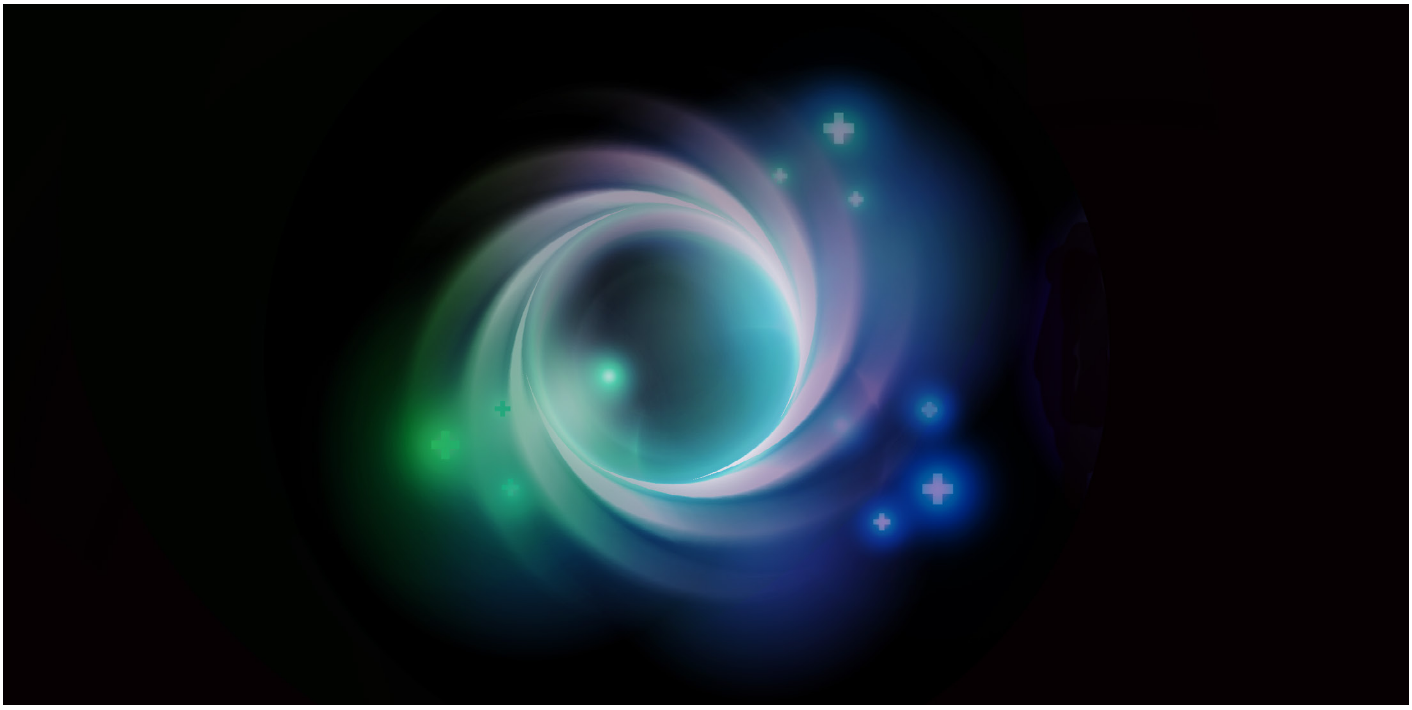

Quarterly Financial Reporting Brief

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Introduction

Almost two years since the pandemic first became a major concern in Ireland, difficulties and uncertainty continue. Vaccinations and boosters will provide substantial protection for the large majority willing to avail, and we must continue to safeguard ourselves, our families and society at large.

These are challenging times for practically all entities, some experiencing a brave struggle to survive, while many will have moved to the development of longer-term resilience while still battling in the throes of Covid-19.

