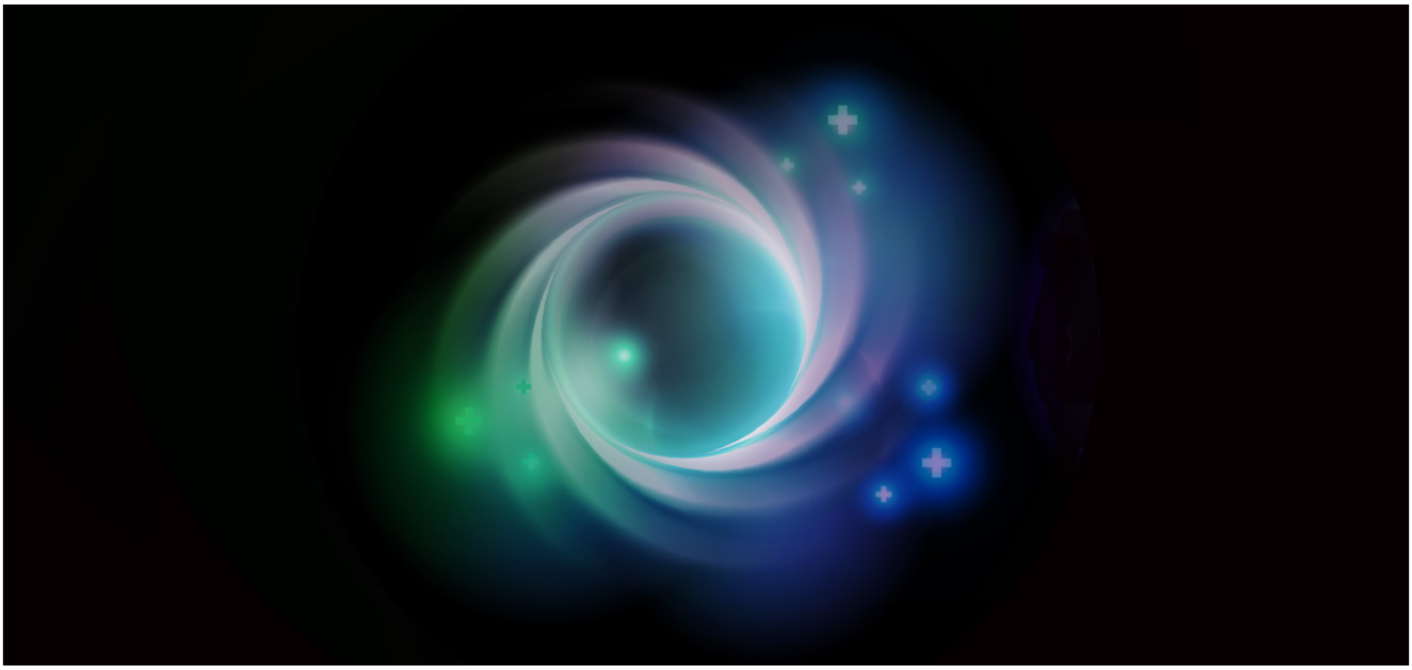
Deloitte.

Quarterly Financial Reporting Brief
July 2022



Quarterly Financial Reporting Brief

Contents

Introduction

There have been major developments in sustainability reporting with both the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG) publishing their first draft standards. The consultation periods are open with respective closing dates of 29th July and 8th August.

The Russia-Ukraine conflict continues to rage with enormous social and economic consequences. The European Securities and Markets Authority (ESMA) has published a statement on the financial reporting and other implications for half-yearly reporting.

Looking to the future, the International Accounting Standards Board (IASB) has given a clear indication of where it plans to deploy its resources for the foreseeable future.

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

1. The Big Issues

Sustainability Reporting

In March, the International Sustainability Standards Board (ISSB) published drafts of its first two standards on 'general disclosures' and 'climate-related disclosures', and we commented on this in our April Brief. This has been followed in April by the European Financial Reporting Advisory Group (EFRAG) publishing the draft European Sustainability Reporting Standards (ESRS).

Both sets of drafts are currently in their consultation periods with end dates of 29th July and 8th August respectively.

