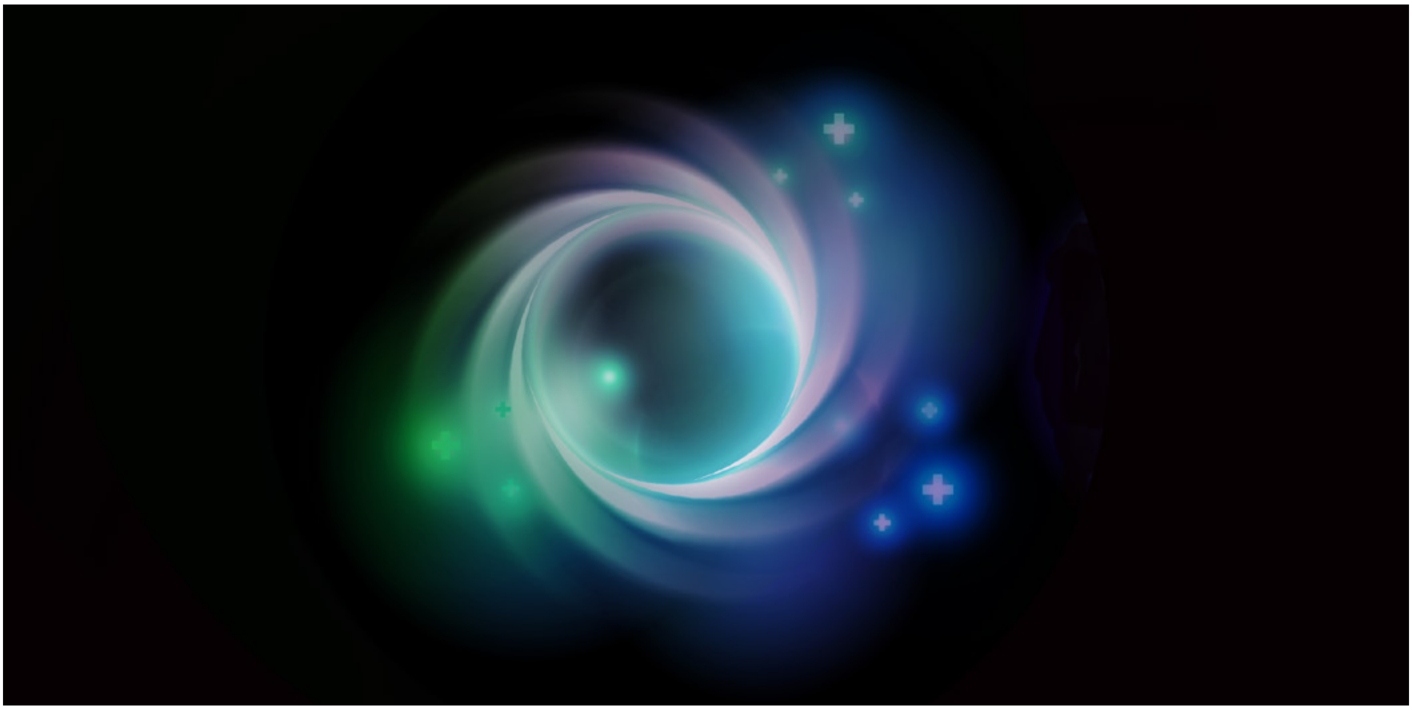


Quarterly Financial Reporting Brief

Contents

The war in the most Eastern part of Europe, Russia and Ukraine, is of such disastrous human proportions with huge social and economic impact that it dominates all of our thoughts. And yet, we must uphold our principles including those in the realm of corporate reporting. The invasion has greatly exacerbated the uncertain environment in which companies operate and given rise to challenges that must be met to continue providing transparent and reliable information to investors and others.

We must also continue to address climate change and other sustainability risks and put the structures in place to develop a comprehensive corporate reporting framework.

This Brief comments on financial reporting and legal/regulatory developments during the first quarter of 2022.

1. The Big Issues

Russia-Ukraine Crisis

With sanctions being imposed by the EU and others, the accountancy profession needs to step up and address how these, and other consequences of the war, affect their activities. As the situation evolves, professional accountants must continue applying their ethical values and social responsibility. This includes focusing on anti-money laundering (AML), cybersecurity, accounting, audit, and reporting to help them ask the right questions. To do the right thing in these difficult times, professionals will have to consider different dimensions; from legal questions to ethics, risk management and corporate citizenship. The situation can raise difficult questions that may require seeking further advice from legal and other professionals.

The degree to which entities are or will be affected by the crisis largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

Our publication 'Financial Reporting Considerations related to the Russia-Ukraine War' discusses some of the more pervasive issues arising from the crisis, which include:

- Supply-chain disruption;
- Preparation of forecast cash flow estimates;
- Recoverability and impairment of assets;
- Expected credit losses;
- Loss of control, joint control or ability to exercise significant influence;
- Foreign currency and movements; and
- Events after the end of the reporting period.