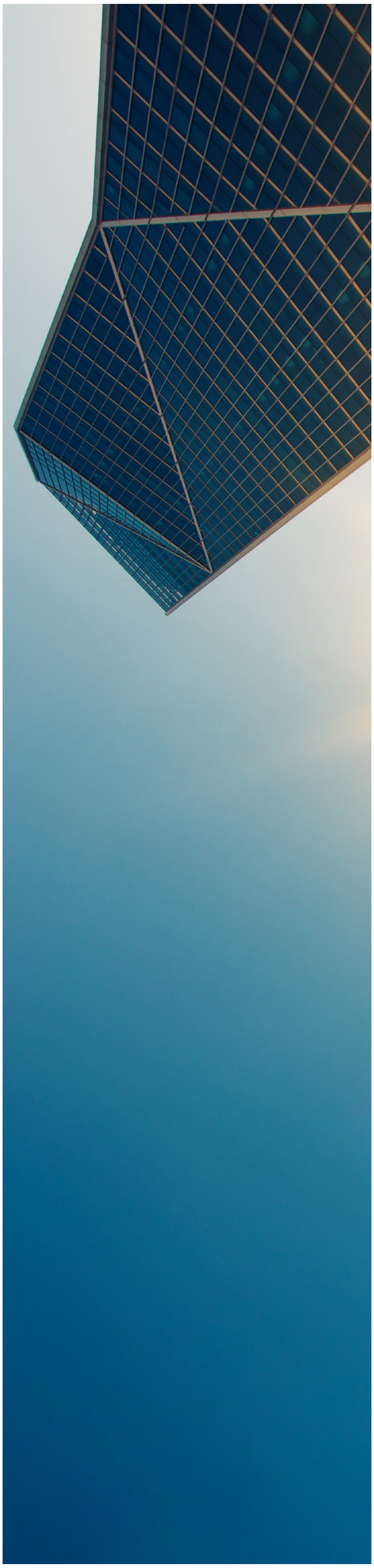
While living a way of life that is alien to us in many respects, we must go forward with resilience and 'do our best'. The vast majority of the readership of our Briefs are engaged in the reporting process and will make every effort to ensure it remains of the highest standard going forward.

Developments during the final quarter of 2021 continued to focus on sustainability reporting, climate change and corporate governance. These are the 'big issues' in this Brief. Not least, the creation of the International Sustainability Standards Board (ISSB) which will guide the way forward of reporting on sustainability, including climate change, and its integration with financial reporting to ultimately provide a comprehensive corporate reporting framework.

For those readers that wish for a 'deeper dive' into the many issues that can affect corporate reporting in 2021, and who would like some insight on the key topics in one publication, our one-stop guide 'Closing Out 2021' provides that resource. One area to which it draws particular attention is the priorities and recommendations of the financial reporting supervisors, which we commented on in our December article.

Our Model Financial Statements are a valuable source of support and guidance.

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



1. The Big Issues

Sustainability Reporting

Our Financial Reporting Brief for January 2022 comments on the launch of the International Sustainability Standards Board (ISSB) and the prototype documents published on climate disclosures and general sustainability disclosures.

These developments have received substantial support from many global organisations, with:

- G20 in its Declaration from the COP26 Summit welcoming the developments that will build on the TCFD Framework and the work of global sustainability standard setters. G20 has also published its sustainable finance roadmap;
- IOSCO releasing speeches by two of its leaders expressing strong support for the ISSB - '.... The ISSB standards are the right tool to respond to the existing 'alphabet soup' of voluntary sustainability standards, driving much needed consistency and comparability in the provision of sustainability-related information laying the groundwork towards high quality mandatory reporting'.

Other developments in relation to sustainability reporting include:

- The EFRAG Lab report 'Towards Sustainable Businesses: Good Practices in Business Model, Risks and Opportunities Reporting in the EU'. The report discusses the current state of play and the drivers of current reporting practices including the technological solutions and suggests a path to improvement;
- Article 8 of the EU Taxonomy Regulation requires additional disclosures from companies in scope of the non-financial reporting framework (currently under the EU Non-Financial Reporting Directive and in future under the proposed Corporate Sustainability Reporting Directive) whereby non-financial and financial companies must provide information on how and the extent to which their activities are associated with environmentally sustainable economic activities as defined pursuant to the Taxonomy Regulation;
- The International Valuation Standards Council (IVSC) has published a third perspectives paper 'ESG and Real Estate Valuation'. Our FRB article in July 2021 commented on the previous perspectives papers 'A Framework to Assess ESG Value Creation' and 'ESG and Business Valuation'. The IVSC has also published 'Market Value: An Established Basis of Value' which is a follow up to the perspectives paper published in February 2021 'Challenges to Market Value'.
- The FRC Lab has launched a consultation project to address concerns as to the systems and processes companies use to produce, distribute and consume ESG data, with the first phase to focus on the production of ESG data;