Our 'Need to Know' publications provide useful summaries of and insights into both:

European sustainability reporting — EFRAG launches consultation on first set of European Sustainability Reporting Standards
Sustainability reporting — ISSB proposes global baseline of sustainability disclosure standards for capital markets

Europe

The purpose of ESRS is to specify the new sustainability reporting requirements of the Corporate Sustainability Reporting Directive (CSRD) proposed by the European Commission. Following completion of the consultation process, EFRAG will finalise the first set of draft ESRS which will be submitted to the European Commission by November 2022. Progress is being made towards finalising the CSRD by the end of 2022, with the European Council and European Parliament having recently reached political agreement.

EFRAG has published the bases for conclusions for its draft ESRS separately from the standards. They do not form part of the standards and have no authoritative status. They include, inter alia:

- The objective and context of the standards;
- The process followed in preparation of the drafts; and
- The reasons to mandate a disclosure requirement.

EU legislation has been proposed to extend the corporate governance mandate of boards and audit committees to include Environmental, Social, and Governance (ESG) matters. The European Commission (EC) proposal for a Corporate Sustainability Reporting Directive assigns a range of tasks for company sustainability reporting and assurance to audit committees. The EC proposals require companies to implement a series of actions and policies to address adverse impacts on human rights and the environment in their own operations and in their value chains.

Accountancy Europe has published a paper which provides an overview of the expected role and responsibilities of audit committees, in light of relevant EU legislation and stakeholder demands. It includes recommendations for audit committees in relation to their ESG responsibilities with a focus on audit committees':

- competencies and composition
- responsibilities for ESG reporting and assurance

Global

The ISSB has formed a multi-jurisdictional working group, which includes EFRAG, with the objective of discussing compatibility of initiatives to establish the global baseline of standards and respond to the needs of global market participants to optimise reporting efficiency for companies globally.

The ISSB has expressed concern that the future success of the global baseline will depend on the combined action of public authorities to incorporate it into jurisdictional reporting requirements, and market demand through investors and others encouraging use of the ISSB standards.

The International Organisation of Securities Commissions (IOSCO) has set up the structures needed to review the draft ISSB standards. It will be conducting the endorsement process shortly after the ISSB finalises its standards to endorse their use by listed entities globally.

G7 has welcomed the inauguration of the ISSB and the progress of work on the global baseline. It encourages countries and regions to continue their progress in developing standards and to ensure the inter-operability of national/regional standards with the global baseline to minimise fragmentation and enable the availability of consistent sustainability information for users.

The IASB and the ISSB both strongly encourage continued use of the integrated reporting framework and the principles underpinning it, driving high-quality corporate reporting and connectivity between the financial statements and sustainability-related financial disclosures. The Boards will utilise principles and concepts from the framework in their standard-setting work.

USA

The SEC has issued a proposed new rule 'The Enhancement and Standardisation of Climate-related Rules for Investors'. The proposed new rule would apply to registration statements (Form 10K) and periodic reports. Companies would be required to include information about climate-related risks that are likely to have a material impact on their business, results or financial position and certain climate-related financial statement metrics in a note to the audited financial statements. Our publication Heads Up — Executive summary of the SEC's proposed rule on climate disclosure requirements (iasplus.com) provides a useful summary.

UK

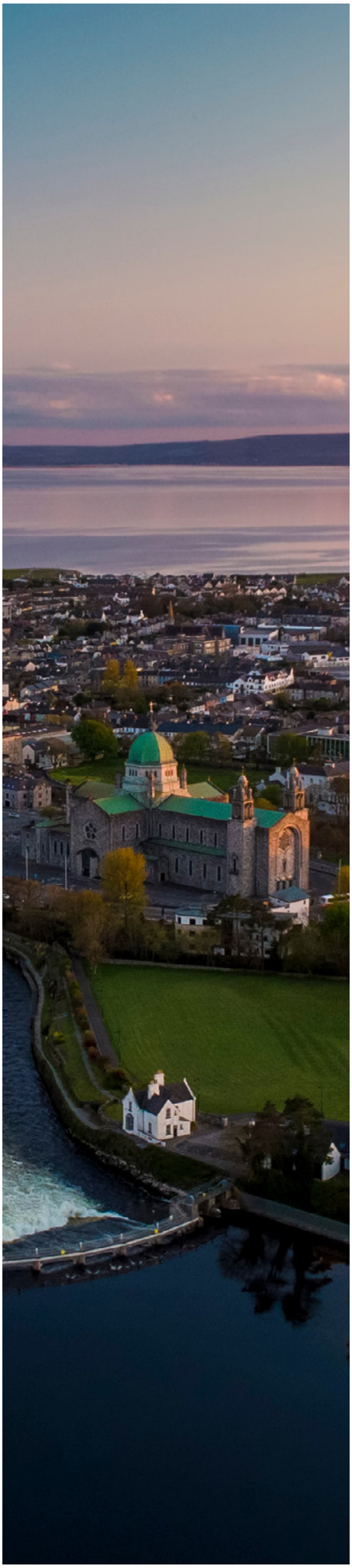
The UK Financial Reporting Council (FRC) has issued an updated edition of its Guidance on the Strategic Report to incorporate the new climate-related financial disclosures, following changes in UK legislation which are effective for financial years beginning on or after 6 April 2022. The FRC has also published a consultation on proposed changes to Technical Actuarial Standard 100 which would require actuaries to include climate change risks in the course of their work.

