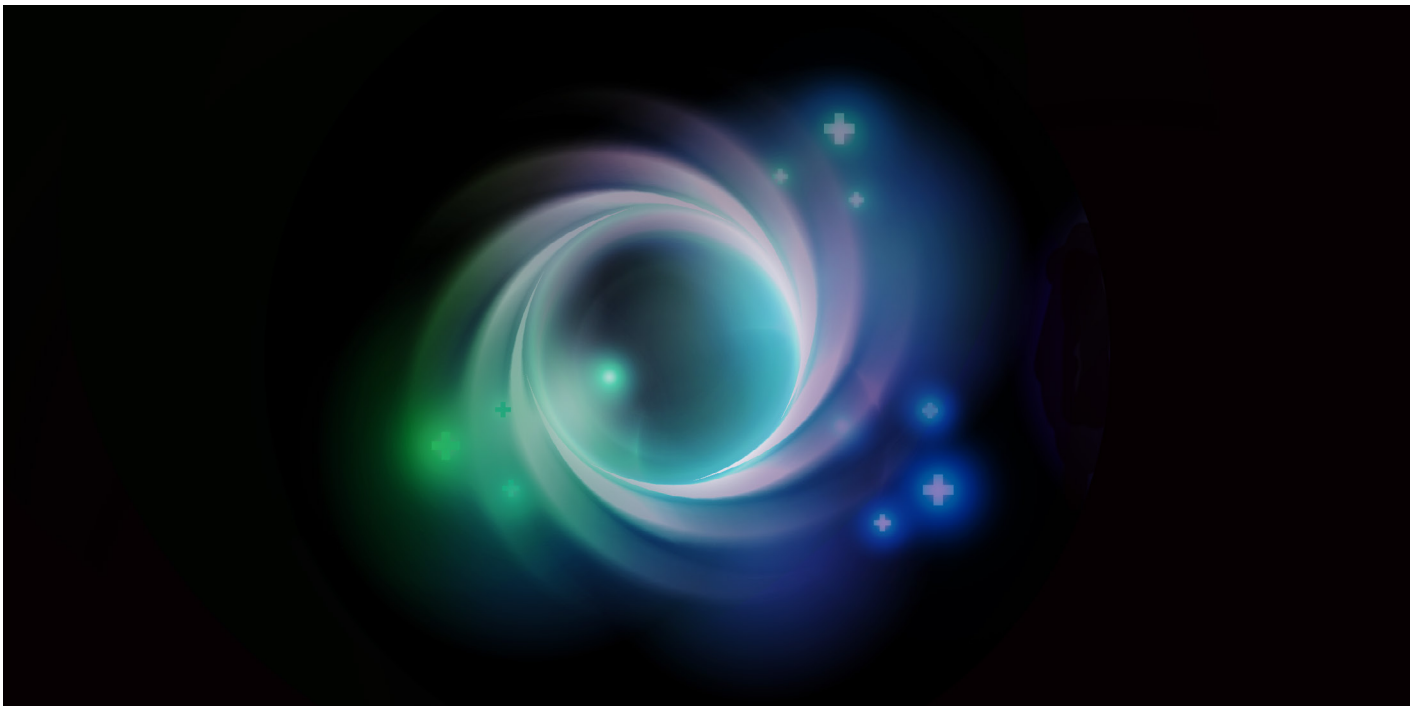


Quarterly Financial Reporting Brief

Contents

Introduction

The efficacy of the continuing vaccination programme has allowed our economy to progressively re-emerge from the Covid-19 pandemic. Uncertainties remain, more harshly for some than others, placing continuing high importance on judgements and assumptions made in corporate reporting and the related disclosures. Investors and other stakeholders must be well informed to enable appropriate investment and commercial decisions to be made.

