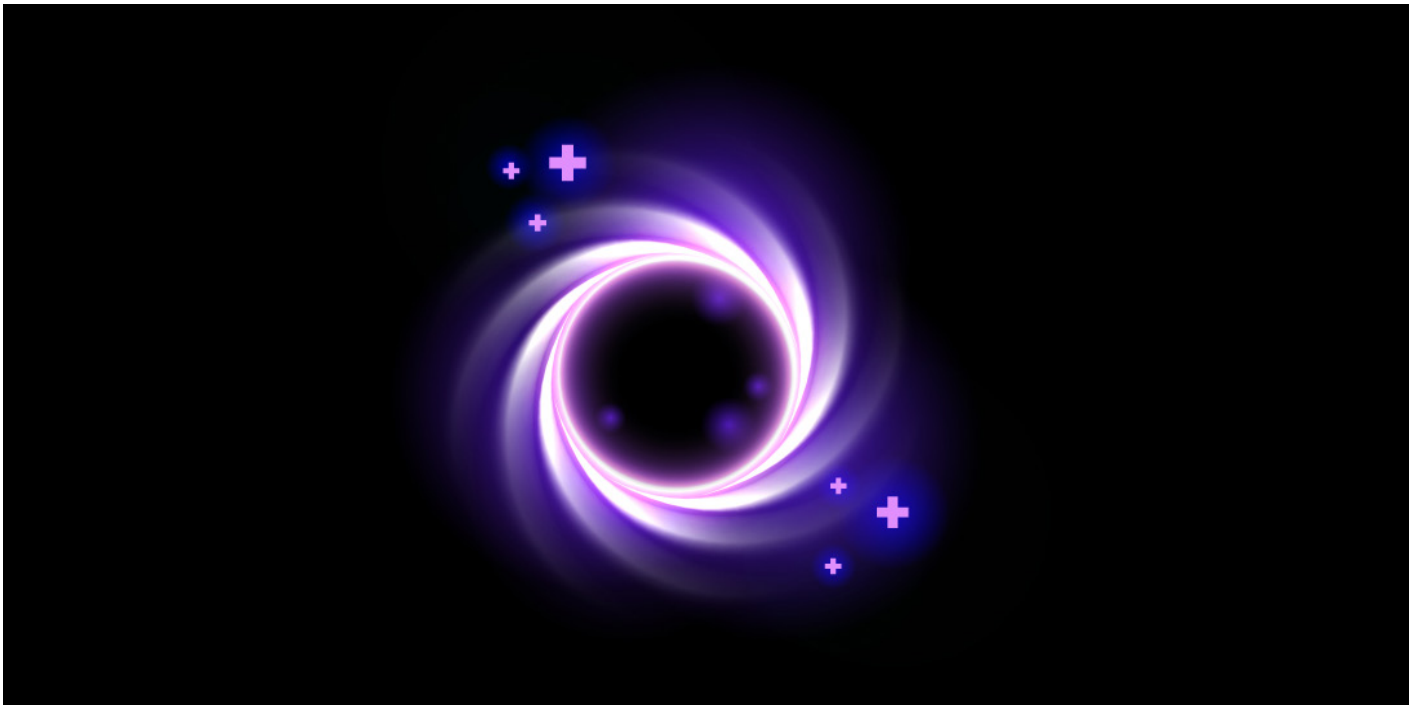


Quarterly Financial Reporting Brief

Content

Introduction

Irrespective of industry, financial condition or any other business/economic factors, all entities face a myriad of uncertainties, most notably COVID-19, Brexit and Climate Change. This Brief comments on these 'big issues' on a unified basis as they are significant to reporting under both IFRS and Irish/UK GAAP. The same approach is adopted for guidance published by the regulators on what they expect from corporate reporting in 2020/21 and the future development of a comprehensive corporate reporting framework.

All involved in the corporate reporting process will be challenged by prevailing uncertainties and the escalating demands of investors and other stakeholders for reliable, balanced and transparent corporate reporting - key to investment and commercial decision making processes.

