



Quarterly Financial Reporting Brief

April 2020

At the beginning of the first quarter of 2020, the world was calling out for greatly increased focus on environmental risks, sustainability and at the fore, climate change. By its end, our attention turned to how we meet the challenge of COVID-19. All remain of enormous relevance to everybody, not least in the provision of information and transparent disclosure in financial reporting.

Other matters also continue to receive attention in our financial reporting environment, including insurance contract accounting, classification of liabilities, goodwill and intangibles, workforce related issues and others. Integrated reporting has also seen developments.

Governance and regulatory progress remain in focus, in relation to corporate governance and enforcement of financial information, and others.

There has been substantial coverage of COVID-19 throughout media circles. Most notably perhaps from the financial reporting perspective are the Statements published by the European Securities and Markets Authority (ESMA) and the UK Financial Reporting Council. Both express the absolute importance of maintaining the quality and transparency of financial reporting. A dedicated resource page has

been set up on www.iasplus.com.

The European Commission expressed its commitment to the improvement of non-financial reporting. A high level of preparatory work has already commenced, with an impact assessment and consultation process in progress. There has also been development in relation to sustainability reporting.

Climate change, and the disclosure of its impact, remains in focus with the European Financial Reporting Lab publishing a report based on their analysis of disclosures in the financial statements of one hundred and fifty European companies. The Institute of Chartered Accountants in England and Wales (ICAEW) has issued some helpful guidance for non-executive directors.

The International Accounting Standards Board (IASB) has been active through the quarter with completion of IFRS 17 and the setting of an implementation date, together with publication of amendments to IAS 1 on classification of liabilities. It has also published a comprehensive discussion paper on Business Combinations – Disclosures: Goodwill and Impairment.

The International Integrated Reporting Council (IIRC) has published a report on how best to adopt integrated thinking and enhance strategy to achieve long-term value creation. It

has also launched a consultation on revision of its Framework.

The FRC has published its annual review of the UK Corporate Governance Code, with particular focus on early adoption of the 2018 Code. It sets out a wide range of specific expectations and calls for greater focus on longer-term sustainability. Brexit remains and the FRC has jointly issued letters to UK entities on the transition process.

The Institute of Chartered Accountants of Scotland has published a report examining the preparation and evaluation of fair value measurements for financial instruments.

ESMA has published updated Guidelines on the Enforcement of Financial Information, which sets out the principles for EU accounting enforcers, including the Irish Auditing and Accounting Supervisory Authority (IAASA).

IAASA has published summary information of its financial reporting activities undertaken during 2019, and some financial reporting decisions. It has also published revised procedures governing the conduct of statutory investigations.

This Brief comments on financial reporting and legal/regulatory developments during the first quarter of 2020.

International Accounting and Related Developments

COVID-19 – Impact on Financial Reporting

ESMA has issued a public statement addressing actions that market participants should take in relation to COVID-19 in order to preserve investor protection, integrity of markets and financial stability. It includes recommended actions in relation to financial reporting, calling for transparency on the actual and potential impacts on entities' business activities. These should be based on both a qualitative and quantitative assessment of those impacts.

ESMA has issued additional public statements with regard to:

- the moratorium on loan repayments introduced by many European countries as part of their economic support measures. It is considered that these may impact on the calculation of expected credit losses in accordance with IFRS 9;
- ESMA, in co-ordination with National Competent Authorities, expects NCAs during this period not to prioritise supervisory actions against issuers in respect of the deadlines regarding:
 - annual financial reports referring to a year-end occurring on or after 31 December 2019 but before 1 April 2020 for a period of two months following the deadline; and
 - half-yearly financial reports referring to a reporting period ending on 31 December 2019 or after that date but before 1 April 2020 for a period of one month following the deadline.

The IASB has published a Statement that entities should not continue to apply their existing ECL methodology mechanically as underlying assumptions and linkages may no longer hold in the current environment.

Accountancy Europe has published an article exploring the effect of COVID-19 on those preparing and in charge of governance of financial reporting and their auditors.

Non-Financial Reporting

The European Commission will in line with the 'Green Deal for Europe' support a process to develop non-financial reporting standards for European entities. EFRAG is to begin preparatory work, and an impact assessment and consultation process have already been initiated. Areas identified for focus include:

- Reported non-financial reporting is not seen as being sufficiently comparable or reliable;
- The reported information does not meet users' needs;
- Entities face uncertainty and complexity when deciding what non-financial reporting to report.

