disclosure requirements for provisions. In one instance this information was omitted entirely. What compounded our concern was that in that specific year there was a large reversal of impairments, which accounted for 25% of the Issuer's bottom line.

Loans receivable

IAS 39 requires liabilities to be initially measured at fair value, net of transaction costs. In one instance an Issuer ignored IAS 39 (and its own stated accounting policy) when accounting for a debt structuring fee that it had paid.

We once again identified a problem with the accounting for interest free loans receivable. Whilst the Issuers' accounting policy correctly stated that this financial instrument was measured at fair value, this policy was in fact not applied. This was evident from the fact that despite market interest rate changes over the period, there were no resultant fair value changes reflected in the Issuer's accounts.

We identified an instance where, as part of a discontinued operation, the Issuer had an available-for-sale financial asset which had been impaired. The fair value movement on this financial asset was incorrectly reflected in Other Comprehensive Income as opposed to the cumulative impairment loss being recognised in profit and loss.

Investment property

IAS 40 has specific disclosure requirements regarding the methods and the inputs used to determine the fair value, as well as information with regards to which properties have been valued by an independent valuer. We tackled one issue regarding their lack of the necessary disclosure, specifically as investment property was a material asset class for that Issuer.

Share based payments

Share based payment arrangements remain common, especially in the form of employee share incentive schemes. As in the previous period, we identified several instances of non-compliance with IFRS 2. As this seems to be an ongoing problem we thought that it might be useful to list some of the specific problems we identified, which we hope will assist Issuers in ensuring that they do not omit this type of information: The problems included a lack of:

- Information to enable the user to understand the nature and extent of share based payment arrangements that existed. (This is specifically important when there were several schemes involved, and we found instances where the disclosure was vague and confusing);
- Information regarding the liability arising from the share scheme; and
- Compliance with all of the disclosure provisions of IFRS 2, including the disclosure of the amount charged to the profit and loss.

We also had some cases where the measurement principles of IFRS 2 were misapplied to share incentive schemes, including:

- Incorrectly accounting for a transaction in terms of IFRS 3 - *Business Combinations*, when in fact it was if fell into IFRS 2 *Share-based Payments*;
- Not reflecting shares sold to certain employees as such and incorrectly reflecting the shares as treasury shares; and
- Neglecting to account for the option that had been granted to employees in terms of a share purchase scheme, which had to be accounted for as an equity settled scheme.

Many of these measurement problems related to schemes that were initially implemented 3 to 5 years prior to the issue of the current AFS and often before the existing financial directors' appointment. It would therefore appear prudent for Issuers to consider revisiting their accounting for their existing schemes to ensure compliance with IFRS.

Consolidation – Special Purpose Entities

We identified another problem with one Issuer's share incentive trust, where the entity disregarded the provisions of SIC 12 (and the FRIP's prior finding in this regard, and the JSE's prior circular specifically dealing with this issue) and failed to consolidate their trust. The original transaction commenced as far back as 2007, yet the Issuer continued to perpetuate the incorrect application of IFRS.

Business combinations

A large part of the Requirements deal with acquisitions and disposals by Issuers. Through these Requirements, investors are provided with price sensitive information to ensure correct price formation for securities. They are also empowered to approve the larger transactions. It is therefore natural that we want to ensure the accounting for these transactions is complete and accurate in the AFS. Transactions can fundamentally alter an Issuer and it is important for investors to be able to evaluate the nature and effect of these transactions.

During the 2012 reviews we continued to find that the disclosure requirements of IFRS 3 were incomplete, potentially prejudicing investors with regards to the information they could use to assess the impact of a transaction. In certain instances the lack of disclosure also led us to question whether the measurement of the business combinations had been correctly applied in terms of IFRS 3. The key types of disclosures that were lacking included:

- the primary reason for the business combination ;
- a qualitative description of the factors that make up goodwill recognised; and
- a description of the reasons why the transaction resulted in a gain.

Other problem areas included:

- The misleading description of fellow subsidiaries as being "group companies"; and
- The incorrect capitalisation of transaction costs.

Another poorly applied area with regards to transactions by Issuers related to an unbundling where the two entities were ultimately controlled by the same party before and after the

distribution. Our questioning of this Issuer began as there was no accounting policy for the unbundling. It was then discovered that the unbundling was incorrectly accounted for from the legal effective date as opposed to the date that the Issuer actually lost control.

Non-current assets held for sale and discontinued operations

We identified one instance where the disclosure requirements of IFRS 5 were poorly applied.

Financial instruments disclosures

IFRS 7 aims to ensure disclosures are provided that enable users to evaluate the significance of financial instruments, the nature and extent of risks relating to those instruments and how these risks are managed.

Incomplete application of the disclosure requirements of IFRS continued in this reporting period and we identified omissions in the following areas of IFRS 7:

- the carrying amounts for each of the categories of financial assets and liabilities;
- terms and conditions regarding assets pledged as collateral and collateral help;
- the amount of impairment loss for each class of financial asset;
- disclosures on cash flow hedges *;
- classification of the fair value measurements using the fair value hierarchy;
- qualitative disclosures on the risks relating to different financial instruments *;
- information about the maximum exposure to credit risk *;
- Information on the credit quality of financial assets that are neither past due nor impaired ;
- disclosure of trade receivables past due and impaired versus past due and not impaired;
- maturity analysis for liabilities;
- disclosures of a sensitivity analysis for market risk; and
- in one instance, a complete omission of any of the IFRS 7 disclosures.

These omissions were in respect of items that were of a material nature to that specific Issuer, and we specifically questioned the lack of disclosure as we were concerned that it could have meant that the measurement of those instruments was also incorrect.

* *Items marked with an asterisk were also problem areas identified in our previous report and we ask Issuers to pay careful attention to these matters.*

Segmental reporting

The misidentification of the chief operating decision maker was discussed in our previous report. Regrettably we continued to have problems in this area. As a reminder, in terms of IFRS 8, operating segments are identified as components of an entity whose results are regularly reviewed by the chief operating decision maker. It is also contradictory when management discusses in great detail a particular component of the business in the annual report or in other communication to investors, but does not then identify that component as an operating segment for segmental reporting purposes.

In one instance, there was a complete omission of the segmental report. In addition, certain disclosure requirements of IFRS 8 were poorly complied with. This was even more prevalent where the Issuer had not identified any segments and therefore incorrectly disregarded the rest of the IFRS 8 requirements. Problems included:

- the reconciliation not agreeing to total profit and loss ;
- a lack of geographical information; and
- a lack of information regarding major customers.