



## Quarterly Financial Reporting Brief

July 2020

The second quarter saw developments in International Standards on Leases, Insurance, Onerous Contracts, Pre-Asset Completion Costs together with amendments to both FRS 101 and FRS 102. Guidance on financial reporting during the pandemic continued with publications issued by a number of different bodies. Other topics receiving attention were non-financial reporting, dividends, charities together with annual reports issued by a number of reporting supervisors and regulators.

The Covid-19 pandemic continues to be the main theme underlying financial reporting. Comment and guidance has been published by:

- The International Organisation of Securities Commissions (IOSCO) has issued public statements in respect of the consistent application and enforcement of high quality accounting standards and the importance of transparent disclosure in relation to Covid-19;
- The European Securities and Markets Authority (ESMA) has published guidance in relation to half-yearly financial reporting and alternative performance measures;

- The International Accounting Standards Board (IASB) has continued its engagement with management of standards and providing information resources and guidance;
- The International Public Sector Accounting Standards Board (IPSASB) has published Q&A guidance on the impact of government measures in the public sector;
- The UK Financial Reporting Council (FRC) has published an extension to its guidance, originally published in March, in relation to exceptional items, alternative performance measures and going concern;
- The FRC Lab has published two reports providing practical guidance on the disclosures called for by investors in periods of uncertainty; and
- The Institute of Chartered Accountants in England and Wales (ICAEW) has published guidance on Covid-19 and IFRS 9, directed primarily towards banks and their advisors.

The IASB has published amendments to Standards on Leases, Insurance,

Provisions, Property, Plant and Equipment, together with Annual Improvements 2018-20. The IASB has also made available online a webcast on Financial Instruments (IFRS 9 and IFRS 7).

On Sustainability Reporting and Integrated Reporting, reports have been published by a number of organisations including the International Integrated Reporting Council (IIRC) and the Climate Disclosure Standards Board (CDSB).

The FRC has published amendments to FRS 102, Interest Rate Benchmarks, and FRS 101, Cash Flow Statements.

In relation to Charities, further guidance has issued on management and administration and on addressing the impact of Covid-19.

With regard to legal and regulatory matters, there has been additional comment and guidance in relation to such areas as dividends and non-financial reporting. A number of regulators and supervisors have published their 2019 Annual Reports.

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

## International Accounting and Related Developments

### Lease Accounting

The IASB has published 'Covid-19 Related Rent Concessions (Amendment to IFRS 16)', amending the Standard to provide lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification. The amendment is effective for annual periods beginning on or after 1 June 2020, and the EU endorsement process is currently being undertaken.

### Insurance Accounting

The IASB has published 'Amendments to IFRS 17: Insurance Contracts' which addresses twenty-five matters that arose during the pre-implementation work carried out. Some of those matters are:

- Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage;
- Recognition of insurance acquisition cash flows relating to expected contract renewals; and
- Clarification of the application of IFRS 17 in interim financial statements.

The amended IFRS 17 is effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The IASB has also published 'Extension of the Temporary Exemption from applying IFRS 9 (Amendments to IFRS 4)' to defer the expiry date in line with implementation of IFRS 17.

### Onerous Contracts

The IASB has published 'Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)'. The process is more specific with regard to what to include as costs of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted.

### Assets under Construction

The IASB has published 'Property, Plant and Equipment – Proceeds Before Intended Use (Amendments to IAS 16)'. The amendments require that any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, should not be deducted from the cost but should be recognised in profit or loss with the corresponding costs. The amendments are effective for accounting periods beginning on or after 1 January 2022, with earlier adoption permitted.

### Annual Improvements Cycle

The IASB has issued 'Annual Improvements to IFRS Standards 2018-20'. The pronouncement contains amendments to four Standards:

- IFRS 1: Cumulative translation differences in a subsidiary that is a first-time adopter;
- IFRS 9: Fees in the 'ten percent' test for derecognition of financial liabilities;
- IFRS 16: Lease incentives and clarification on reimbursement of leasehold improvement costs; and
- IAS 41: Taxation in fair value measurements and the inclusion of tax cash flows.

The amendments are effective for accounting periods beginning on or after 1 January 2022, with earlier application permitted.

### IFRS – Other Amendments

Other amendments during the quarter were:

- 'Reference to Conceptual Framework (Amendments to IFRS 3) with three minor amendments that update IFRS 3 to accord with the updated 2018 Conceptual Framework, without significantly changing its requirements. The amendments are effective for annual periods beginning on or after 1 January 2022; and
- 'Classification of Liabilities as Current or non-Current (Amendment to IAS1) – the IASB has deferred the effective implementation date to accounting periods beginning on or after 1 January 2023, with the comment period closing in September.

### Expected Credit Losses

The IASB has issued a webinar for investors that outlines the information that entities will need to provide on expected credit losses (ECL) when using IFRS 9 and IFRS 7 to prepare financial statements including disclosure notes. It covers ECL model development with its important characteristics together with related disclosures. It also covers interaction with regulatory provisions.

