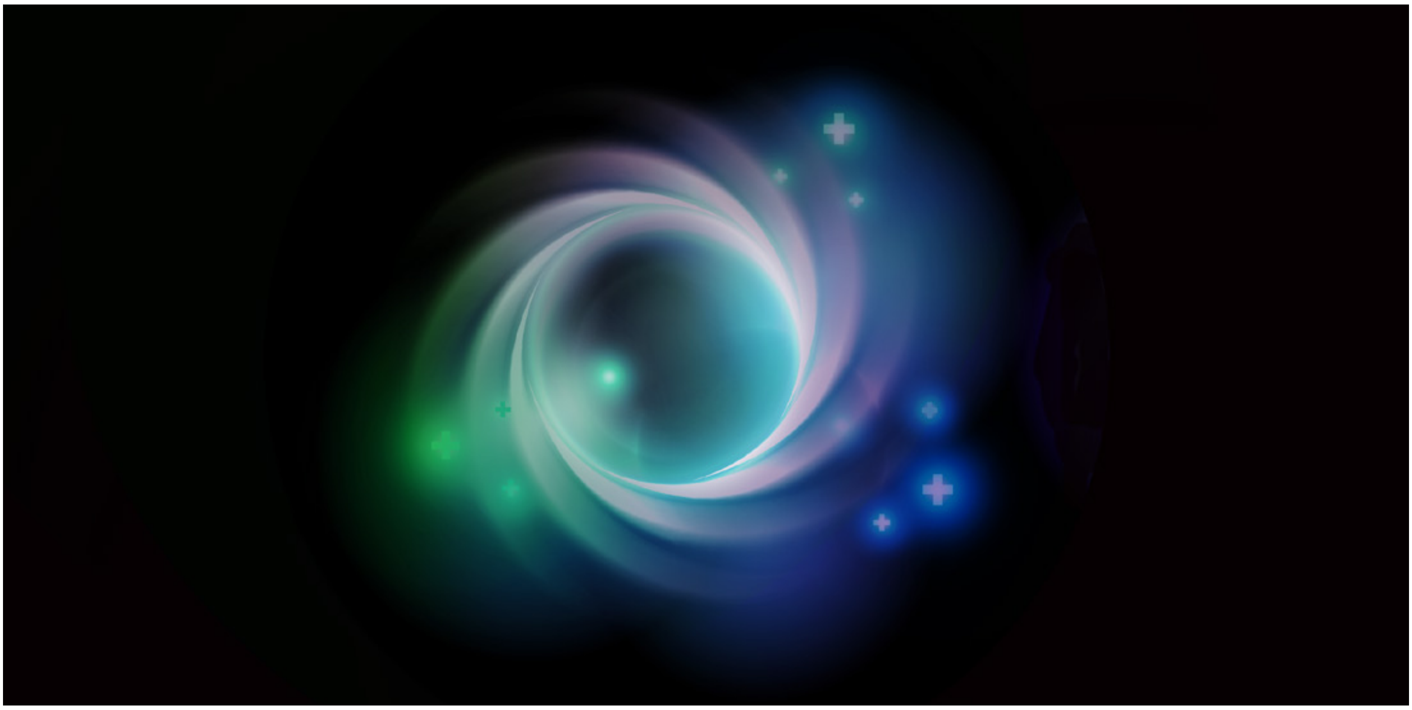


Quarterly Financial Reporting Brief

Contents

Introduction

The extreme challenges caused by the COVID-19 pandemic have continued for more than a year and while there is optimism that vaccination programmes will ultimately provide solutions, continuing patience and perseverance will be needed. The success of the recovery period remains in question for many, and for all, the tremors felt in our economic and social environment will reverberate for some time to come.

The 'Big Issues' addressed in this Brief reflect on this dynamic environment, and are as follows:

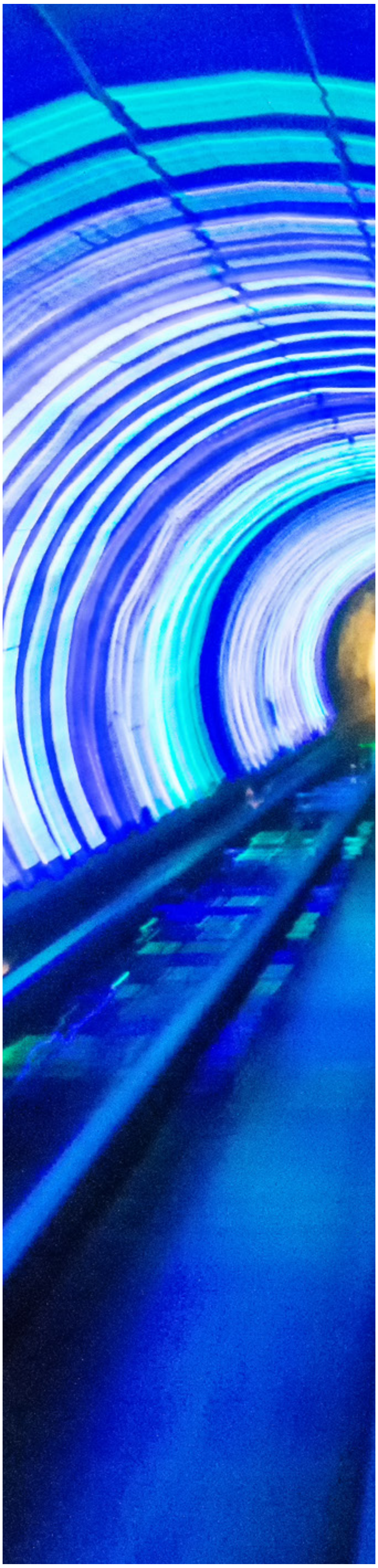
- Sustainability, including the battle with climate change, takes on heightened importance as time progresses. The demand to provide information to investors and others creates heightened expectations for the delivery of a comprehensive corporate reporting framework. Developments during the quarter are considered under 'Future of Reporting'.

- With the great uncertainties emanating from the challenging environment, accounting for goodwill and other intangibles is a major concern. Developments continue and the most recent are considered under 'Goodwill and Intangibles'.
- The importance of the message has never been more significant, and the reliability of corporate governance is paramount with the need to provide stakeholders with transparent reporting. Recent developments are outlined under 'Corporate Governance'.
- Settling down following Brexit is a continuing challenge. Changes in the UK legal and reporting environment, much of which are relevant to Irish companies, are outlined under 'Brexit'.

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

Note: *We are pleased to announce a major redesign to our IFRS e-learning platform*

The site 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

Future of Reporting
Momentum continues to build towards reporting on sustainability and developing a comprehensive corporate reporting framework.

The IFRS Foundation (IFRSF) has concluded on the strategic direction of sustainability reporting, following many significant responses to its consultation paper published in September 2020.

A new Sustainability Standards Board is to be set up which will:
- focus on information that is material to the decisions of investors, lenders and other creditors;
- initially focus its efforts on climate-related reporting, while also working towards meeting the information needs of investors on other ESG matters;
- build upon the well-established work of the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD), as well as work by the alliance of leading standard-setters in sustainability reporting focused on enterprise value; and
- work with standard setters from key jurisdictions to issue standards that provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts.

The prototype climate-related financial disclosure standard published in December 2020 will potentially be a basis for the new board to develop climate-related reporting standards.

The Trustees plan to:
- publish a feedback statement summarising the responses received to their consultation paper; and
- publish for public comment the proposed changes to the Foundation's constitution to form a new board.

The Trustees of the IFRS Foundation have set up a working group which will be chaired by the IFRS Foundation and include participation by the IASB, to address the need for connectivity with financial reporting. IOSCO will participate in the group as an observer.

Members of the working group are
- The Task Force on Climate related Financial Disclosures (TCFD);
- the Value Reporting Foundation representing the intended merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB);
- the Climate Disclosure Standards Board (CDSB); and
- the World Economic Forum (WEF)..

Throughout the process, the working group will also engage closely with the Global Reporting Initiative (GRI). The first meeting of the working group is expected to take place in April 2021.

The European Financial Reporting Advisory Group (EFRAG) has responded to requests from the European Commission (EC) to undertake preparatory work for the possible elaboration of EU non-financial reporting standards. EFRAG has submitted two reports to the EC:

Report 1 – proposes a roadmap for the development of a comprehensive set of EU sustainability reporting standards. The report contains 54 proposals on a structured basis with a three-level architecture and sets an ambitious roadmap that would see a first set of draft standards by mid-2022; and
Report 2 – proposes reforms to EFRAG's governance structure to establish a non-financial reporting pillar with a robust governance structure and due process, and a sustainable funding structure.

The International Organisation of Securities Commissions (IOSCO) has issued a statement of its support to IFRSF to develop its plan to establish a Sustainability Standards Board to meet the needs of the capital markets. An ultimate goal of IOSCO is to foster coherence and consistency between the IFRSF and the EU on their initiatives on sustainability reporting, the importance of which has been recognised by both bodies.