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

1. The Big Issues

COVID-19

COVID-19 has had a traumatic and pervasive impact on society and economies, and may be expected to continue long into 2021, albeit that the prospect of effective vaccination programmes provides hope for the future. Financial reporting and governance have had to respond to extreme conditions and major change. Substantial guidance has been published, with most recently both the Irish Auditing and Accounting Supervisory Authority (IAASA) and the UK Financial Reporting Council (FRC) providing guidance with a particular focus on COVID-19:

- IAASA has issued an Information Note 'Reporting the Impact of COVID-19' which calls-on-companies-to-redouble their efforts to provide high quality, company-specific disclosures of the impact of COVID-19 in their financial statements as a key part of their communications with investors and other stakeholders; and
- The FRC has published its annual end of year letter to CEOs, CFOs and Audit Committee Chairs which is of particular significance this year given the continuing backdrop of economic uncertainty and the impact of Covid-19 on the scope and timing of company reporting. It also comments on other major issues, including Brexit and climate change.

The FRC has also published Consolidated COVID-19 Guidance for companies. The guidance supersedes all previous FRC guidance on COVID-19 for companies and auditors and is delivered as two separate papers – one for companies and one for auditors. Both recognise that there is still considerable uncertainty about the future at a time when many companies are preparing annual reports.

Regulators– Reporting Expectations

To assist and support companies to focus on those areas considered most significant in these challenging times, guidance has been issued by the European Securities and Markets Authority (ESMA), the IAASA and the FRC. All three are substantially consistent and the Common Enforcement Priorities of ESMA highlight the following as areas of focus:

- Going concern and liquidity disclosures;
- Significant judgements and estimation uncertainty, particularly in the context of COVID-19;
- Impairment of assets where recoverable amounts may be impacted by the deterioration in economic outlook;
- Considerations relating to risks arising from financial instruments, focusing on liquidity risk and considerations when measuring expected credit losses;
- Explicit disclosures required by lessors who have applied the amended standard on Leases;
- Disclosures analysing the potential impact of Brexit;
- Improved narrative reporting and disclosures on climate risk and other ESG factors.

Companies are expected to tell their 'own story' – highs and lows in a balanced manner – and not 'boilerplate' disclosures. There is an emphasis on the need for increased disclosure of relevant sensitivities or ranges of possible outcomes to help users understand the assumptions underlying significant estimates and the extent of the changes that may be reasonably possible in the next twelve months.

The Financial Reporting Lab of the FRC has released additional guidance on some critical focus areas for 2020 year ends. The Lab guidance covers some key messages from its earlier reports, updates on recent developments in corporate reporting and how it may develop, with practical examples from published reports. The Lab has also published a set of tips on companies preparing and presenting a Section 172 statement in their strategic report, which is primarily addressed to Boards of companies under UK law but its principles are likely to be of relevance to many other entities.

Future of Reporting

There is growing recognition of the need for improvement in non-financial reporting, with investors calling out for better quality information, and momentum building towards a consistent approach in reporting on sustainability and developing a comprehensive corporate reporting structure.

The IFRS Foundation has published a 'Consultation Paper on Sustainability Reporting' to assess the demand for global sustainability standards and the high level options available. One of these is the possible establishment of a Sustainability Standards Board (SSB), which would work on a basis consistent with the International Accounting Standards Board (IASB). The SSB would initially focus its efforts on information most relevant to investors and other market participants in relation to climate-related risk, and may then extend the scope to assurance considerations.

Following their publication in September 2019 of a statement of intent to work together towards a comprehensive corporate reporting system, five internationally significant framework- and standard-setting institutions (CDP, CDSB, GRI, IIRC, and SASB) have published a prototype climate-related financial disclosure standard.

Together with the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD), the prototype should provide a solid foundation for development of global standards that enable disclosure of how sustainability matters create or erode enterprise value.

The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) have announced their intention to come together by mid-2021 and form the Value Reporting Foundation to develop a comprehensive corporate reporting framework. The Foundation will work with the IFRS Foundation and other interested parties towards globally accepted standards. The Foundation will maintain the IIRC integrated reporting framework and the SASB sustainability standards.

In response to a request from EFRAG, Deloitte and various other parties have expressed their support for the work being carried out by EFRAG in reviewing the EU Non-Financial Reporting Framework in support of companies disclosing high quality, transparent, relevant and comparable non-financial information that is connected to financial information within mainstream corporate reporting. Preference has been expressed for a global unified approach.

The FRC has published a discussion paper 'Future for Corporate Reporting'.