Our global news and publication platform www.iasplus.com includes frequent update summaries of recent sustainability and integrated reporting developments.

Climate Change Developments

The TCFD published a fourth status report in respect of its recommendations published in 2017. The TCFD found that:

- Disclosure improved substantially between 2019 and 2020, consistent with global momentum around climate-related risk responses and reporting, but only one in three reporters reviewed disclosed information aligned with TCFD recommendations;
- Companies remain more likely to disclose information on climate-related risks and opportunities, rather than any other TCFD recommendations;
- Europe remains the leading region for disclosures.

The TCFD has also published two additional documents:

- Guidance on metrics, targets and transition plans – to support preparers in disclosing TCFD decision-useful information linking these disclosures with estimated financial impacts;
- Implementing the recommendations of the TCFD – updates and replaces the earlier version published in 2017.

During 2021, many of our FRB articles commented on initiatives being taken by the EU to introduce and strengthen accounting and related measures on the reporting of climate change risk and other sustainability matters.

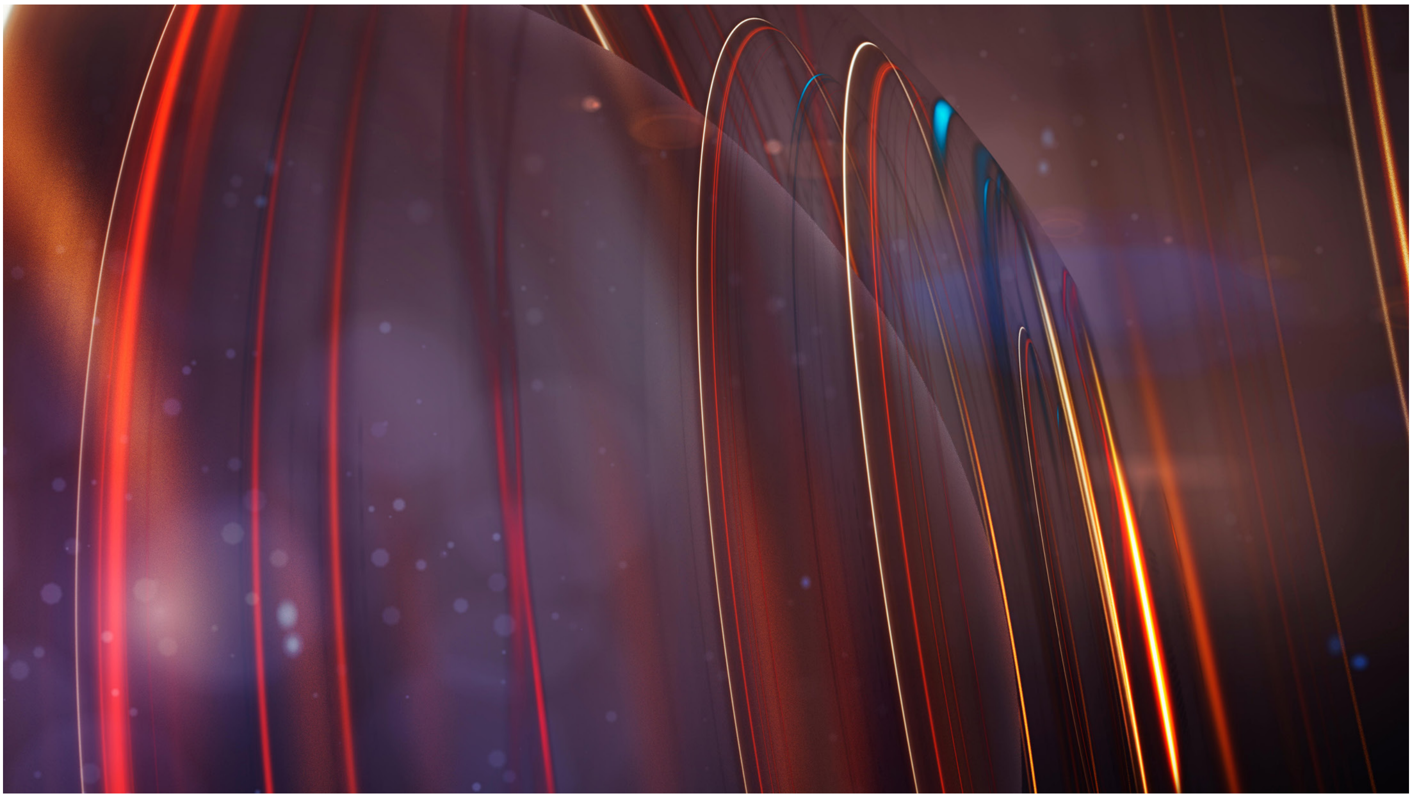
UK Authorities have similarly taken significant initiatives on climate-related reporting. The Financial Conduct Authority (FCA) will, for periods beginning on or after 1st January 2021, require premium-listed companies to report against the TCFD recommendations on a comply or explain basis in their annual reports, with the issuance in late December of two further Policy Statements confirming final rules and guidance to promote better climate-related financial disclosures.