There continued during the quarter to be a plethora of reports and other communications by those involved in the reporting process, particularly in relation to sustainability. Of those, two of particular interest were:

- The Global Reporting Initiative has published an updated version of 'Linking the SDGs and the GRI Standards'. It gives a breakdown of the targets under each of the 17 UN Sustainable Development Goals (SDGs) and maps how they correlate against the disclosures in the GRI Standards;

- The Accounting Standards Committee of Germany (ASCG) has published the results of a study of 100 companies as to how they comply with obligations on ESG factors in connection with the requirements of the EU non-Financial Reporting Directive (NFRD). It also includes recommendations for action on the upcoming revision of the NFRD.

The International Integrated Reporting Council (IIRC) has published a revised Framework with the main revisions as follows:

- Simplification of the required statement of responsibility for the integrated report
- Improved insight into the quality and integrity of the reporting process;
- A clearer distinction between outputs and outcomes; and
- Greater emphasis on the balanced reporting of outcomes and value preservation and erosion scenarios.

An Information Paper has been published by the IIRC – 'Delivering a Meaningful and Concise Integrated Report'

Goodwill & Intangibles

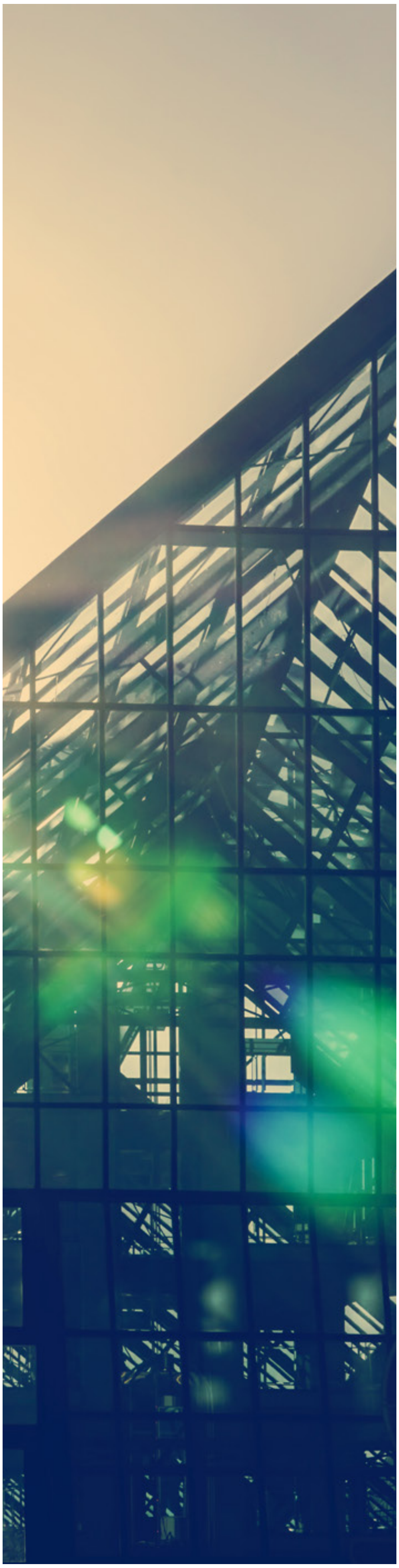
IOSCO has released a statement urging the IASB and the US Financial Accounting Standards Board (FASB) to collaborate closely with each other on accounting for goodwill, as both are working on goodwill projects but some of their ideas seem to be diverging.

In December 2020, during the deliberation of the responses to its discussion paper 'Identifiable Intangible Assets and Subsequent Accounting for Goodwill' the FASB tentatively decided to reintroduce amortisation of goodwill.

In its March 2020 Discussion Paper 'Business Combinations – Disclosures, Goodwill and Impairment' the IASB reached a preliminary view that it should retain an impairment model only. The IASB has yet to complete its review of respondents' comments but there is clear indication of dissatisfaction with the impairment model, and a potential move towards reintroducing amortisation.

IOSCO believes that maintaining and enhancing convergence in this area should continue to be an important consideration for both the IASB and FASB, and continues to consistently support the objective of a single set of high quality standards that are consistently and rigorously applied.
In addition to considerations relating to goodwill, the IASB Discussion Paper aims at improving information companies provide to investors, at a reasonable cost, about the businesses those companies buy which would help to hold management accountable for decisions to acquire those businesses.