This is based on a principles-based reporting framework, outlining a more agile approach to corporate reporting. Proposals include:

- Moving to a network of interconnected reports;
- A new common set of principles that applies to all types of corporate reporting;
- Objective-driven reports that accommodate the interests of a wide group of stakeholders;
- A model that enables reporting that is flexible and responsive to changing conditions and circumstances

Climate Change

A European investor group, representing investors with over €33 trillion in assets calls for specific information to be included in corporate reports; TCFD express concerns in its recent status report; the FRC publishes the findings of its thematic review; the UK government sets timelines for compliance with TCFD recommendations. The demand for comprehensive information on climate change in corporate reports is rapidly gaining momentum, and these are highlights of that growing demand.

The Institutional Investors Group on Climate Change (IIGCC) has published 'Investor Expectations for Paris- aligned accounts' with reference to the Paris Accord in 2015 reached by UN members - The United Nations Framework Convention on Climate Change. It sets out five clear steps companies can take in preparing 'Paris – aligned' financial statements, as follows:

- Affirmation that climate risks are incorporated in the financial statements;
- Adjustments to critical assumptions and estimates;
- Sensitivity analyses and their results linked to variations in judgements or estimates;
- Implications for dividend paying capacity and resilience; and
- Confirmation of consistency between narrative reporting on climate risks and the accounting assumptions.

The TCFD published its third status report since publishing its recommendations in June 2017, based on a survey of the 2019 reports of over 1,700 entities on a worldwide basis and in diverse sectors, with regard to compliance with its recommendations. While improvement continues, there is significant scope for further improvements, with highlights including a finding of particular concern that only one in fifteen companies disclosed information on the resilience of their strategies to meet the challenge of climate change. The TCFD has also published guidance on climate-related scenario analysis for non-financial firms and on integrating climate-related risks into risk management processes.

The FRC has published the results of its Thematic Review of climate related considerations by all involved in the reporting process. A need for overall improvement is highlighted, including:

- There is little evidence that business models and company strategies are influenced by integrating climate considerations into governance frameworks;
- Companies are not meeting the demands of users who are calling for additional information; and
- Consideration and disclosure of climate change in the financial statements lags behind narrative reporting.

The FRC has more recently published a Summary Report, highlighting its views on current market practice, outlining its expectations and showing where it will focus its energies in ensuring that those within its remit are responding appropriately to the challenges of climate change.

The UK government has announced its intention to make TCFD-aligned disclosures fully mandatory by 2025 across the UK economy. This is in line with the commitment of the UK Financial Conduct Authority to enforce TCFD recommendations for premium listed companies in 2021, and to consult on extending the scope of that enforcement to asset managers, life insurers and pension providers.

The Irish Government has expressed its support for the work of the TCFD, in providing clarity to companies reporting on climate risks and increasing the transparency required to meet the Paris Accord goals.

Brexit

With the Trade Agreements between the EU and the UK being finalised in late December, there is much work for entities to carry out in becoming familiar with the terms and conditions, their implications for Ireland and changes to processes. Entities are expected to explain company-specific risks and uncertainties, including the potential impacts on different parts of their business and effects on the financial statements.

The FRC and the UK Department for Business, Energy and Industrial Strategy (BEIS) have jointly published letters to companies and audit firms setting out changes in the UK's corporate reporting framework from 1 January 2021. These are relevant to UK incorporated companies, multinational groups with both a UK and EEA presence and EEA companies with cross-border listings. There will be a transition to UK-adopted IFRS from January 1 2021 onwards with transitional provisions for companies with financial years straddling 31 December 2020 and for companies with year ends before that date but which are not filing until after that date. EU companies with securities traded on a regulated market in the UK who use Member State GAAP will need to prepare financial statements that accord with UK law.

The FRC has issued Amendments to UK and Republic of Ireland accounting standards – UK exit from the European Union. The amendments update UK and Republic of Ireland accounting standards for changes in legislation following the UK's exit from the European Union. The FRC has also issued guidance for preparers using IFRS, and their auditors. This includes proposed wording to explain the basis of accounts preparation, where an entity has a financial period which straddles the end of the transition period following the UK's exit from the European Union. This is to ensure consistent understanding and application of requirements in the Companies Act that come into effect at the end of the Transition Period, and will apply to accounting periods beginning on or after 1st January 2021.

Our Brexit Resources page provides extensive information and insight from a financial reporting perspective and related considerations. At a broader business insight level, information is available on Brexit site.