The UK Government Department for Business, Energy and Industrial Strategy (BEIS) has published draft regulations which will take effect for reporting periods commencing on or after 6th April 2022. The UK will become the first G20 country to enshrine in law mandatory TCFD requirements. The UK will also move towards making publication of transition plans mandatory. Initially, this will require asset managers, regulated asset owners and listed companies to publish transition plans that consider the government's net zero commitment or provide an explanation if they have not done so. As standards for transition plans emerge, the Government and regulators will take steps to incorporate these into the UK's Sustainability Disclosure Requirements and strengthen requirements to encourage consistency in published plans and increased adoption by 2023.

The UK Financial Reporting Council (FRC) has published a number of documents which will assist in implementing the changes emanating from the initiatives taken. These include:

- FRS 102 Factsheet – Climate Change – outlines the ways in which climate-related matters may impact financial statements prepared under FRS 102, including how they impact on risks, uncertainties, estimates and judgements with the consequent impact for accounting measurement and disclosures;
- TCFD - Ahead of Mandatory Reporting: FRC Lab – Developing Practice – the report aims to provide guidance in relation to complying with TCFD recommendations. It includes practical advice and examples from those companies already adopting the TCFD Framework on a voluntary basis. The Lab has also published:
  - A snapshot of the status of current UK reporting against the TCFD Framework;
  - Research which investigates climate-related scenario analysis.

CFRF Guide to Climate-related Financial Risk Management – the Climate Financial Risk Forum (CFRF) has published a second guide to help financial firms plan for the impact of climate policies and assess their response to climate-related financial risks, so that they can adapt their business models accordingly. The first guide was published in June 2020. An online climate scenario narrative tool is also being developed. The CFRF is co-chaired by the FCA and the Prudential Regulatory Authority.



Corporate Governance

The FRC has published its latest 'Review of Corporate Governance Reporting', based on a sample of 100 listed companies. The report highlights areas of high quality reporting but also draws attention to improvement needed in areas such as disclosures on board appointments, succession planning and diversity. It also emphasises the need for more focus on reporting the effectiveness of internal control and risk management systems to enhance the level of confidence in the company's control framework.

The FRC highlights the continuing need for high quality governance which is linked to effective decision-making by Boards and management. It also seeks greater clarity as to how a company is applying the Code's principles and clearer explanations where there are departures from the Code's principles to enable more confidence in the quality of governance. This should be supported by real examples and cross-references to initiatives taken.