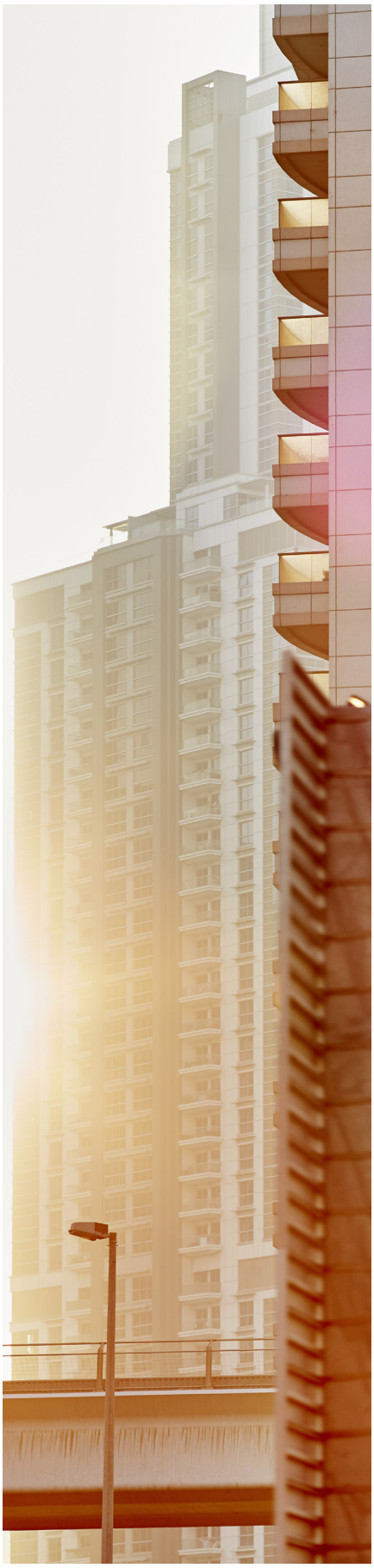
Moving forward, challenges remain including those of:

- Sustainability reporting and integration with financial reporting leading to the ultimate development of a comprehensive corporate reporting framework; and
- The need for robust corporate governance to provide for strong leadership and management of entities.

Enforcement of reporting standards is critical to proper and reliable reporting and, in Ireland, the Irish Auditing and Accounting Supervisory Authority (IAASA) is the main body involved. IAASA published its annual observations and its annual report during the third quarter.

This Brief comments on financial reporting and legal/regulatory developments during the third quarter of 2021.

Note: *Our redesigned IFRS e-learning platform allows external users to complete over 40 of Deloitte's IFRS e-learnings free of charge with 6 million+ uses in recent years.*



1. The Big Issues

Sustainability Reporting

Developments continued during the third quarter in relation to sustainability challenges and reporting. Most notable were the European Commission (EC) Sustainable Finance Strategy, the European Financial Reporting Advisory Group (EFRAG) update on European Sustainability Reporting Standards (ESRS) and the Financial Stability Board (FSB) Roadmap for Climate Change.

The EC has adopted a number of measures regarding its sustainable finance ambition. These include those on taxonomy, reporting and identification – these are commented on in our October Financial Reporting Brief. The central *Communication* comments on IFRS reporting against the background of sustainability. It emphasises the need for IFRS to appropriately integrate sustainability risks in financial reporting on an adequate and timely basis. The EC welcomes the continuing efforts of the IFRS Foundation (IFRSF) to develop a baseline global reporting standard for sustainability reporting and continues its work with EFRAG in developing ESRS.

EFRAG has published an update on developments regarding ESRS, most notably (1) a Statement of Co-operation with the Global Reporting Initiative (GRI), and (2) a list of members of the Project Task Force and the secretariat. EFRAG has also released a working paper of the prototype for the climate standard they are working on along with a related Basis for Conclusions working paper.

The FSB has published a roadmap to address climate-related financial risks. It embraces the continuing work of standard-setting bodies and other global organisations The FSB emphasises the goal must be to achieve globally consistent, comparable decision useful disclosures by entities of their climate-related financial risks, Their proposed actions and deliverables, with an indicative timeline for each, have been outlined in the FSB roadmap, which has been endorsed by G20.