This list is not exhaustive, and many others may exist, some of which may be more impactful in certain industries.

When reporting in uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into the entity's resilience and to understand the key assumptions and judgements made when preparing financial information.

Accountancy Europe has published additional comment and guidance – 'War in Ukraine – what accountants need to know'.

Sustainability Reporting
Momentum continues to build with the development of sustainability standards at both a global and European level.

The International Sustainability Standards Board (ISSB) is progressing with plans to develop a global baseline of sustainability-related disclosure standards, which will provide a consistent and comparable basis for sustainability reporting. It will also support regional standard setters in developing standards for mandatory implementation. The ISSB programme has been given a running start thanks to work done by the Technical Readiness Working Group (TRWG), with preparatory work and recommendations in the form of general requirements and climate change prototypes, and other material including proposals for the overall architecture of the standards. On 31st March, the ISSB published the exposure drafts of standards on 'Climate-related Disclosures' and 'General Requirements for Disclosure of Sustainability-related Financial Information'.

The structure of the ISSB is being put in place, with European headquarters in Frankfurt, together with the appointment of Board members. The consolidation of global sustainability reporting organisations is continuing, with the Climate Disclosure Standards Board (CDSB) consolidated already, and the Value Reporting Foundation (VRF) coming on board by June 2022.

The IFRS Foundation and the Global Reporting Initiative (GRI) have signed a Memorandum of Understanding stating that their respective standard-setting boards, the International Sustainability Standards Board (ISSB) and the Global Sustainability Standards Board (GSSB), will seek to coordinate their work programmes and standard-setting activities in relation to both investor-focused capital market standards and multi-stakeholder-focused sustainability reporting requirements. The preliminary drafts of all but four of the European Sustainability Reporting Standards (ESRS) have been published in the form of working papers by the Project Task Force appointed by the European Financial Reporting Advisory Group (EFRAG). Our FRB article in April 'Uncertain Times – Europe Leads Progress to Sustainability Reporting' comments on progress to date. The overall plan currently is that drafts of ESRS will be submitted to the European Commission by June 2022.

The UK government has finalised the 'Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022', and it will come into effect for periods beginning on or after 6 April 2022. The required disclosures are broadly aligned to the recommendations of the Task-force for Climate-related Financial Disclosures.

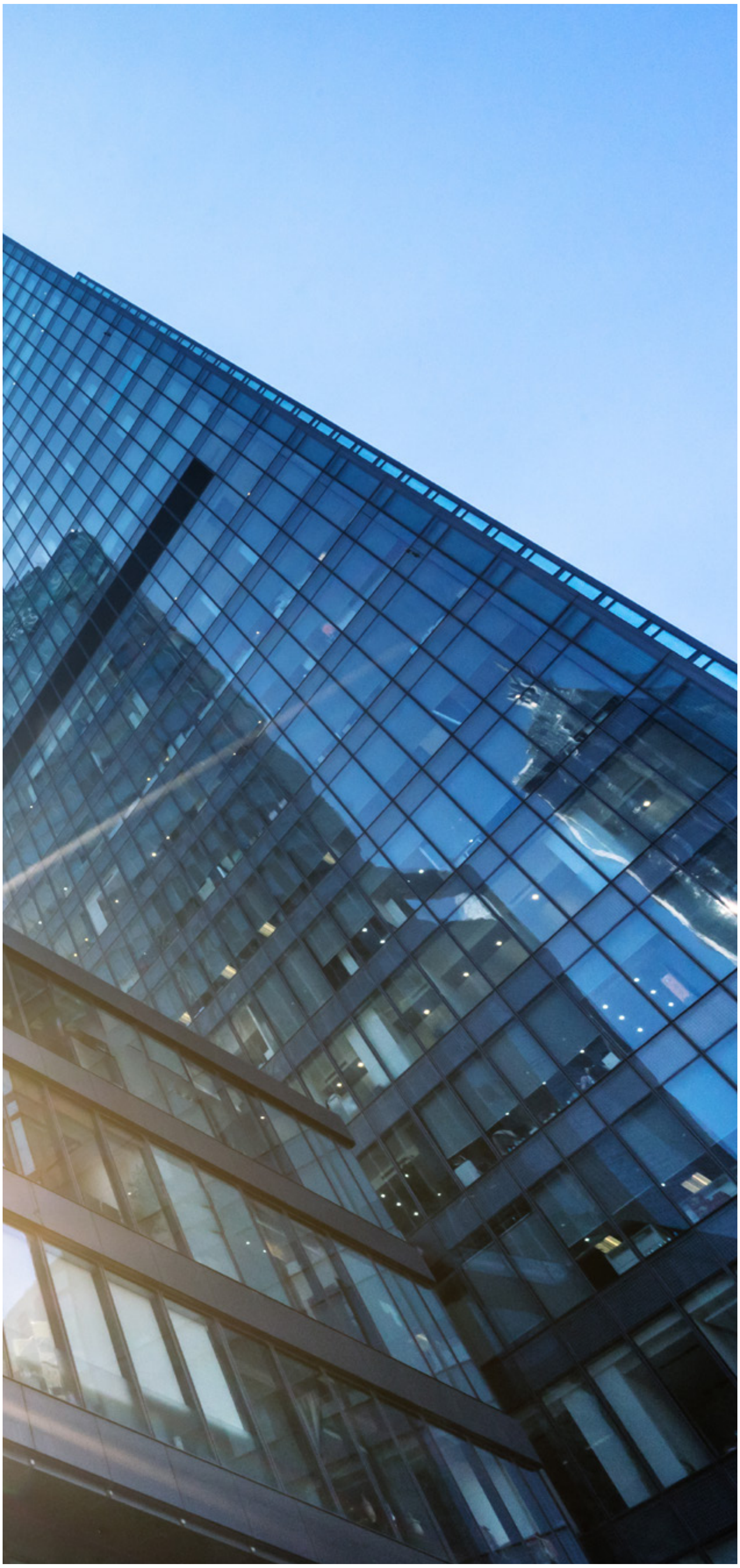
2. International Accounting and Related Developments