The FRC makes a number of recommendations, with some being:

- Greater attention on the alignment between reported governance and company practices and policies, strategy and business models;
- Disclosures which may be in the form of metrics supported by narrative or case studies;
- Specific disclosure of the governance structure and processes in place to clearly demonstrate the way a company identifies, monitors and mitigates risks;
- Better explanation of how executive remuneration is aligned to a company's purpose, values and strategy;
- Improved clarity in disclosure of key matters, including any departures from Code provisions, engagement with shareholders and workforce in relation to remuneration, the impact of stakeholders on decision making, diversity policies, supplier engagement and climate risk;
- The process for how the company has determined its risk appetite, including those areas where principal risks exist; and
- Outcome of the review of risk management and internal control processes.

During the year the FRC has published three thematic reports on corporate governance topics – Board diversity and effectiveness, remuneration and workforce engagement – which we have commented on in previous Briefs during 2021.

2. International Accounting and Related Developments

IFRS 17 adopted by EU

The European Union has adopted IFRS 17 'Insurance Contracts' with an optional exemption from the annual cohort requirement that relates to the timing of the recognition of the profit in the contract, the contractual service margin, in profit or loss. If availed of, a company should disclose that as a significant accounting policy together with information on which portfolios it applies to.

The EU has adopted IFRS 17 for periods beginning on or after 1 January 2023, consistent with the IASB implementation date. The EU will review the exemption by 2027.

Amendment to IFRS 17

The IASB has published 'Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)' that enables companies to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before.

Supplier Finance Arrangements

Amendments are proposed to both IAS 7 and IFRS 7 to request entities to add disclosure requirements and 'sign-posts' within existing disclosure requirements regarding both qualitative and quantitative information on supplier finance arrangements. It is proposed that entities would disclose information that would enable users to assess the effects of these arrangements on liabilities and cash flows, including the terms and conditions of each arrangement together with the period opening and closing balances and movements, and outstanding payment commitments.

The deadline for submitting comments on these proposals is 28 March 2022.

Classification of Debt with Covenants

The IASB has published the exposure draft 'Non-current Liabilities with Covenants (Proposed amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The ED proposes that when an entity classifies a liability as non-current, it would be required to disclose information that enables users of financial statements to assess the risk that the liability could become repayable within twelve months, and also to disclose separately in the financial statements any liabilities where the right to deferral is subject to compliance with certain conditions.

The deadline for submitting comments on the proposals is 21 March 2022.