2. International Accounting and Related Developments

Leasing

The IASB has published an exposure draft (ED) 'Lease Liability in a Sale and Leaseback (proposed amendment to IFRS 16)'. It aims to clarify how a seller-lessee should apply the subsequent measurement requirements of IFRS 16 to the lease liability that arises. Comments are requested by 29 March 2021.

IAASA has published an Information Note setting out how companies have accounted for leases under IFRS 16 – Leases. Its review of financial statements identified areas where issuers could further improve their disclosures in future financial statements and thereby enhance users' understanding of the impact of leasing on the issuer's operations. Areas noted include:

- Significant accounting judgements – more detail and granularity in factors that management consider when making significant judgements;
- Sources of estimation uncertainty – better information on how the weighted average incremental borrowing rate is calculated and factored into the lease calculations;
- Measurement of lease liabilities – the need for use of entity-specific accounting policies;
- Variable lease payments – disclosure of the amount of variable lease payments included in the lease liability measurement; and
- Changes in liabilities arising from financing activities - changes in lease liabilities should be separately disclosed in the disclosure on movements in liabilities arising from financing activities.

IAASA notes that the amendment to IFRS 16 introduced to address COVID-19-related rent concessions, is of particular relevance to companies affected.

Business Combinations

The IASB has issued a request for information (RFI) seeking comments from stakeholders on IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' with regard to:

- Do they provide information that is comprehensive to users of financial statements?
- Are the requirements difficult to implement, and do they pose difficulty for consistent implementation? and
- Are there unexpected costs arising in applying or enforcing the standards?

Comments are requested by 10 May 2021.

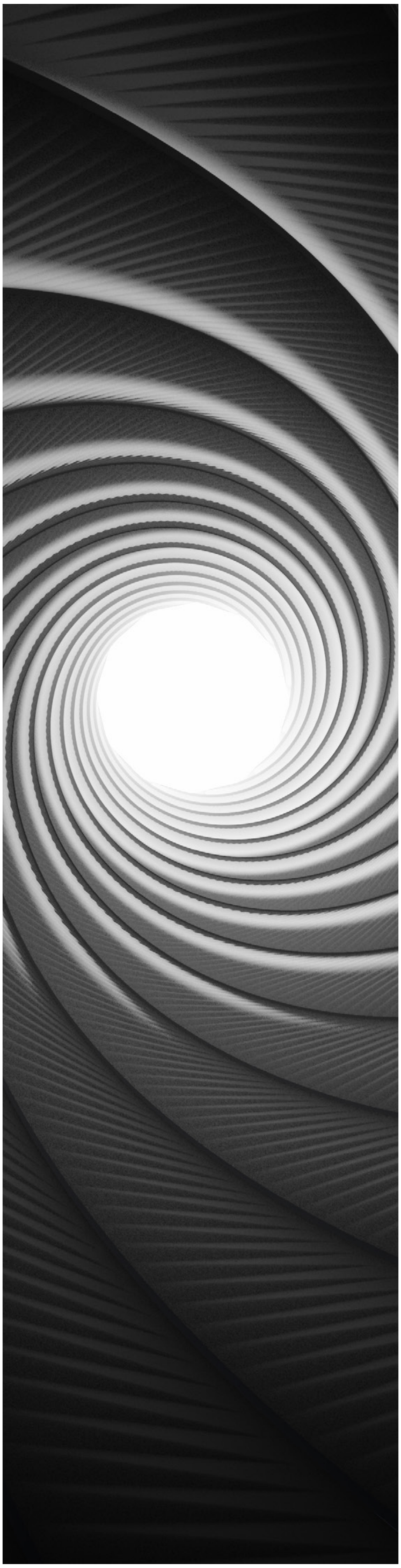
The IASB has published a Discussion Paper (DP) 'Business Combinations under Common Control', following on from a research project which continued over the past number of years. Comments on the DP are requested by 1 September 2021.

Activity continues in response to the DP 'Business Combinations and Goodwill', issued by the IASB earlier in 2020. The following are the main topics being discussed:

- Improving disclosures about business combinations;
- Improvements in the goodwill impairment test; and
- A possible introduction of amortisation of goodwill.

Financial Instruments

The IASB has commenced a post-implementation review of the classification and measurement parts of IFRS 9, which are separated from other parts of the Standard for the purposes of the review. A project plan will be launched at a future board meeting.