Other developments during the quarter include:

- The United Nations Sustainable Stock Exchanges (SSE) initiative has launched a new 'Action Plan to Make Markets Climate Resilient' and a 'Model Guidance on Climate Disclosure';
- The Board of the International Organisation of Securities Commissions (IOSCO) has published 'Report on Sustainability-related Issuer Disclosures' that elaborates on IOSCO's vision and expectations for the IFRS Foundation's work towards a global baseline of investor-focused sustainability standards to improve the global consistency, comparability and reliability of sustainability reporting
- The International Federation of Accountants (IFAC) published a framework for implementing global sustainability standards at the local level;
- The UK Financial Reporting Council (FRC) has published 'Statement of Intent on Environmental, Social and Governance Challenges' which discusses ESG challenges, how they are addressed and what actions the FRC intends to take;
- The FRC Lab has published a snapshot highlighting the adoption of the Sustainability Accounting Standards Board (SASB) Standards by companies with many companies including a number of FTSE 100 companies adopting them voluntarily;
- A group of nine initiatives, mainly global corporates, has founded the Value Accounting Network which share the ambition that the value provided by and experienced by nature must be included in all decision-making. The group has published an agreed statement of commonality based on its definition of value accounting.
- In September, the FRC published FAQs on International Sustainability Standards Setting. The purpose of the FAQs is to inform UK company stakeholders of developments in sustainability standard setting by the International Financial Reporting Standards Foundation

(IFRS Foundation). This is a fast-moving agenda that has the potential to impact corporate reporting significantly in the future. In response to calls from investors for more consistent and comparable sustainability information, the IFRS Foundation intends to establish an International Sustainability Standards Board and issue sustainability standards thereafter.

Corporate Governance

The UK Corporate Governance Code has been instrumental in spreading best boardroom practice operating on the principle of 'comply or explain'. The Code sets out good practice covering issues such as board composition and effectiveness, the role of board committees, risk management, remuneration and relations with shareholders and wider stakeholders.

The FRC has published three reports in 2021, two of which have been commented on in previous editions - Remuneration and Workforce Engagement. The third, FRC Board Diversity and Effectiveness in FTSE 350 Companies, was published in the third quarter. The underlying research found that the effort to diversify boards pays benefits in terms of boardroom culture and performance. To maximise these benefits, boards should recognise that change takes time and that diversity without active inclusion is unlikely to encourage new talent to join the board. The role of the Chairperson is crucial in more than one way, and together with the Board Nomination Committee can take a number of important actions to encourage diversity. The research indicates that diversity affects boardroom dynamics with better boardroom relationships and collaboration, with an increased likelihood of reaching consensus before important decisions are made.

The report concludes that while there has been significant improvement in corporate commitment to diversity, there is still 'a very long way to go to fully access the talent' potential available in society and reflect UK population demographics.

A one hour webinar held by the FRC with the authors of the report is available here.

The UK Financial Conduct Authority is consulting on proposed changes to the Listing Rules to improve transparency for investors on the diversity of listed company boards and their executive management teams, including:

- A 'comply or explain' statement on whether they have achieved certain targets for gender and ethnic minority diversity on their boards:
  - at least 40% of the board are women (including individuals self-identifying as women)
  - at least one of the senior board positions (Chair, CEO, SID or CFO) is held by a woman (including individuals self-identifying as a woman)
  - at least one member of the board is from a non-White ethnic minority background (as categorised by the ONS) and
- Data on the composition of the board and most senior level of executive management in terms of gender and ethnicity.

It is proposed that the new Listing Rule requirements will apply to UK and overseas companies with either a premium or standard listing. The consultation has a closing date of 22 October 2021. Subject to consultation feedback and FCA Board approval, the FCA will seek to make relevant rules by late 2021 specifying that they are effective for accounting periods beginning on or after 1 January 2022.

The FRC Lab has published 'Reporting on Stakeholders, Decisions and Statements under Section 172' The report outlines what investors are looking for in reporting on these areas, based on their review and discussions with a large number of investors, together with how companies can improve their reporting to better meet investor needs.

The report is divided into three sections:

- Information on a company's key stakeholders – relevance to business model and strategy, strength of stakeholder relationships, risks and opportunities, performance and metrics;
- Information on what the strategic decisions were during the period – how stakeholders were considered in reaching them, difficulties encountered and the outcome of those decisions; and
- Information on how a company is progressing in pursuit of its purpose and long-term success.