Russia-Ukraine Conflict

ESMA has issued a public statement on the implications for half-yearly reports of the conflict, which poses major social and economic challenges globally. The statement outlines overarching messages, as follows:

- A reminder of the main areas of accounting where IFRS requirements may have significant impact on reported financial information e.g. loss of control, impairment, ability to forecast cash flows;
- Importance of adequate disclosure in financial statements in relation to judgements made, significant uncertainties and going concern risks;
- Management report comment to include direct and indirect impact of the conflict and the sanctions imposed, and measures taken to mitigate the impacts; and
- A reminder of issuers' obligations vis-à-vis the Market Abuse Regulations.

Our publication Financial reporting considerations related to the Russia-Ukraine War outlines valuable insights and commentary.



Because of its broad impact on macroeconomic conditions, many entities globally may need to consider the effect of the conflict on certain accounting and financial reporting matters. The degree to which entities are or will be affected by them 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;
- the degree of engagement by entities e.g. material subsidiaries, operations, investments, contractual arrangements, joint ventures in Ukraine and Russia; and
- the extent of trading or financial relationships e.g. significant suppliers, vendors or customers in Ukraine or Russia, as well as organisations that lend to or borrow from entities in those countries.

The IASB Agenda

The IASB's decisions on its work plan as a result of the outcome of the IASB's third agenda consultation and the rationale for those decisions were advised by the IASB Chairman at a recent meeting of the IFRS Foundation.

In summary, the five major messages are as follows:
Complete the IASB's current work plan – projects described as currently being 'in an intense stage of decision-making' which include primary financial statements, goodwill and impairment and rate-regulated activities will continue during 2022 and 2023;

Balancing the IASB's activities – stakeholders called for increasing efforts on digital reporting and the understandability and accessibility of standards. The IASB commits to increase resources in these two areas;

Two new research pipeline projects – the IASB has decided to add to its work programme a comprehensive review of IAS 38 Intangible Assets and a project devoted to the statement of cash flows and related matters;

Climate-related risks as a maintenance pipeline project – the IASB will investigate any shortcomings in current reporting in the financial statements by entities. It plans to consider whether these are due to deficiencies in IFRS literature and will also consider the interaction with ISSB plans; and

A limited reserve of two further projects – operating segments and pollutant pricing mechanisms are the first two projects on a reserve list, the carrying out of which will be dependent on the availability of time and resources.

Emphasis was given to the IFRS Foundation now being in an exceptionally good place with two boards (IASB and ISSB) that can look into the entirety of standardising corporate reporting and integrate the information for the benefit of investors and other capital market participants.

2. International Accounting and Related Developments

ESMA – IFRS 17

ESMA has issued a public statement on 'Transparency on Implementation of IFRS 17: Insurance Contracts'. Where the impact is expected to be significant, ESMA expects issuers to:

- Provide information about the significant accounting policy choices made upon the initial application of IFRS 17 such as methods to calculate the discount rate, how the level of aggregation requirements will be applied and other areas;
- Disaggregate the expected impact in a way that is useful to users of financial statements; and
- Explain the nature of the impacts (on recognition, measurement and presentation) so that users of the financial statements can understand the changes and their key drivers when compared to the accounting principles applied under IFRS 4.