The FRC has published a feedback statement following comments received on its Discussion Paper 'Business Reporting of Intangibles' which considered the case for radical change to the accounting for intangible assets and the likelihood of such change being made in the near future. Respondents expressed strong support of efforts to address this issue. Reservations were expressed regarding



the difficulty in identifying future-oriented expenditure, with efforts to provide greater transparency potentially leading to highly subjective disclosures. Such disclosures may involve a high degree of management judgement and may also lead to concerns around the commercial sensitivity of the information.

The March article in our Financial Reporting Brief series comments further on this topic.

Corporate Governance

The FRC published its Review of Corporate Governance Reporting in November 2020, with comment in our January Brief. The Financial Reporting Council (FRC) has subsequently issued advice for companies on how to report transparently and effectively when departing from certain provisions of the UK Corporate Governance Code.

The FRC encourages companies to embrace the flexibility offered by the Code so that investors and other stakeholders benefit from reporting that clearly demonstrates a commitment to good governance, and clearly sets out a company's circumstances. It is important that companies:

- Embrace the flexibility offered by the Code and develop bespoke governance processes and practices which raise standards;
- Make it easy for readers to find out which Provisions of the Code they have departed from in their annual report; and
- Ensure that they provide full, clear and meaningful explanations for any such departures.

The UK Department for Business, Energy and Industrial Strategy (BEIS) has launched a consultation to enhance the quality of corporate governance, corporate reporting and audit and support the establishment of a new regulator.

The Wates Corporate Governance Principles for large private companies have also attracted some comment, much of it favourable. However, there are two areas where, similarly to the UK Corporate Governance Code, improvement could be made:

- Reference to companies not fully embedding Purpose in their organisation and failing to provide specific examples of how the Purpose has actually guided Board level discussions and decisions; and
- Criticism of companies who fail to make their Corporate Governance report easily accessible on their website.

Some common sense principles of good communication are also recommended:

- Brevity, comprehensibility and usefulness
- Relevance
- Company specific
- Comparability

The final report of the UK Hampton-Alexander Review of women on boards has been published. Targets have been achieved regarding women representing at least 33% of the membership of boards and executive committees of FTSE 350 companies. The drive continues towards women representation with recommendations including (1) all FTSE 350 companies should have a woman in at least one of the key roles of chairperson, CEO, CFO; and (2) review by investor groups of potential voting sanctions applied to listed companies which fail to meet the gender diversity targets they have set.

Equivalent or similar considerations are of significance to Irish companies.

Brexit

From 1st January 2021, following conclusion of the Brexit transition period, the European Union (Withdrawal Agreement) Act came into effect in the UK, with several Statutory Instruments brought into legislation to address UK accounting, corporate reporting, auditing and corporate governance regimes.

All new or amended standards will be subject to endorsement by the newly appointed UK Endorsement Board

The UK Companies Act 2006 has been amended to change references from the EEA to the UK, including provisions relating to audit exemption, group accounts exemption, small company regime, subsidiary filing exemptions, and a number of others. The FRC has published amendments to UK accounting standards to reflect changes in UK company law.

The UK is now a 'Third Country' in the context of its relationship with the EEA which has consequences in areas such as GAAP equivalence, filing of annual reports and auditor registration.

A Memorandum of Understanding on Reciprocal Arrangements has been entered into by IAASA and the FRC to facilitate Recognised Accountancy Bodies (RABs) ability to register UK statutory auditors on an equivalent basis to Irish statutory auditors with regard to the audit of companies registered in Ireland.

2. International Accounting & Related Developments

Lease Concessions

The IASB has decided to extend the May 2020 amendment of IFRS 16 that provides lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification by one year to 30 June 2022.

Accounting Estimates

The IASB has published 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities distinguish between accounting policies and accounting estimates. Changes to policies must be applied retrospectively while changes in accounting estimates are applied prospectively. The changes to IAS 8 focus entirely on accounting estimates. The changes clarify that new information arising, unless it identifies errors in a prior period, and changes in measurement techniques are normally changes in estimate.

The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted.

Accounting Policies

The IASB has issued 'Disclosure of Accounting Policies (Amendments to IAS1 and IFRS Practice Statement 2)' that is intended to help preparers decide which accounting policies to disclose in their financial statements. The changes require disclosure of material accounting policies rather than significant accounting policies, with application of the 'four step' materiality process described in PS2. Guidance is added to explain how an entity can identify material accounting policy information, and give examples of when accounting policy information is likely to be material. It also clarifies that accounting policy information may be material because of its nature, even if the related amounts are immaterial, and policy information is material if readers would need it to understand other material information in the financial statements. The amendments are applied prospectively for annual periods beginning on or after 1 January 2023, with earlier application permitted.