The report includes examples of current best reporting practice and other guidance.

The FRC Lab has also published 'Reporting on Risks, Uncertainties, Opportunities and Scenarios' The report provides several practical examples of corporate reporting that better meet investors' needs. The examples cover four key areas:

- Governance and process – how the board and management identifies, monitors and manages risk areas and responds in an agile way;
- Nature – market position and trends, importance within company plans and how do the risks align and connect with opportunities and the wider company narrative;
- Approach – linkage to the wider strategy, business models and risk mitigation plans; and
- Scenarios and stress testing – how uncertainty impacts the risks and opportunities and how scenarios provide insight into the range of possible futures.

IAASA – Financial Reporting Supervision

Annual Observations

IAASA published its annual observations in September 2021 to highlight topics that it considers may warrant focus by those preparing, approving or auditing financial statements including:

- COVID-19;
- impairments;
- fair values;
- alternative performance measures; and
- climate change.

IAASA has stated that it expects companies to provide entity specific and comprehensive disclosures that enable the users of their financial reports to understand:

a. the impact that these events have had on their financial performance, financial position, cash flows and risks;
b. the sources of estimation uncertainty and changes in the key assumptions underpinning assets, liabilities, income, expenses and cash flows;
c. the actions taken to respond to Brexit, the pandemic and climate change; and
d. the expected impact on future financial performance, financial position, cash flows, and risks.

IAASA's financial reporting review remit extends only to companies with securities admitted to trading on a regulated market (principally the Main Market of Euronext Dublin). Nonetheless, IAASA state that the topics identified in the 2021 Observations paper could usefully be taken into consideration by any reporter having the aim of producing high quality 2021 financial reports.

Annual report

In July the Irish and Accounting Supervisory Authority (IAASA) published its 2020 Annual Report. Details given in relation to its financial reporting supervisory activities, included:

- In 2020, IAASA examined 44 annual reports and 3 half-yearly reports, with 21 issuers providing 82 undertakings to IAASA to improve reporting in future periods. The most frequent area related to alternative performance measures (APMs), with other areas including leases, financial instruments, fair value measurement, revenue and impairments.
- In January, IAASA published a snapshot of its financial reporting enforcement activities during 2020. IAASA also published 10 financial reporting decisions.
- During 2020, IAASA also published:
  - The results of thematic reviews in relation to lease accounting and disclosure of operating segments; and
  - Information Note 'Reporting the Impact of Covid 19', with strong recommendations to avoid boilerplate disclosure and provide sufficient entity-specific information to allow users to understand judgements made in financial statements.
- IAASA continued to actively participate in and observe European and UK financial reporting forums. In addition, it monitored developments in accounting enforcement globally and considered potential changes in IAASA's examination systems.
- In 2021, IAASA published another Information Note – IAS 36 Impairment of Assets.

Revocations

Following application to do so, IAASA revoked ICAEW's recognition in July 2021 and accordingly, ICAEW is no longer a prescribed accountancy body under the Companies Act 2014 and therefore is unable to approve statutory auditors in Ireland. ICAEW and its members in Ireland are no longer regulated by IAASA. A similar application was received by IAASA in September from ICAS with a view to having its recognition revoked in December 2021.

International Accounting and Related Developments

IFRS 17 – Proposed Amendment
The IASB published an exposure draft 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed amendment to IFRS 17)'. Under the proposed amendment, an entity would be permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. There are no proposed changes to the transition requirements in IFRS 9.

EU endorsement of IFRS 17 'Insurance Contracts' is expected in the fourth quarter of 2021.

IFRS Reduced Disclosure Standard
The IASB has published an exposure draft 'Subsidiaries without Public Accountability: Disclosures' that proposes to permit eligible subsidiaries to apply IFRS but with reduced disclosure requirements. Eligible entities would be those that do not have public accountability and are subsidiaries of an ultimate or intermediate parent that produces consolidated financial statements that are in accordance with IFRS and are available for public use. The proposed new standard contains about 200 paragraphs of disclosure requirements, listed by standard, based on IFRS for SMEs appropriately tailored where they differ from those in full IFRS.