Sustainability Reporting

Global accountancy bodies have called for improvement in the disclosure relating to UN Sustainable Development Goals in reporting by entities. This report follows on the consultation paper 'Recommendations for SDG Disclosures'.

The World Economic Forum, held in January, discussed a proposal prepared jointly with the Big 4 accounting firms and expressed support for aligning on a core set of metrics and disclosures in annual reports on the non-financial aspects of business performance and its sustainability.

Climate-change Disclosure

The Global Risks Report from the World Economic Forum has identified, in January, that all of the top five risks are environmental risks, with climate change being the top three.

The European Financial Reporting Lab has published 'How to improve climate-change reporting – a summary of good practices from Europe and beyond'. The report provides an analysis of the current state of climate-related reporting of approximately 150 European companies. It focuses on identifying good reporting practices and assessing the level of maturity in the implementation of the recommendations of the Task Force for Climate Change Disclosure (TFCD), while also taking into consideration the climate-related reporting elements of the European Non-Financial Reporting Directive.

A number of accounting bodies, representing over two and a half million accountants worldwide, have signed a call to action in response to climate change. The statement includes a number of actions that accountants are called upon to take in response to the climate emergency.

Classification of Liabilities

The IASB has issued 'Classification of Liabilities as Current or Non-Current' providing a more general approach under IAS 1 to the classification of liabilities based on the contractual arrangements in place at the reporting date. The wording is being aligned in affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only those rights at the end of the reporting period should affect classification. The Amendments are effective for annual reporting periods beginning on or after 1 January 2022, are to be applied retrospectively and early adoption is permitted. For more information [here](#).

Implementation of IFRS 17

After a lengthy period of consultation, discussion and amendment of IFRS 17: Insurance Contracts, the IASB has decided on its effective date which will be for annual reporting periods beginning on or after 1 January 2023. The IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020.

Goodwill and Impairment

The IASB has published a comprehensive discussion paper 'Business Combinations – Disclosures: Goodwill and Impairment'. The underlying project aims at improving

information companies provide to investors about the businesses those companies buy. A primary objective is to help hold management accountable for the decisions to acquire those businesses. For more information [here](#).

EFRAG has issued an academic report 'A Literature Review on the Reporting of Intangibles'. The main focus is on intangibles in a macro perspective and the impact on the relevance of financial reporting where there are intangibles not accounted for.

IIRC – Integrated Thinking

The IIRC has published a new report setting out how best to adopt integrated thinking and enhance strategy to achieve long term value creation. It is about creating and preserving value and enabling better decision making based on inter-connected multi-capital information.

The IIRC has launched a revision of the Integrated Reporting Framework and is calling for market feedback on specific themes that will inform the direction of the revision, outlined in three topic papers – (a) business model considerations, (b) responsibility for integrated reporting, and (c) charting a way forward.

XBRL

The IFRS Foundation has issued its 2020 IFRS Taxonomy, translating IFRS Standards into XBRL, consistent with all IFRS Standards issued at 1 January 2020.

Public Sector Accounting

The International Public Sector Accounting Board (IPSASB) has published 'Improvements to IPSAS 2019', which are effective for accounting periods beginning on or after 1 January 2022. IPSASB has released an updated IPSAS-IFRS alignment dashboard showing how far individual IPSAS are aligned with IFRSs.

Ireland and UK – New Developments

COVID-19 – Reporting and Corporate Governance Implications

The FRC, together with the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority, have published a joint statement in response to COVID 19. Their announcement is to help to ensure the continuing flow of information and to support the functioning of the UK's capitals markets. Much of it, particularly the FRC Guidance, is of relevance to many Irish companies. The extension of the filing deadline will be of relevance to those companies listed on the London Stock Exchange.

FRC

Guidance published gives key messages on both corporate governance and financial reporting.

Those on corporate governance include:

- Actions to ensure that entities continue to operate an effective control environment, addressing key reporting and other controls;
- Measures to secure relevant and reliable information on a continuing basis;
- Focus on capital maintenance, ensuring that sufficient reserves are available when dividends are paid.

Those on financial reporting include:

- Monitoring forward-looking narrative information to ensure that it is specific to the company and provides insights into the board's assessment of business viability;
- Going concern and any associated material uncertainties;
- Increased importance of providing information on significant judgements;
- Determining appropriate response to events after the reporting date.