Operating Segments

IAASA has published an Information Note 'IFRS 8 Operating Segments – Identification of Chief Operating Decision Maker (CODM)'. One of the identifying features of an operating segment is that the segment results are regularly reviewed by the CODM. Therefore, the identification of the CODM is an important step in the process of identifying operating segments. The identification of operating segments also has implications for impairment testing.

Interpretations

The IFRS Interpretations Committee has published its agenda decisions from April 2020 to September 2020, which included those on:

- IFRS 16 Leases – sale and leaseback with variable payments;
- IAS 12 Income Taxes – multiple tax consequences of recovering an asset; and
- IAS 38 Intangible Assets – player transfer requests.

Decommissioning

A topic likely to increase in significance with the development of measures to address climate risk and other ESG risks is decommissioning liabilities. This is of particular relevance in polluting industries including oil and gas, mining and utilities.

The Institute of Chartered Accountants in Scotland has published a report on the topic, with recommendations including:

- Disclosing discount rates applied to facilitate comparability and to see inside the 'black box' of accounting for decommissioning liabilities;
- Disclosures to include the discount rate, undiscounted future estimated cash flows and timing of decommissioning activities; and
- A comprehensive narrative on plans and significant related uncertainties.

IPSAS-IFRS Alignment

The International Public Sector Accounting Standards Board (IPSASB), which develops the IPSAS for financial reporting by governments and other public sector entities, has released an updated IPSAS-IFRS alignment dashboard.

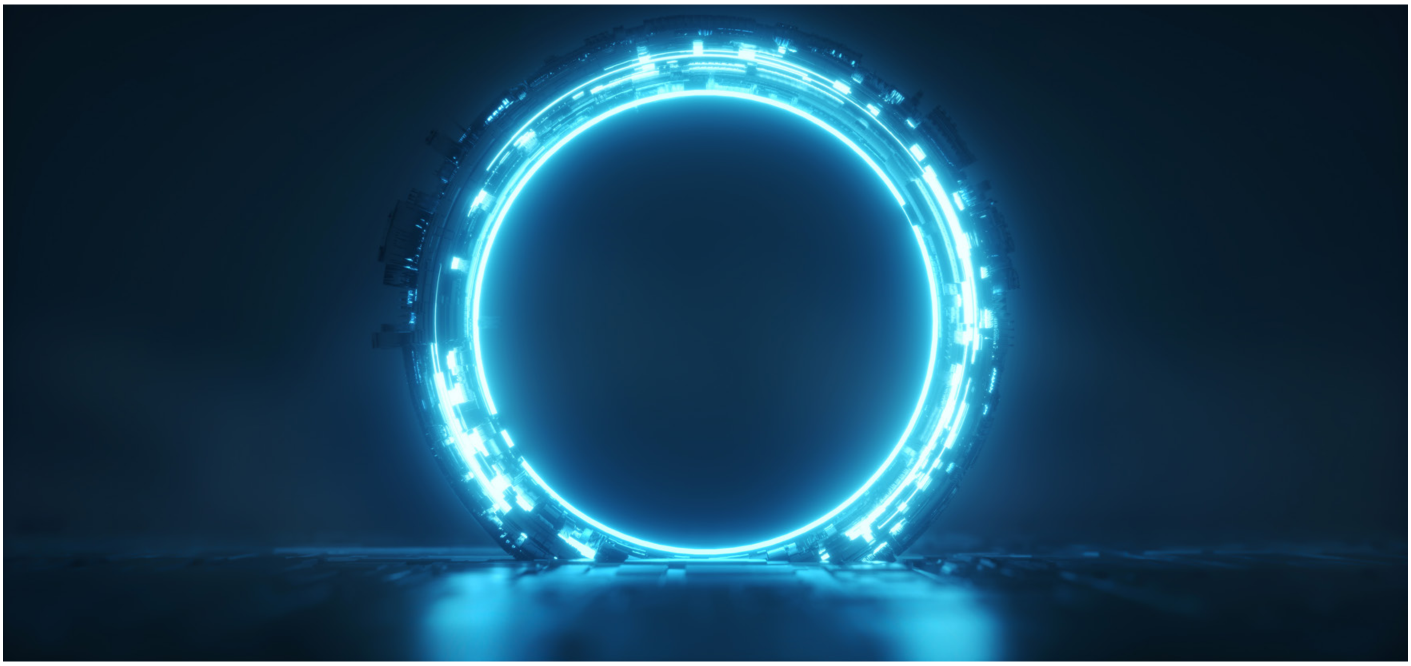
IPSASB has published 'Non-Authoritative Amendments to IPSAS 41 Financial Instruments' for topics that are unique to the public sector and have a significant impact on government finances. These are – monetary gold, currency in circulation, IMF quota subscriptions and IMF special drawing rights.