Post-Implementation Review – IFRS 10/11/12

The IASB has completed its post-implementation review of IFRS 10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12: Disclosures of Interests in Other Entities. The report shows that the standards work as intended. Some minor issues were identified during the review which the IASB may consider in its next agenda consultation. These include:

- Subsidiaries that are investment entities;
- Transactions that change the relationship between an investor and investee;
- Transactions that involve 'corporate wrappers';
- Collaborative arrangements outside the scope of IFRS 11; and
- Additional disclosures about interests in other entities.

APM Guidelines
ESMA has added two new questions on the use of APMs in the context of ESG developments. They relate to:

- Application of the APM Guidelines to measures related to ESG matters; and
- Labels used by issuers on ESG financial measures.

IFRS – Decisions on Specific Topics
The work of both the IFRS Interpretations Committee (IFRSIC) and the European Securities and Markets Authority (ESMA) continues in publishing decisions that provide clarity and guidance on areas of standards that may be unclear or ambiguous. The objective is to assist with achieving consistency in the application of standards, and awareness should be maintained.

IFRSIC
The IFRS Foundation published its sixth compilation of agenda decisions, in accordance with its bi-annual publication programme. It includes agenda decisions on IFRS 9: Financial Instruments, IFRS 16: Leases, IAS 7: Statement of Cash Flows, and IAS 20: Accounting for Government Grants, with the following topics covered:

- How to account for the third programme of the targeted longer-term refinancing operations of the European Central Bank (TLTRO);
- Right to obtain substantially all of the economic benefits from the use of a windfarm; and
- The cash flow statement classification of demand deposits with restrictions on use arising from a contract with a third party.

ESMA
A further extract was published in May from ESMA's confidential database of decisions made by national enforcers. Included are decisions on IAS 2 Inventories, IAS 7 Statement of Cash Flows, IAS 8 Accounting Policies, IAS 36 Impairment, IFRS 8 Operating Segments, IFRS 9 Financial Instruments, IFRS 15 Revenue, and IFRS 16 Leases. Topics covered are in areas which may pertain to a wide range of companies when addressing financial reporting issues.

Intangible Assets
The International Valuation Standards Council (IVSC) is publishing a series of perspectives papers 'Time to get Tangible about Intangible Assets' that notes that despite the importance of intangible assets to capital markets, only a small percentage are recognised on balance sheets.

The IVSC has recently published a second article in its series – Human Capital Introspective.

Our July Brief comments on the IVSC perspectives, including the recently published article.

Crypto-Assets
EFRAG has made recommendations to the IASB regarding the treatment of crypto-assets. These are based on its Discussion Paper published in July 2020 and comments subsequently received. Principal comments are:

- Amend IAS 38 Intangibles to allow measurement at fair value of crypto assets through profit and loss with appropriate disclosures for issuers; and
- Address issuer accounting in more detail and determine the appropriate accounting requirements for issuers, given the challenges that arise from the ambiguity on the nature of rights and obligations associated with crypto transactions.

IPSASB – Developments
The International Public Sector Accounting Standards Board (IPSASB) has published a number of documents during the period, as follows:

Non-current Assets Held for Sale and Discontinued Operations – IPSAS 44 has been released and is based on IFRS 5. It includes additional public sector requirements, in particular, the disclosure of the fair value of assets held for sale that are measured at their carrying amounts, when the carrying amount is materially lower than their fair value.

Retirement Benefit Plans – IPSASB has released an ED intended to increase the transparency and accountability of public sector entities regarding multi-employer retirement benefit obligations. The private sector requirements of IAS 26 have been adapted to ensure the unique characteristics of the public sector are reflected in the ED, including the removal of policy choices not appropriate for the public sector.

Natural Resources – IPSASB is concerned that its standards do not include guidance on accounting for natural resources in their original state. It is now working to address that gap. The first phase of its work focuses on the financial reporting of tangible, naturally occurring resources, including subsoil resources, water and living resources in their natural state. IPSASB has published a consultation paper which considers whether natural resources can be recognised in the financial statements as assets or whether they should be otherwise disclosed. Examples of good practice disclosures by companies are included.