There are exceptions to this approach, which in particular relate to disclosure objectives, investment entities, changes in liabilities from financing activities, exploration for and evaluation of mineral resources, defined benefit obligations and insurance contracts.

The deadline for submitting comments is 31 January 2022.

IASB "Investor Perspectives" article on disclosures in financial statements
During September the IASB has issued the latest issue of 'Investor Perspectives'. In this edition, IASB Board member Nick Anderson discusses the new approach to developing and drafting disclosure requirements in IFRSs.

Specifically, this issue features insight into the proposed approach and discusses some of the changes that investors would see in the financial statements since investors have been calling for better disclosures in financial statements. For more information, see the press release and Investor Perspectives article on the IASB's website.

EFRAG – Intangibles
EFRAG published a discussion paper 'Better Information on Intangibles – which is the best way to go?'. It notes that information on intangibles has become more important for more entities than previously. Insufficient information could affect the company's market value due to information asymmetry, potentially resulting in inefficient capital allocation and making assessment of management's stewardship difficult.

The discussion paper considers three approaches for better information on intangibles:

- Recognition and measurement in the financial statements;
- Information on specific intangibles in the notes to the financial statements or in the management report;
- Information on future-oriented expenses and risks/opportunities that may affect future performance in the notes to the financial statements or in the management report.

ESMA Enforcement Decisions
The European Securities and Markets Authority (ESMA) has published its 25th report containing further extracts from its confidential database of enforcement decisions taken by European national enforcers. This batch deals with decisions in relation to IFRS 9, IFRS 7, IAS 1, IAS 34 and IAS 7.

The publication of enforcement decisions is designed to inform market participants about which accounting treatments European national enforcers consider are in compliance with IFRS and other applicable reporting requirements, including relevant national law.

ESMA has also published an update of the European Single Electronic Format (ESEF) Reporting Manual.

IPSASB Projects
The International Public Accounting Standards (IPSASB) is consulting on additional projects for its work programme for the period 2021 – 2023. IPSASB proposes adding two major projects – Differential Reporting and Presentation of Financial Statements – and four smaller scale projects on impairment, intangibles, first-time adoption and materiality judgements.

IVSC Updated Standards
The International Valuation Standards Council (IVSC) has published an updated version of its suite of Standards. The update includes a new chapter on inventory, technical revisions consulted on during 2020/21 as well as updates to the introduction, the glossary, the framework and a number of individual standards. They become effective from 31 January 2022, with earlier adoption encouraged.

Ireland and UK – Recent Developments

FRC – Future of Corporate Reporting

The FRC has issued a feedback statement following publication of its discussion paper in October 2020 – 'A Matter of Principles: The Future of Corporate Reporting'.

Feedback from respondents was broadly supportive of a reporting model that accommodates the information needs of investors and wider stakeholders; the development of guiding principles; the concept of the reporting network; and the development of standards for non-financial reporting. Areas of concern on which respondents commented include the level of audit and assurance required; materiality and a stand-alone public interest report.

Electronic Reporting

The FRC Lab has published the results of a survey which sought to understand how prepared companies and service providers are for the introduction of structured electronic reporting for annual financial reports of companies on a regulated market in XHTML format. These requirements were deferred for a year and now apply for financial periods beginning on or after 1 January 2021.

The Lab has also published a list of sources to help companies understand and implement the requirements and intends to publish a best practice report, based on ESEF.

FRC – Review of SECR

The FRC has published the findings of its review of how a sample of UK entities had complied with the Streamlined Energy and Carbon Reporting Requirements (SECR) which came into effect from 1 April 2019. The review assesses compliance with SECR, identifies emerging good practice and sets out the FRC's expectations for reporting in future periods.

Together with a number of recommendations for improvements in reporting, the FRC considers more thought is needed about how to integrate these disclosures with narrative reporting on climate change.