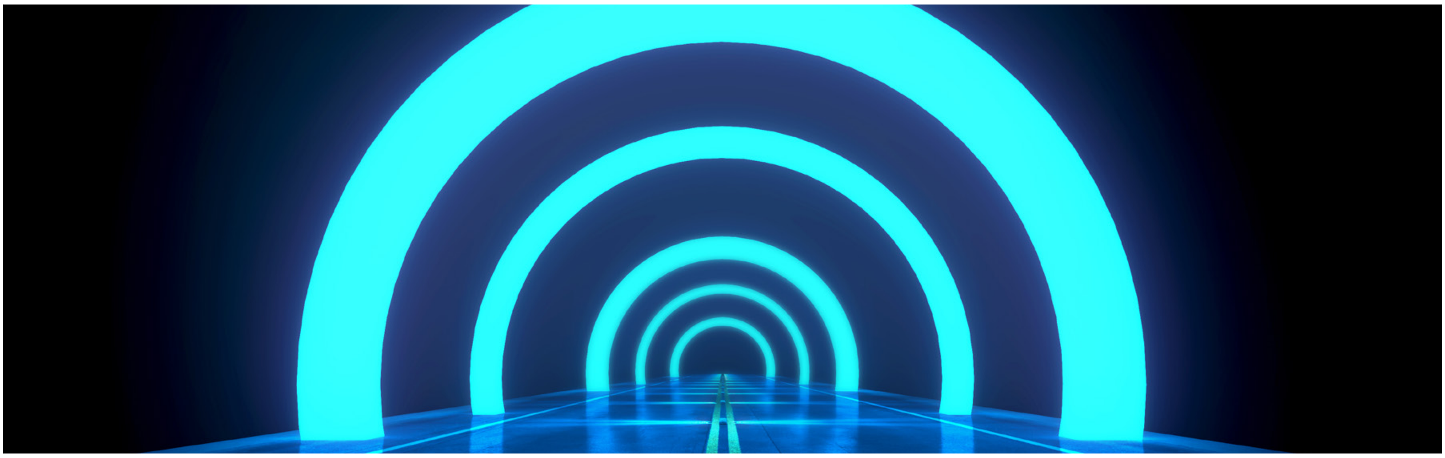
IVSC

The International Valuation Standards Council (IVSC) has launched a consultation on topics it should address as part of its current agenda. Topics identified include automated valuation models, ESG reports, long-term value, uncertainty and risk, data management.

The IVSC has published a perspectives paper 'Defining and Estimating Social Value' to explore concepts which are often considered uncertain and seek comments to determine whether standards or guidance material are required.

The IVSC Financial Instruments Board has published a first exposure draft that addresses improvements to IVS 500 regarding governance and data. The exposure draft will be published in stages with methods and models as well as controls and reporting to be addressed later. Comments are requested by 19 April 2021.





3. Ireland and UK – Recent Developments

Amendments to Standards

The FRC has issued amendments to its standards, as follows:

- FRS 101 – the revised effective date of the application of IFRS 17 and the new definition of a 'qualifying entity' has been deferred until accounting periods beginning on or after 1 January 2023, with consequential amendments to FRS 101;
- FRS 102/FRS 105 – introduces explicit accounting requirements for accounting for temporary rent concessions for operating leases occurring as a direct consequence of COVID-19;
- FRS 104 – clarification of the requirement to assess the going concern basis of accounting and related material uncertainties when preparing interim financial statements.

The FRC has also issued Amendments to FRS 102 – Interest Rate Benchmark Reform to respond to the financial reporting issues arising from interest rate benchmark reform, which are intended to adapt and simplify accounting requirements in that context.

Under the FRC 2020/21 review programme, amendments to FRS 101 have been proposed by the FRC with regard to:

- Certain disclosures exemptions in relation to IAS 16 Property, Plant and Equipment; and
- Removal of paragraphs 39 and 40 of IAS 1 – comparative amounts.

Liquidity and Cash Flows

The FRC has published a report based on its thematic review of corporate reporting in relation to IAS 7 Statement of Cash Flows, and the liquidity disclosure requirements in IFRS 7 Financial Instruments: Disclosures.