Sustainability – the IPSASB recognises that the public sector may have fallen behind the private sector with regard to sustainability reporting. It proposes the following:

- IPSASB to serve as the standard setter for global public sector specific sustainability guidance drawing upon its experience, processes and global relationships;
- IPSASB to develop initial guidance focused on general disclosure requirements for sustainability related information and climate-related disclosures; and
- IPSASB to approach guidance development at an accelerated pace, with a potential for releasing guidance by the end of 2023.

3. Ireland and UK – Recent Developments

Discount Rates

The Financial Reporting Council (FRC) has published a thematic review on discount rates used under IFRS.

The report notes that while discounted cash flows and discount rates are commonly used under IFRS, determining an appropriate discount rate is a complex area of financial reporting which can be an area of significant estimation uncertainty and a source of errors in financial reporting. The review, while focused on IFRS, equally applies in principle to other accounting frameworks.

The FRC makes the following recommendations:

- Assumptions used for discount rates and cash flows should be internally consistent, and care should be taken to avoid doublecounting risks;
- When nominal rates are used, the effects of inflation on the cash flows should not be overlooked, particularly in the current interest rate environment of low nominal interest rates and relatively high inflation;
- There is general scope for improvement in the usefulness of the disclosures provided by many companies, with high quality disclosures to include both the discount rate used and an explanation of how it was determined; and
- Companies may need to consider whether specialist third party advice is required when valuing a material item, and where there is insufficient internal expertise.

UK Overhaul of Corporate Reporting and Audit Regimes

The UK government has published plans which aim to revamp the UK's corporate reporting and audit regime through a new regulator, greater accountability for big business and by addressing the dominance of the main audit firms.

The government response sets out proposed reforms that include:

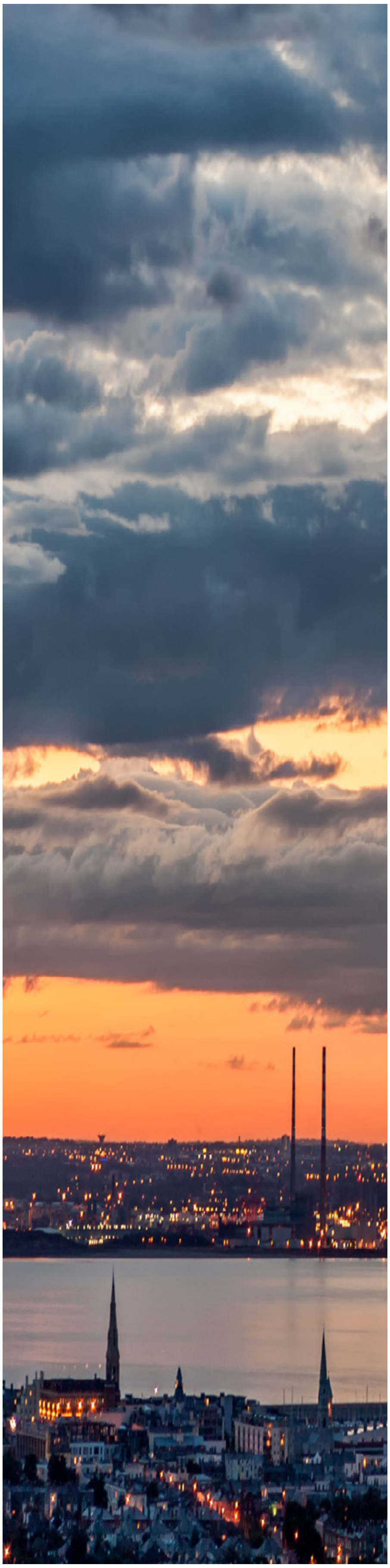
- establishing a new regulator, the Audit, Reporting and Governance Authority (ARGA);
- recognising the public interest in large private companies, by ensuring they meet the same high standards of reporting and accountability as are expected from large listed companies;
- making large companies' reporting more useful, with better information about the risks they face, and their internal controls;
- improving the quality of audit and making it more informative;
- boosting resilience, competition and choice in the audit market, through the introduction of a 'managed shared audit' requirement for FTSE 350 companies; requiring an operational separation of audit and non-audit practices, together with improving the quality of audit and making it more informative;
- making directors of the country's biggest companies more accountable for significant failures in their corporate reporting and audit related duties; and
- strengthening oversight of the accountancy/audit and actuarial professions to build confidence in the professions and in the UK.