FRC Lab – Cyber Risk

The FRC Lab is inviting entities, investors and interested parties to participate in a new project that seeks to understand the specific process and disclosure areas emerging around cyber, digital and data risk. The project will consider how company processes are changing and how that might translate into useful external disclosures.

FRC findings on viability and going concern disclosures

The FRC has published the findings of its review of companies' viability and going concern disclosures. The report aims to provide useful guidance for preparers of annual accounts by identifying areas where viability and going concern disclosures could be improved, and by providing examples of better practice disclosures. Although the FRC did identify some examples of good disclosure its overall conclusion is that there is still significant scope for improvement.

In preparing their upcoming annual reports, the FRC expects companies to prepare viability and going concern disclosures which:

- Include sufficient company-specific qualitative and quantitative information to enable a reader to fully understand the assessment made. Such disclosures might usefully include; details of drawn and undrawn facilities in place and reliance upon such facilities; explanation of any reliance on any government support programmes; details of covenants including headroom; and information on post balance sheet changes to liquidity.
- Are proportionate to the uncertainties to which the company is exposed and to its financial position.
- Are based on assumptions which are clearly consistent with those used in other forward-looking areas of the financial statements such as impairment testing and the assessment of the recoverability of deferred tax assets.
- Clearly explain the inputs and assumptions used in forecast scenarios (providing quantitative as well as qualitative information).
- Explain the sensitivity analysis, stress and reverse stress tests carried out to support the assessment and provide details of the inputs (quantitative as well as qualitative detail) and outcomes of any such analysis.
- Disclose information on how they are resilient to risks which could threaten either their going concern status or longer-term viability including how they are resilient to principal risks and how the impact of such risks could be mitigated if they were to crystallise.
- In addition to setting out its expectations of what better practice viability and going concern disclosures should contain, the FRC also provides its expectations with respect to each statement. It expects:

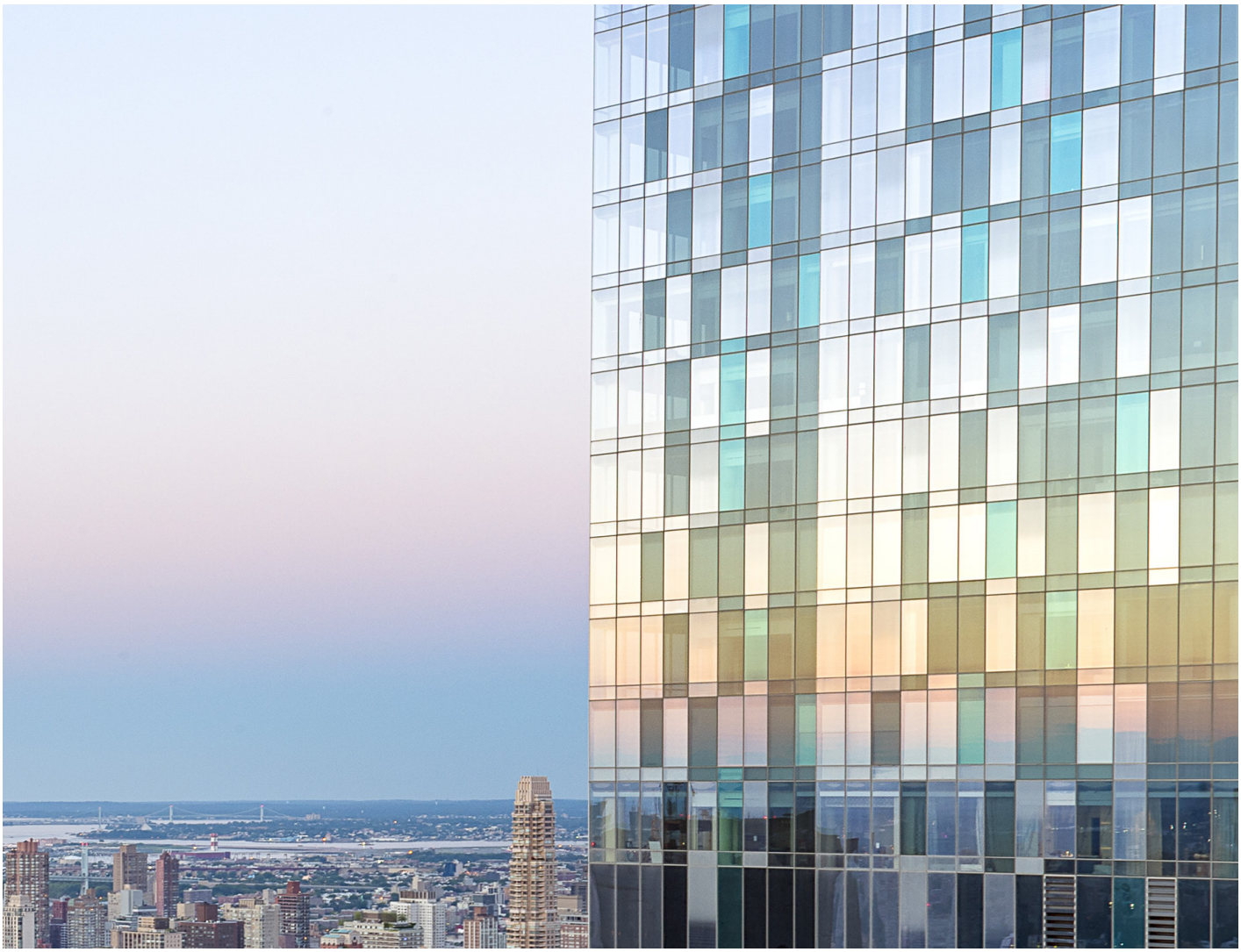
Viability statements to:

- Clearly justify the period of assessment taking into account, for example, debt repayment profiles, the nature of the business and its stage of development, planning and investment periods, strategy and business model and capital investment.
- Provide longer-term information and extend their period of assessment beyond the common period of three years.
- Draw attention to any assumptions or qualifications on which the assessment is dependent.
- Clearly map principal risks considered to the viability scenarios tested.

Going concern disclosures to:

- Clearly identify any material uncertainties related to events or conditions which may cast significant doubt on an entity's ability to continue as a going concern.
- Highlight the company-specific significant judgements made by management in determining whether or not the adoption of the going concern basis is appropriate and whether or not there are material uncertainties in respect of going concern to disclose.

A press release and the full report is available on the FRC website.



FRC review of annual reports
The latest list of companies whose Reports and Accounts have been reviewed by the FRC's Corporate Reporting Review function was published in September. The list can be viewed here.

Periodic review of FRSs
In March, the FRC commenced a periodic review of FRSs 100 to 105 by requesting interested parties to provide comments on any aspect of the standards to ukfrsperiodicreview@frc.org.uk by 31 October 2021. A FRC podcast discussing the review in terms of FRS 102 is available here (7 minutes).

During September the FRC held a short information webinar to encourage comments. A recording of the event (38 minutes) is available here. A separate roundtable primarily to discuss matters relevant to large and medium-sized entities was also held with a further roundtable for small and micro entities scheduled for October. Matters under consideration include the degree, if any, to which the expected loss model in IFRS 9 should be incorporated into FRS 102 and similarly for IFRS 15 on Revenue from contacts with customers and IFRS 16 leases. After comments have been received and analysed by the FRC the next step will be the publication of a Financial Reporting Exposure Draft outlining the proposed changes. Currently, this FRED is expected to be published no earlier than March 2022 with a comment period of not less than three months. The amended standards are expected to issue no earlier than December 2022 with an effective date of no earlier than accounting periods commencing on or after 1 January 2024.

Legal and Regulatory Developments

Changes to the ODCE

The Companies (Corporate Enforcement Authority) Bill 2021 establishes the Office of the Director of Corporate Enforcement (ODCE) as a standalone statutory body with a commission structure, to be called the Corporate Enforcement Authority (CEA). This invests the CEA with the same functions and powers that the Director of Corporate Enforcement has with some modifications. These include encouraging compliance with the Companies Act 2014, investigations of suspected offences and non-compliance under that Act, prosecution of summary offences, referring indictable offences to the Director of Public Prosecutions and the exercise of certain supervisory functions with respect to liquidators and receivers. The Bill also makes a number of miscellaneous changes to the Companies Act 2014 including a proposal to correct an omission to the 2014 Act and re-instate the previously long-standing practice of allowing directly attributable share issue expenses as a deduction from share premium.