Going Concern

IOSCO has released a statement on the need for high-quality information regarding going concern assessments and disclosures during the COVID-19 pandemic, and welcomes the recent IFRSF educational material on going concern disclosures. IOSCO highlights the importance of all involved in the reporting process to be fully committed to providing investors with high-quality information about the existence of material uncertainties that may cast significant doubt on an entity's ability to continue as a going concern. IOSCO also notes that it is important for investors to receive complete information about significant judgements that management may have exercised in determining the entity's ability to continue as a going concern.

The IFRSF has issued educational material 'Going Concern – Focus on Disclosure' to support companies in the implementation of IFRS requirements.

Pilot Approach

The IASB has published an exposure draft 'Disclosure Requirements in IFRS Standards — A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)' that contains proposed guidance for itself when developing and drafting disclosure requirements in IFRSs in future as well as proposed amendments to IFRS 13 'Fair Value Measurement' and IAS 19 'Employee Benefits' that result from applying the proposed guidance to those standards. Comments are requested by 21 October 2021.

As one of the main reasons for the perceived disclosure problem was the 'checklist' mentality, the IASB has decided to develop an approach that would shift the focus to the use of judgement and to determining whether the objective behind the disclosures has been met by the entity.

On IFRS 13, the Board proposes an overall disclosure objective that requires an entity to disclose information that shows:

- the significance of the assets and liabilities measured at fair value;
- how the fair value measurements have been determined; and
- how changes in those measurements affect the entity's financial statements.

Specific disclosure objectives would then regard the fair value hierarchy, measurement uncertainties, possible alternative fair value measurements, and drivers of change in fair value measurements.

On 1AS 19, the overall disclosure objectives proposed for IAS 19 distinguish between defined benefit plans and defined contribution plans. For defined benefit plans, the overall disclosure objective requires an entity to disclose information that enables users of financial statements to evaluate the uncertainties associated with the entity's involvement in its defined benefit plans and to assess the effect that the defined benefit plans have on the financial performance, financial position and cash flows of the entity. For defined contribution plans, the overall disclosure objective requires an entity to disclose information that enables users of financial statements to understand the effect that defined contribution plans have on the financial performance and cash flows of the entity.

Rate Regulated Activities

The IASB has published the exposure draft of a new standard 'Regulatory Assets and Regulatory Liabilities' that is intended to replace IFRS 14 'Regulatory Deferral Accounts'. The IASB is developing an accounting model that will enable entities to provide information about their incremental rights to add amounts, and incremental obligations to deduct amounts, in determining the future rates to be charged to customers as a result of goods or services already supplied.
The deadline for submitting comments is 31 July 2021.

Non-Profit Organisations
International Financial Reporting for Non-Profit Organisations (IFR4NPO) has published a consultation paper to give NPOs the opportunity to contribute to the development of guidance specific to their sector. The guidance will apply to the sector specific aspects of general purpose financial statements, considering accounting issues as well as narrative reports that accompany financial statements.

IPSASB – Developments
Deloitte has recently published 'IPSAS in your pocket – 2021 edition'. It summarises the provisions of all International Public Sector Accounting Standards, recommended practice guidelines and the conceptual framework, outstanding at 1 January 2021.

The IPSAS Board has released an exposure draft on leases and a request for information on concessionary leases and other arrangements similar to leases. ED75 proposes a model that is aligned with IFRS 16 'Leases' for lease accounting in the public sector.

The IPSASB has released an updated IPSAS-IFRS alignment dashboard showing how far individual IPSAS are aligned with corresponding IFRSs.

IVSC - Valuation Challenges
The International Valuation Standards Council (IVSC) has published a number of perspectives papers, as follows:

- 'ESG and Business Valuation' to initiate a debate on the topic of ESG factors in business valuation. ESG factors represent fundamental considerations to inform valuation analysis, and steps to begin incorporating ESG considerations into valuation practice are critical;
- 'Challenges to Market Value' that looks at market valuation during pandemic periods, such as currently prevails; and
- 'IBOR Reform - A Valuation Guide' the move away from IBOR will change the pricing, valuation and risk management practices, notably in the financial services sector but also for any entity that uses financial instruments.