EFRAG Surveys

Surveys are being carried out by EFRAG in the following areas:

- Investors and banking analysts are participating in a survey designed to collect views on the current portfolio hedging of interest rate risks and the use of the EU carve-out from IFRS 9;
- A survey has been launched to seek input from preparers and users on the effects of IFRS 15 on revenue recognition, to inform IASB's forthcoming post-implementation review.

With no new standards or exposure drafts published by the IASB during quarter 1, EFRAG and other similar organisations continued their review of in-progress developments, including review of IFRS 9, classification of debt with covenants, supplier finance arrangements, proposed disclosure requirements and other longer-term projects, notably goodwill and intangibles.



IPSASB - Developments

The International Public Sector Accounting Standards Board (IPSASB) has released an updated IPSAS-IFRS alignment dashboard. This takes account of some minor improvements to IPSAS made earlier this year.

The IPSASB has released IPSAS 43 'Leases' which aligns with IFRS 16. IPSAS 43 introduces a right-of-use model that, for lessees, will replace the risks and rewards incidental to ownership model in IPSAS 13 Leases. Lessors will continue with the IPSAS 13 model. IPSAS 43 has an effective date of 1 January 2025.

The IPSASB has also released an exposure draft - 'Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements'. The proposals include:

- Clarifying the role of prudence in public sector financial reporting;
- Revised definitions of an asset and a liability;
- Clarifying what constitutes a transfer of resources when determining whether an entity has a liability; and
- Restructuring guidance on liabilities.

Comments are requested by 31 May 2022.

3. Ireland and UK – Recent Developments

IAASA Activity

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published a number of documents during the quarter, as follows:

Enforcement 2021
IAASA has published summary information of its financial reporting enforcement activities undertaken during 2021. There were 99 issuers under remit, with 43 reports reviewed. The outcome of the reviews was 189 matters raised, leading to 86 commitments to rectify in the subsequent period and publication of findings of 5 reviews. The four most common areas in which findings arose were IAS1: Presentation of Financial Statements, IFRS 7: Financial Instruments – Disclosures, IAS 36: Impairment of non-Financial Assets and the EU Transparency Directive.

IAASA is an active participant in the European Enforcement Co-ordination Sessions overseen by the European Securities and Markets Authority (ESMA). ESMA has recently published its report 'Corporate Enforcement and Regulatory Activities'. 711 examinations of financial statements drawn up under IFRS, covering approximately 17% of issuers listed on EU regulated markets. The examinations led to enforcement actions against 250 companies in order to address material departures from IFRS, representing an action rate of 40%. A significant number of management reports and non-financial statements were also examined.

Financial Reporting Decisions
IAASA has published a further compendium of financial reporting decisions. These decisions relate to accounting treatments applied by seven different issuers in their financial reports. The decisions took into account ten different IFRS and the guidelines on alternative performance measures.

Information Note: Expected Credit Losses
Since its first application in 2018, IAASA has examined how banks have applied the key judgements in IFRS 9. IAASA's Information Note is based on observed trends in the application of IFRS 9 by banks and, in particular, since the start of the COVID-19 pandemic.