FCA

The FCA Statement allows companies listed on the London Stock Exchange an additional two months to publish their audited annual financial reports. The Statement does not apply to companies listed on other UK Stock Exchanges, including AIM. The FCA has included other information and Q&A on its website.

PRA

The PRA has published Guidance regarding the approach that should be taken by banks and other financial institutions in assessing expected credit losses under IFRS 19.

Separately, the Institute of Chartered Accountants in England and Wales (ICAEW) has published a Guide on the impact of COVID-19 on the treatment of post balance sheet events in the financial statements.

Climate Change

ICAEW has published a paper, which highlights ten questions for non-executives. These aim to help drive meaningful conversation and make sure Boards take a proactive approach to the risks and opportunities posed by climate change.

The FRC has released a podcast on climate change, and a range of other information. The FCA has published a consultation paper that proposes to enhance climate-related

disclosures by companies with a UK Premium listing and clarify existing disclosure obligations. It proposes the introduction of a new continuing obligation in the Listing Rules referencing the recommendations of the TFCO on a 'comply or explain' basis.

Corporate Governance

The FRC has published its annual review of the UK Corporate Governance Code, with particular focus on the 'early adoption' of the 2018 Code. The FRC sets out its clear expectations for companies about to report under the new Code. The FRC considers that many governance reports lack information on the outcome of governance policies and practices including any areas for future development. Greater focus is needed on longer-term sustainability including stakeholder engagement, diversity and the importance of corporate culture. There are various specific expectations set out in the report, in twelve different areas.

Good quality explanations, which are specific to individual companies, improve transparency and provide important insight into a company and the way it is run, often-explaining risks and any mitigating actions.

Workforce Reporting

The Financial Reporting Lab of the FRC reveals in a report that reporting on workforce related issues needs to improve to meet investor needs. Workforce-related matters such as working conditions, changing contractual arrangements and automation have all become areas of increasing investor focus in recent years and the Lab's report reveals investors overwhelming support for clearer company disclosures.

The Lab's report provides practical guidance and examples on how companies can provide improved information to investors. Alongside the report, the Lab also published a summary of the report covering questions companies should ask themselves about reporting on workforce matters.

Fair Value Measurement

The Institute of Chartered Accountants of Scotland (ICAS) has published a report examining the preparation and evaluation of fair value measurements for financial instruments reported in the financial statements. The report analyses pressure points and potential conflicts in the four phases of the production of fair value measurements in the financial statements. The report includes some policy recommendations for regulators, standard setters and other stakeholders.

UK Transition Arrangements

The FRC and Department for Business, Energy and Industrial Strategy (BEIS) have published joint letters for accountants and auditors with information regarding auditing, accounting and corporate reporting standards during the transition period following the UK's exit from the EU.

The UK is seeking equivalence decisions on accounting and audit, and an adequacy decision on audit from the European

Commission. The Political Declaration, agreed with the EU prior to the UK's departure, sets the expectation that assessments should be concluded by June 2020, with the UK and European Union assessing each other's equivalence and adequacy in parallel.

FRC Regulatory Oversight

The FRC has announced a major shakeup of its oversight and supervisory functions to speed up the pace of enforcement investigations. The regulator is also broadening its stated purpose to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.

Accounting Enforcement

ESMA has published updated Guidelines on the Enforcement of Financial Information. The revised Guidelines set out the principles EU accounting enforcers, including IAASA, shall apply throughout the enforcement process by:

- Defining the objectives of enforcement; and
- Setting out some common characteristics of the enforcement process.

ESMA has amended selection approaches and examination procedures.

IAASA Procedures and Reports

IAASA has published:

- revised procedures governing the conduct of statutory investigations initiated on or after 21 January 2020;
- summary information of its financial reporting activities during 2019. Forty annual and half-yearly financial statements were examined, with 186 matters raised; and
- A compendium of financial reporting decisions regarding the financial statements of a number of Irish listed companies.

Shareholder Rights Directive

Statutory Instrument 81-of 2020 transposes The Second Shareholders' Rights Directive into Irish law. The directive is aimed at encouraging long-term shareholder engagement and transparency between traded companies and investors, and includes requirements in relation to remuneration policy and annual remuneration reporting.

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Our firm's website, www.iasplus.com, provides a world-leading continuously updated information source on international financial reporting developments and includes a link to our freely accessible IFRS eLearning programme, and a focused sub-site, [UK Accounting Plus](http://UKAccountingPlus).

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