### IOSCO Statements

IOSCO has released statements on:

- Consistent application and enforcement of high quality accounting standards which are of critical importance to the proper functioning of capital markets. These standards must be maintained during times of uncertainty such as the Covid-19 pandemic; and
- The importance of disclosure about the impact of Covid-19 highlighting financial reporting matters that should be considered by issuers in order to provide investors with relevant and reliable information in their financial reports and related disclosure documents.

### Half-Yearly Reports

ESMA published a statement emphasising that the overarching objective in IAS 34 Interim Financial Reporting is that the interim financial report should provide an explanation and an update to the relevant information included in the annual financial statements. This should take fully into consideration uncertainties such as those arising from Covid-19.

The ESMA statement highlights:

- The importance of providing relevant and reliable information;
- The importance of updating the information included in the latest annual financial statements to adequately inform stakeholders of the impacts of Covid-19, in particular in relation to significant uncertainties and

risks, going concern, impairment of non-financial assets and presentation in the statement of profit or loss; and

- The need for entity-specific information on the past and expected future impact of Covid-19 on the strategic orientation and targets, operations, performance of issuers as well as any mitigating actions.

### Alternative Performance Measures

ESMA has added a new Q&A to its Guidance document on the use of APMs in the context of Covid-19. It encourages issuers to provide narrative information in support of any new or modified APMs to address the impact of Covid-19. The narrative should address the impact of Covid-19, the underlying assumptions and information on measures taken or expected to be taken to address the impact of Covid-19.

### Goodwill

The International Valuation Standards Committee (IVSC) has published a series of three articles looking into whether the principles underlying business valuations are compatible with the concept of goodwill amortisation.

### Developments – Sustainability and Integrated Reporting

Developments and publications include:

- The IIRC has published its 2019 Integrated Report 'Building Consensus towards a Global System'. It has also published a consultation draft of the revised IR Framework; and
- The Climate Disclosure Standards Board (CDSB) has released a report 'Falling Short' analysing the 2019 environmental and climate-related disclosures of Europe's top fifty largest listed companies. It indicates that while there has been continued improvement, practice still fails to provide investors with a clear understanding of a company's development, performance, position and impact. The CDSB has also released a 'TFCD To-Do List' with nine steps to ensure that issuers are making effective TFCD disclosures.

Many other organisations have published reports on a number of topics, including the United Nations and the Global Reporting Initiative (GRI).

### Public Accounting

IPSASB has published:

- 'Covid-19: Relevant IPSASB Accounting Guidance', a Q&A publication to provide insight into the financial reporting issues associated with government responses to Covid-19;
- a Q&A document providing guidance for the public sector on climate change; and
- Updated IPSAS-IFRS alignment dashboard showing how the individual IPSAS are aligned with corresponding IFRSs.

Accountancy Europe has recommended central governments should provide guidance for public sector entities on reporting of such matters as going concern, post balance sheet events and management commentary.

## Ireland and UK – New Developments

### Interest Rate Benchmarks

With the pending reform of interest rate benchmarks, and its potential implications in such areas as hedge accounting, the FRC has amended FRS 102 to provide relief that will avoid the unnecessary discontinuation of hedge accounting. Similar relief is made available in FRS 102 in respect of lease accounting. The amendments will be effective for accounting periods beginning on or after 1 January 2021, with earlier application permitted.

### Cash Flow Statements

The FRC has made amendments to FRS 101 to improve the consistency of the disclosure exemptions in relation to the statement of cash flows and related disclosures. These relate to:

- Disclosures required under 'IFRS 6: Exploration for and Evaluation of Mineral Resources', with similar amendment made to FRS 102; and
- Exemptions under 'IFRS 5: Non-current Assets Held for Sale and Discontinued Operations'.

The amendments will be effective for accounting periods beginning on or after 1 January 2021, with earlier application permitted.

### Covid-19 Guidance

The FRC has published updates to its Guidance in respect of:

- Exceptional items* – companies should consider whether any additional items arising from Covid-19 need to be separately disclosed as 'exceptional items' in accordance with their existing accounting policies. The Guidance sets out criteria for identifying items as 'exceptional' and calls for a reasonable and balanced approach, including:
- Not describing items as 'non-recurring' if they are expected to recur again in future periods;
  - Not disclosing 'stranded' or 'sunk' costs as 'exceptional' solely because of a reduction or elimination of related revenue streams due to Covid-19; and
  - Not identifying incremental costs as 'exceptional' if they result in incremental revenue that is not also described as 'exceptional'.

Narrative disclosure may be helpful in explaining the nature of the items and uncertainties around them.