The Information Note highlights six main areas:

- Significant increase in credit risk
- Forward-looking information
- Post-model adjustments
- Explanation of changes
- Sensitivity disclosures
- Climate risk and potential impact on ECL measurement

IAASA encourages banks to provide more entity-specific and granular quantitative and qualitative expected credit loss information to users of their reports, and to strive for further improvements to the level of transparency for the topics identified in the Information Note.

Users of banks' financial reports should carefully review and analyse the totality of ECL information disclosed by banks and, in particular, information about material post-model adjustments (management overlays), judgements surrounding significant increases in credit risk, and changes to forward looking information, ECL allowances and ECL sensitivity.

IAASA expects that as COVID-19 pandemic relief measures and supports are withdrawn (and the longer-term impact of the pandemic on banks' ECLs become more apparent) additional disclosures and greater transparency of these impacts on ECLs will be disclosed in banks' financial reports.

Information Note: Reporting Climate Change
The Information Note comments in the following respects:

- There is no single IFRS standard dealing specifically with climate change. Where material, climate change risk should be disclosed under existing standards;
- The reporting of climate change in the financial statements should not be less developed than the narrative within the front-end reports;
- Key climate terms in the front-end reports should be described in a company specific manner and not in general boilerplate terms;
- Preparers should consider a period beyond one year after year-end where the impact of climate on the company is expected to be material;
- Climate related disclosures should be proportionate to the expected impact on financial performance, financial position and cash flows;

- Where the notes to the financial statements contain limited or no reference to climate change, the mitigating actions or reasons why climate risk is not material should be explained to users;
- Forward-looking assumptions, uncertainties and judgments should be consistent with narrative elsewhere on climate change; and
- The accounting judgments for financial instruments that have key terms aligned to ESG features should be clearly disclosed.

Corporate Governance – Large Private Companies

The FRC has published findings of the first reviews carried out under the Wates Governance Principles for large private companies. The principles apply to UK companies that satisfy either or both of the following principles:

- More than 2,000 employees
- A turnover of more than £200 million and a balance sheet total of more than £2 billion.

The FRC report considers that there is room for improvement, in particular by increasing disclosure of how policies are applied in practice. The report includes three key recommendations for companies:

- Disclose more detailed information in relation to the six principles to provide readers with a comprehensive understanding of the corporate governance arrangements in place;
- Discuss more instances and/or circumstances related to a given corporate governance practice to evidence how they have applied the principles;
- Improve cross-referencing to enable readers track information through reports.

The research team identified 796 companies that discussed their corporate governance arrangements in their annual reports, with significant non-compliance with the principles.

Large private companies in Ireland may benefit from the report with regard to providing a guidance framework for any disclosures they elect to make.

4. Legal & Regulatory Developments

Corporate Sustainability – Due Diligence

A proposal has been put forward by the European Commission to establish a corporate sustainability due diligence duty to address negative human rights and environmental impacts.

The proposed new rules apply to:

- All EU limited liability companies with 500 or more employees and a net turnover over €150 million worldwide ('group 1').
- Other EU limited liability companies operating in defined high impact sectors with over 250 employees and a net turnover over €40 million worldwide ('group 2').
- Non-EU companies active in the EU with turnover thresholds and activities aligned with groups 1 and 2, generated in the EU.

The proposal applies to the company's own operations, their subsidiaries and their value chains (direct and indirect established business relationships).
The proposal requires companies to:

- integrate due diligence into company policies;
- identify actual or potential adverse human rights and environmental impacts;
- prevent or mitigate potential impacts, and bring to an end or minimise actual adverse impacts;
- establish and maintain a complaints procedure;
- monitor the effectiveness of the due diligence policy and measures; and
- publicly report on due diligence via an annual statement on company websites (for those companies not already subject to the reporting requirements of the Non-Financial Reporting Directive (NFRD) and the future Corporate Sustainability Reporting Directive (CSRD)). The Commission will also adopt delegated acts to determine additional rules on the content and criteria of such reporting.

In addition, the new proposal requires group 1 companies (both EU and non-EU) to adopt a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement and to take this into account when setting variable director remuneration if this is linked to contributing to the company's business strategy and long-term interests and sustainability.

The proposed directive needs to be adopted by both the Council and the European Parliament (EP) and then implemented in the 27 Member States. The EP is expected to begin its discussions soon and, if the proposals are in due course adopted as a Directive by the EU, the Directive will move to Member State implementation within two years thereafter.

5. Deloitte Publications

Need to know

Our Need to Know series of publications is designed for financial controllers, chief accountants and accounting technicians. They provide overviews of new accounting matters, including narrative reporting. Publications in the first quarter are:

Financial reporting considerations related to the Russia-Ukraine War

UK government finalises legislation on climate-related financial disclosures

IASB amends the transition requirements of IFRS 17

IFRS on point

IFRS on point highlights each month's critical financial reporting developments, and provides a great way to catch up on the main IFRS-related news stories of each month.

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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