3. Ireland and UK – Recent Developments

IAASA Publications

Given the economic uncertainty caused by COVID-19, IAASA expects that issuers will incorporate higher levels of uncertainty into their impairment testing assumptions. In these circumstances, issuers should recognise the importance to users of financial reports of high quality disclosures regarding impairment reviews. To assist issuers in providing useful impairment disclosures, IAASA published an Information Note 'IAS 36 – Impairment of Assets'.

IAASA has also published summary information of its financial reporting enforcement activities undertaken during 2020. IAASA examined 47 annual and half-yearly financial statements and secured 82 undertakings from companies to improve their financial reporting in future years.

IAASA has published a further compendium of financial reporting decisions on a range of accounting matters, including those relating to:

IAS 10 : Events After The Reporting Period
IAS 36 : Impairment of Assets
IFRS 7 : Financial Instruments: Disclosures
IFRS 16 : Leases

The IAASA compendium of decisions is published on its website, and it will continue to publish selected decisions periodically.

Substantive Reviews

As an interim step towards greater transparency of its corporate reporting review function, the FRC has published summaries of its findings from recently closed substantive reviews of company financial statements. The FRC may ask a company to refer to its exchanges with the FRC when the company makes a change to a significant aspect of its report and accounts in response to a review.

Currently the summaries can only be disclosed with the consent of the relevant companies. A proposal is being considered to give the regulator a statutory power to publish a summary of its findings from individual reviews of company reports and accounts.

Interest Rate Benchmark Reform

The FRC has published amendments to FRS 102 regarding the financial reporting issues arising from the replacement of interest rate benchmarks and are referred to as Phase 2 amendments, and are effective for accounting periods beginning on or after 1 January 2021.

Amendments regarding Phase 1 were published in early 2020, and applied to accounting periods beginning on or after 1 January 2020.

Digital Reporting

Contributing to the FRC project on digital reporting, the FRC Lab has published a report which considers how virtual and augmented reality are and may continue to be used to expand the scope and audience for corporate reporting. The COVID-19 pandemic has massively accelerated the adoption of technology across business and communications, with the potential that corporate reports and communications will permanently switch from physical to digital.

Review of FRS 102

The FRC is starting the next periodic review of FRS 102 (and other UK and Ireland accounting standards). The FRC note that this might include new issues/transactions that should be addressed, or comments or suggestions in relation to the current requirements. Stakeholders can provide comments to the FRC on any aspect of the standards to ukfrsperiodicreview@frc.org.uk by 31 October 2021.

4. Legal & Regulatory Developments

Anti - Money Laundering Legislation

The Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2020 has been passed into Irish law, and gives effect to provisions of the EU's Fifth Money Laundering Directive. The Amendments outline prescribed enhanced customer due diligence procedures, requiring more transparency of beneficial ownership, limiting the potential for anonymous financial transactions and providing more certainty to the definition of 'politically-exposed person'.

Listing Rules

The UK Financial Conduct Authority (FCA) has published a policy statement and new listing rule to promote higher quality climate-related financial disclosures. The rule is effective for accounting periods beginning on or after 1 January 2021 and applies to UK incorporated and overseas commercial companies with a premium listing.

ESEF Regulation

Application of the requirements of the European Single Electronic Format (ESEF) for publication of financial statements has been postponed for a year. Issuers who wish to publish their 2020 financial statements in accordance with ESEF may do so.

UK Regulators Statement

The FRC and the FCA have published updated guidance for companies and auditors to ensure high quality financial information continues to flow to users to support decision-making. The FCA and FRC joint statement reminding companies that extended financial information timelines continues to apply, including allowing listed companies an additional two months to file their annual reports.

5. Deloitte Publications – Q1 2021

Accounting, auditing and corporate governance – legal and regulatory changes arising from Brexit

Accounting considerations related to the coronavirus 2019 disease for FRS 102 reporters

FCA Policy Statement and Listing Rule promoting better climate-related financial disclosures aligned with TCFD

FRC issues Amendments to FRS 102 - Interest Rate Benchmark Reform (Phase 2)

IASB amends IAS 1 and IFRS Practice Statement 2 with regard to the disclosure of accounting policies

IASB amends IAS 8 to clarify the definition of accounting estimates

IASB proposes amendment to IFRS 16 to extend the practical relief on rent concessions

IASB proposes new Standard on Regulatory Assets and Regulatory Liabilities

IFRS Foundation publishes educational material on the requirements of IFRS Standards relevant for going concern assessment

IFRS model financial statements 2020 — Appendix 2 — Financial instrument disclosures when applying Interest Rate Benchmark Reform — Phase 1

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.

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