*Alternative Performance Measures* – the FRC guidance is consistent with that published in the ESMA Q&A; and

*Going concern* – the Guidance indicates that the directors will need to exercise judgement about the nature and extent of the procedures that they apply to assess the going concern assumption at the half-year date. The Guidance provides a number of scenarios which may trigger a need to re-examine going concern and liquidity assumptions and disclosures, including:

- A significant adverse variation in operating cashflows between prior

budgets and forecasts and the outturn in the first half of the year;

- A significant reduction in projected revenue for the second half of the year arising from Covid-19 and related matters;
- A failure to obtain renewal or extension of committed financing facilities; and
- A failure to sell capital assets for their expected amounts or within previously forecast timeframes.

The FRC Lab has published two new reports:

- Covid-19 – Resources, Action, The Future
- Covid-19 – Going Concern, Risk and Viability

The reports provide practical guidance to companies in areas that investors have highlighted as being most critical to their information needs in these times of unparalleled economic uncertainty. The reports find that the provision of transparent and timely disclosure helps investors in their decision-making and drives the allocation of capital.

### Covid-19 and IFRS 9

The ICAEW has published a guide to help banks and their auditors deal with the effects of Covid-19 on financial reporting.

### Dividends

The ICAEW has published a document containing a short introduction to the law on dividends, which gives a summary description of the role and content of the ICAEW Guidance on Realised and Distributable Profits (Tech 02/17 BL). While company law differs between the UK and Ireland, the principles are largely similar. The document covers:

- Laws relevant to dividends and other forms of distribution;
- General principles on the realisation of profits and losses; and
- Directory of Tech 02/17, briefly describing the subject matter of each chapter.

## Legal/Regulatory Developments

### Annual Reports

Reporting Season for Supervisors and Regulators during the quarter, including:

- IAASA – Annual Report 2019 includes comment on both the examination and review procedures carried out in 2019, and its programmes and work plans going forward;
- Central Bank – the report shows the breadth of work of the Central Bank together with the resilience of the financial system to the initial shock of Covid-19, on which it has published a number of separate research papers; and
- ESMA – includes comment on their work together with the National Enforcers in examining the financial statements of about 950 issuers, representing 17% of all issuers, resulting in 299 actions taken to address material departures from IFRS.

### Charities

The Irish Charities Regulator has published Guidance on Charity Reserves to encourage and facilitate the better administration and management of charities.

The SORP-making body for charities has provided guidance to Charity Trustees and preparers of charity accounts addressing the financial impact of the control measures to contain Covid-19 on their financial reporting.

Annual reports which were due to be filed with the Charities Regulator on any date from 12<sup>th</sup> March 2020 to 30<sup>th</sup> October 2020 inclusive, may now be prepared and submitted to the Charities Regulator at any time up to 31<sup>st</sup> October 2020.

### EC – Non-Financial Reporting

The EC has extended its consultation on its renewed sustainable finance strategy with an additional question on financial accounting rules, based on the IFRS Framework.

The consultation launched by the EC in February to review the Non-Financial Reporting Directive has, due to Covid-19, extended its completion schedule by three months to the first quarter of 2021.

A project task force has been appointed for the second project of the European Lab Steering Group on reporting of non-financial risks and opportunities and linkage to the business model.

Accountancy Europe has published a follow-up paper to its initial paper on the need for reliable, consistent information in non-financial reporting that is interconnected with financial reporting.

### Annual Report – ESEF

ESMA has published an example annual report prepared in the European Single Electronic Format (ESEF). It has also amended the Regulatory Technical Standards on ESEF to incorporate the 2020 version of the IFRS XBRL taxonomy.

# Contact Us

Our firm's website, [www.iasplus.com](http://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.com).

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

John McCarroll  
Partner  
T: +353 1 417 2533  
E: [jmccarroll@deloitte.ie](mailto:jmccarroll@deloitte.ie)

Michael Hartwell  
Partner  
T: +353 1 417 2303  
E: [mhartwell@deloitte.ie](mailto:mhartwell@deloitte.ie)

Brendan Sheridan  
Director  
T: +353 1 417 2357  
E: [bsheridan@deloitte.ie](mailto:bsheridan@deloitte.ie)

Oliver Holt  
Director  
T: +353 1 417 5731  
E: [oliverholt@deloitte.ie](mailto:oliverholt@deloitte.ie)

**Dublin**  
Deloitte  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2  
T: +353 1 417 2200  
F: +353 1 417 2300

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

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

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

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

[www.deloitte.com/ie](http://www.deloitte.com/ie)



At Deloitte, we make an impact that matters for our clients, our people, our profession, and in the wider society by delivering the solutions and insights, they need to address their most complex business challenges. As the largest global professional services and consulting network, with approximately 263,900 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has nearly 3,000 people providing audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. Our people have the leadership capabilities, experience and insight to collaborate with clients so they can move forward with confidence.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte Ireland LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte Ireland LLP is a limited liability partnership registered in Northern Ireland with registered number NC1499 and its registered office at 19 Bedford Street, Belfast BT2 7EJ, Northern Ireland.

Deloitte Ireland LLP is the Ireland affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.