The FRC will continue to challenge apparent material inconsistency between the cash flow statement and the notes, incorrect classification and improvement in disclosure of accounting policies and judgements. Areas identified where improvements could be made on liquidity disclosures include debt covenants.

Going Concern

The ICAEW has published a guide on going concern considerations for FRS 105 reporters. It summarises management responsibilities for assessing going concern and the associated implications for financial reporting in the light of COVID-19.

Thematic Reviews

The FRC has announced its corporate reporting and audit quality review programmes for 2021/22 together with its priority sectors for review. The FRC will conduct five thematic reviews on financial reporting, as follows:

- Going concern and viability
- IAS 37 – provisions, contingent liabilities and assets;
- Climate risk – streamlined energy and carbon reporting;
- Alternative performance measures; and
- Interim reporting.

Priority sectors are those considered to be high risk by virtue of economic or other pressures and uncertainties. They include travel; hospitality and leisure; retail; property (retail and offices); financial services.

Corporate Governance

The FRC has expressed concern at the overall standard of governance reporting in its Review of Corporate Governance Reporting, expressing concern at formulaic, box-ticking compliance at the expense of effective governance and reporting. The FRC has called for companies to improve their discussion of governance practices and what impact they have on their business, which is intended to be reflective of the application and maintenance of good standards. Areas of focus include well-defined leadership and purpose; engagement with key stakeholders; impact of shareholder engagement on remuneration policy and outcomes; workforce engagement on executive remuneration policy.

4. Legal and Regulatory Developments

Fitness and Probity

A letter issued by the Central Bank to all financial services providers sets out its expectations for firms to take appropriate action to address significant issues identified in carrying out its thematic inspections. This concerns, in particular, entities' legal obligations under their Fitness and Probity regime introduced by the Central Bank Act 2010. The area which was found most consistently weak was the process for appointing members to the Board regarding lack of evidence of qualifications, reference checks and suitability searches.

ESEF

The EU Authorities have agreed to an amendment of the Transparency Directive allowing Member States to delay by one year the application of the European Single Electronic Format (ESEF) requirements for listed companies' annual financial reports, provided that they notify the Commission of their intention to do so, and of their sufficiently justified reasons. Listed companies who wish to publish their ESEF annual financial reports in 2021 will still be able to proceed.

5. Deloitte Publications - Q4 2020

Accounting Roundup - Closing Out 2020

Purpose-driven Business Reporting in Focus — New Prototype Climate-related Financial Disclosure Standard

Purpose-driven Business Reporting in Focus — Progress in climate-related reporting to meet investor expectations

Purpose-driven Business Reporting in Focus — Building momentum towards comprehensive global standards

Need to Know — IASB post-implementation review of IFRS 10, IFRS 11 and IFRS 12

Need to know — IASB DP on 'Business Combinations under Common Control'

Need to know — IASB proposals on IFRS 16 sale and leaseback transactions

Need to know — Accounting considerations – COVID-19

Need to know — IFRS Foundation: global standards for sustainability reporting

A Closer Look — Financial instrument disclosures when applying Interest Rate Benchmark Reform

A Closer Look — Investor demand for corporate reporting in line with the Paris Agreement on climate change

Governance in brief - FRC issues advice on annual reports for 2020/21

Governance in focus — Audit Committee effectiveness – 2020 framework

Governance in focus — On the board agenda 2021

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:

John McCarroll
Partner - Audit and Assurance
+353 1 417 2533
jmccarroll@deloitte.ie

Michael Hartwell
Partner | Head of Audit and Assurance
+353 1 417 2303
mhartwell@deloitte.ie

Brendan Sheridan
Director - Audit and Assurance
+353 1 417 2357
bsheridan@deloitte.ie

Oliver Holt
National Director of Financial Reporting Services
+ 353 1 417 5731
oliverholt@deloitte.ie

Dublin
29 Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte and Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

Galway
Galway Financial Services Centre
Moneenageisha Road
Galway
T: +353 91 706000
F: +353 91 706099

Belfast
19 Bedford Street
Belfast BT2 7EJ
Northern Ireland
T: +44 (0)28 9032 2861
F: +44 (0)28 9023 4786

Deloitte.ie

Deloitte.

MAKING AN IMPACT THAT MATTERS since 1845