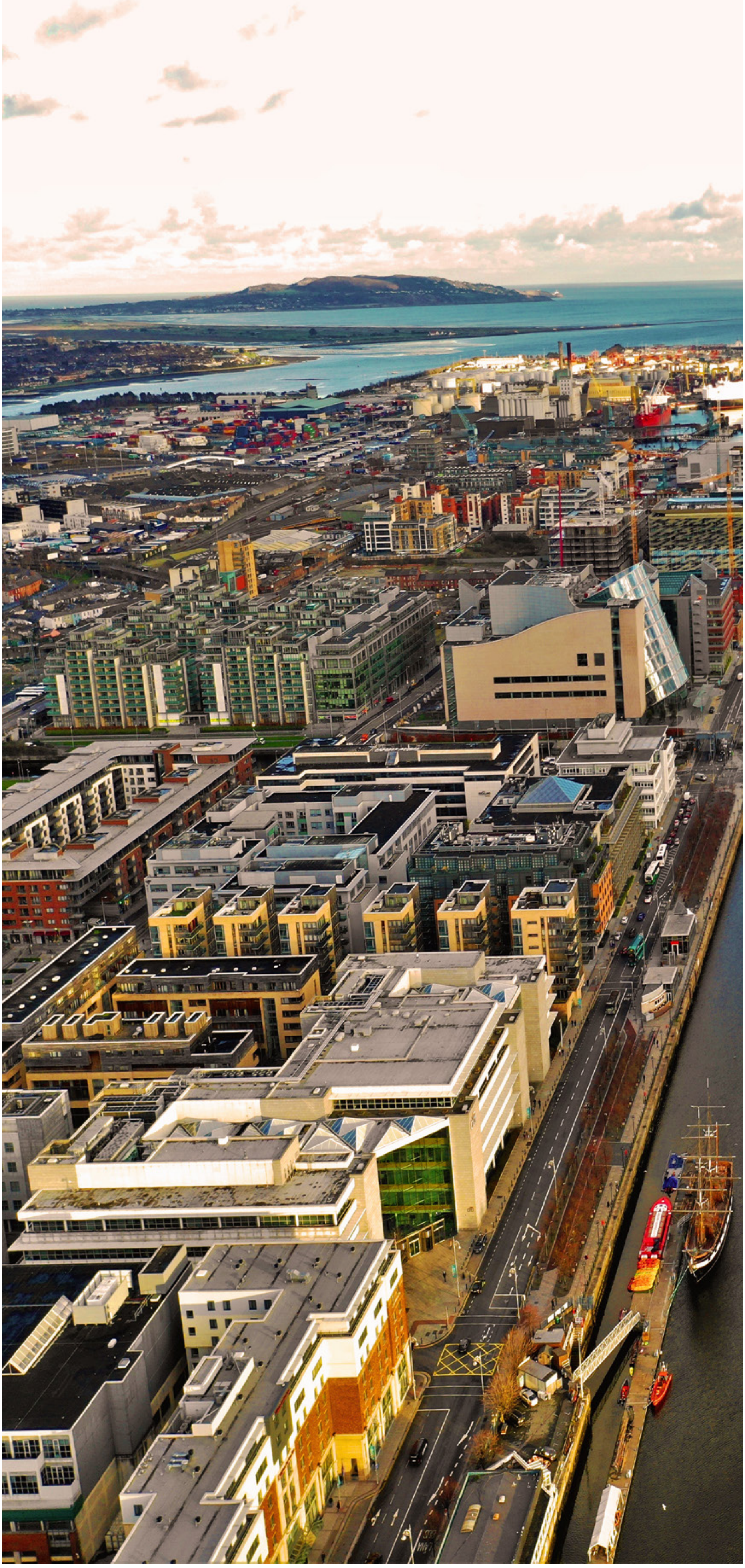
The FRC welcomes the UK Government's response to its consultation 'Restoring trust in audit and corporate governance' which sets out the next steps to reform the UK's audit and corporate governance framework.

The FRC has published its 3-year plan which sets out the FRC's progress towards establishing the new Audit, Reporting and Governance Authority (ARGA).