5. Deloitte Publications

IASB proposes reduced disclosures for subsidiaries without public accountability

IASB proposes a minor amendment regarding the initial application of IFRS 17 and IFRS 9

IFRS Foundation Trustees' sustainability reporting initiative

Deloitte guidance for audit committees considering the quality of their statutory audit

Deloitte guidance to help audit committees review their effectiveness

Corporate Governance Disclosure Checklist (For periods commencing on or after 1 January 2021)

This checklist produced by Deloitte (UK) sets out the key disclosure requirements under the Listing Rules, the Disclosure Guidelines and Transparency Rules on audit committees and corporate governance statements, the 2018 UK Corporate Governance Code, the Guidance on Risk Management and Internal Control and Related Financial and Business Reporting, the 2016 version of the Guidance on Audit Committees, the 2018 version of the Guidance on Board Effectiveness and the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. The checklist was updated to reflect some changes in the scope of certain requirements after IP completion day (defined as 31 December 2020 at 11.00pm UK time) as a result of the UK's withdrawal from the EU.

2021 update on half-yearly financial reporting

Deloitte guide, model accounts and disclosure checklist for half year reports in 2021

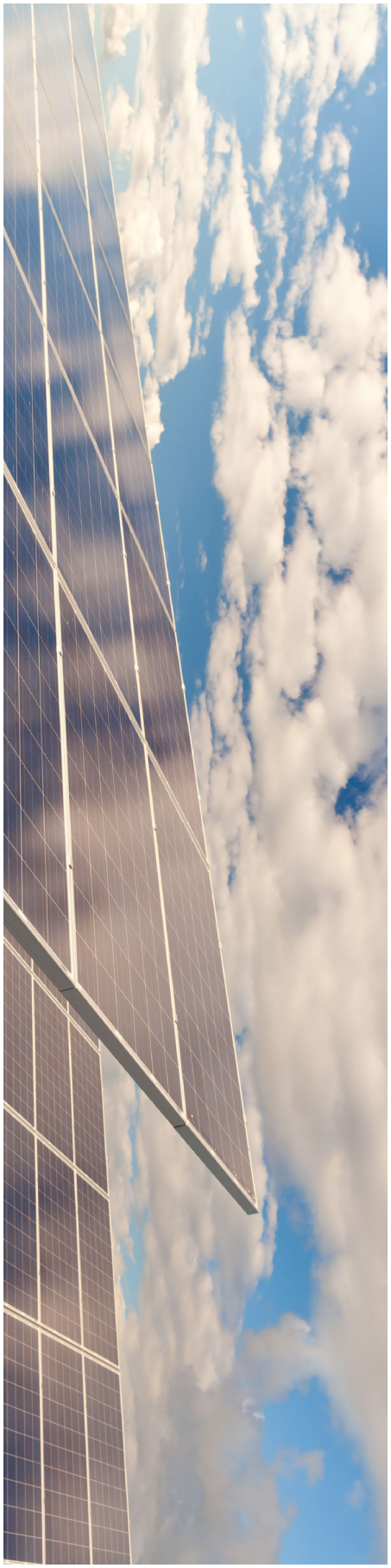
IFRS on Point

Deloitte's IFRS on Point highlights critical financial reporting developments on the main IFRS-related news stories for the particular month with the following published in the quarter to 30 September 2021:

IFRS on Point — August 2021
IFRS on Point — July 2021
IFRS on Point — June 2021

Accounting roundup — July 2021

Also published in the quarter, this Accounting roundup, covering the period April 2021 through to June 2021, pulls together the headlines for all the latest developments in accounting, providing links to a wealth of further information and resources.



Contact us:

Our previous monthly and quarterly financial briefs can be accessed via
our website here.

In addition, our IAS Plus website 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 subsite: UK Accounting Plus.

For more details on the above, please contact your client service partner or our financial reporting service contacts:

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