Diversity on Boards

The UK Financial Conduct Authority (FCA) has published its final policy decision on introducing new Listing Rules to require, as an ongoing obligation, companies listed on both the premium and standard markets to include a statement in their annual financial report setting out whether the listed company has met specific board diversity targets on a 'comply or explain' basis, as at a chosen reference date within their





accounting period and, if they have not met the targets, why not.

The targets are:

- At least 40% of the board are women;
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman; and
- At least one member of the board is from a minority ethnic background.

Alongside the narrative, issuers will be required to publish numerical data on the sex or gender identity and ethnic diversity of their board, senior board positions (Chair, CEO, SID and CFO) and executive management in a standardised table format.

The requirements will apply to financial periods beginning on or after 1 April 2022.

Modern Slavery Act
The Financial Reporting Council (FRC) has issued a report on how companies listed on the London Stock Exchange's Main Market report on modern slavery. The underlying research examines reporting practice in modern slavery statements (as required under Section 54 of the UK Modern Slavery Act 2015 (MSA)). The MSA requires organisations with a turnover of £36 million or more to provide an annual statement on the steps that they are taking to ensure that modern slavery is not taking place in any parts of their business or supply chains.

The research has found that around one in ten companies did not provide a modern slavery statement at all, and therefore failed to comply with the Section 54 reporting requirement. Disclosure often failed to provide information on how policies operated in practice, or how their effectiveness was measured. In addition, the vast majority of modern slavery statements were wholly backward-looking, with only a minority clearly identifying emerging issues or a long-term strategy.

Of particular interest for Irish companies is the extra-territorial reach of the Act. It applies not only to UK organisations, but also to businesses that are incorporated and headquartered outside the UK but that conduct business within the UK.

4. Legal & Regulatory Developments

Companies (Miscellaneous Provisions) (Covid 19) 2020 Act

The "interim period" introduced under the Act has been further extended to 31st December 2022. It had been due to expire on 30th April 2022. Among other provisions, the 2020 Act makes it possible for company meetings, for example AGMs and EGMs, class meetings and scheme meetings to be held virtually. It also increases the period of company examinership to 150 days and increases the threshold at which a company is deemed unable to pay its debts to €50,000.

Gender Pay Gap Regulations

Employment Equality Act 1998 (section 20A)(Gender Pay Gap Information) Regulations 2022 have been published. All employers with 250 or more employees have to report on their website by December 2022 and annually thereafter certain payroll and bonus information by gender based on a date in June of the employer's choosing. The information is to include narrative explaining the "gender gap". Employers with 150 or more employees will be required to report from 2024 and those with 50 or more employees from 2025. While there is no requirement to include information on gender gap in the annual report there is no prohibition on providing such information in the annual report.

The Charities Act (Northern Ireland) 2022

The Charities Act (Northern Ireland) 2022 has come into effect.

The new law will effectively reinstate the full register of charities and give certainty to charities, the public, funders and others as to which organisations are registered charities in Northern Ireland. The Act will also increase the public transparency of the charity sector by re-instating annual reporting by charities, supporting the public and others in undertaking checks on the charities they support.

The Commission has developed a series of FAQs to guide and advise charities and the public on what the Act will mean for charity regulation, and how it will impact on charities and their legal duties.

Profile of the Profession

IAASA has published its annual Profile of the Profession for 2021. This contains statistical data provided by the six Prescribed Accountancy Bodies ('PABs') within IAASA's supervisory remit.

The Profile of the Profession presents an overview of the PABs' members and students and includes statistics about the PABs' regulatory and monitoring activities.

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 second quarter are:

European sustainability reporting — EFRAG launches consultation on first set of European Sustainability Reporting Standards
Sustainability reporting — ISSB proposes global baseline of sustainability disclosure standards for capital markets

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.

Governance in focus

Governance in Focus provides guidance and views on key aspects of the latest developments in UK Corporate Governance. (Note: Irish requirements are generally similar).

The following has been published in the second quarter:

Effectiveness of the external audit process – 2022 framework
The importance of the audit committee's focus on audit appointment, audit quality and the effectiveness of the external audit process continues to increase. A concise set of thirty questions for audit committees and ten questions for material component management to consider has been updated to reflect the fast-moving world of audit and reporting.

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

Deloitte.

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 over 312,000 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has over 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.

Designed by CoRe Creative Services. RITM1087074