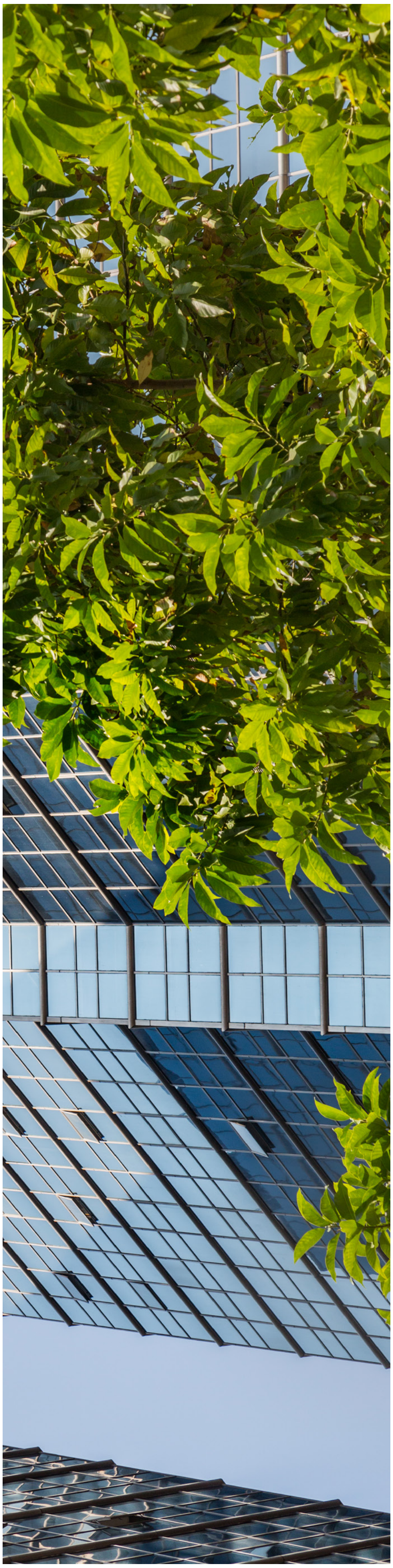
Expected Credit Losses

ESMA has published a report that provides (1) an overview of the principles and requirements in IFRS 7 and IFRS 9 related to the measurement and disclosure of expected credit losses in European banks, and (2) recommendations on how to improve the level of compliance, comparability and transparency of those requirements. The report focuses on the following areas:

- General aspects of the ECL disclosures;
- Assessment of significant increase in credit risk;
- Forward-looking information; and
- Explanation of changes in loss allowances.

IFRS 9 – EBA Review

The European Banking Authority (EBA) has published a report summarising the findings arising from its monitoring activities on IFRS 9 implementation. It notes the significant efforts made but urges some caution with respect to the level of judgement embedded in the standard which leaves open the possibility of a wide variety of practices with the impact of Covid-19 adding to the divergence. It comments that some practices may deserve further attention from the supervisors.



IPSAS Developments

A review has been carried out in recent months by the Institute of Chartered Accountants in England and Wales (ICAEW) on International Public Sector Accounting Standards (IPSAS) with regard to their suitability in public sector financial reporting and differences between IPSAS and IFRS. The review looked into what is the better choice of standard if the public sector was to move to accrual accounting.

An updated IPSAS-IFRS alignment dashboard has been published by the IPSAS Board.

The IPSAS Board has published non-authoritative guidance on IPSAS 5 Borrowing Costs to clarify how the existing principles for when borrowing costs can be capitalised should be applied in various regularly encountered public sector contexts.

3. Ireland and UK – Recent Developments

Provisions and Contingencies

The FRC published the findings of its thematic review on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The review found scope for improvements in several areas, in particular:

- explaining how the amounts of expected outflows have been estimated, identifying the key assumptions applied and describing the associated uncertainties;
- disclosing the phasing of outflows companies expect to see as they utilise their provisions; and
- describing the underlying costs for which companies make provisions.

The FRC also encourages companies to disclose entity-specific accounting policies and to provide more quantitative information about contingent liabilities.

Alternative Performance Measures

The FRC published the findings of its thematic review on the use of Alternative Performance Measures. The review found scope for improvements in several areas, in particular:

- explaining the context better, particularly as profit-based APMs tended to be more favourable than GAAP results;
- avoiding greater focus being given to APMs than to their GAAP equivalents;
- providing an even-handed treatment of gains and losses when classifying amounts as adjusting items;
- ensuring APM reconciliations and calculations are complete and transparent;
- explaining terms used in describing APMs, such as 'underlying results' or adjusting for 'non-recurring' items; and
- providing more detailed information about the cash and tax impact of adjusting items, and on the potential impact of adjustments for multi-year restructuring programmes on future results.

Goodwill

The UK Endorsement Board (UKEB) has commenced a research project to analyse the impact of reintroducing amortisation for the subsequent measurement of goodwill in order to provide specific information to the IASB in its deliberations on its Discussion Paper 'Business Combinations: Disclosures – Goodwill and Impairment'. The project will explore how a hybrid model of annual amortisation supported by testing can provide information that is useful, including how it might affect the financial position of the company or group and the potential approaches to estimating useful life for amortisation purposes.

The CFA Institute has published the results of its survey that demonstrates an almost unanimous preference from investors for a unified global approach, with a majority favouring improving disclosures over reverting to amortisation.

FRC Work Programme

The FRC has announced its corporate reporting quality review programme for 2022/23 alongside its priority sectors for review.

The programme will focus on:

- Climate-related and TCFD reporting
- Business combinations
- Earnings per share
- Deferred tax
- Discount rates
- Judgements and estimates

In selecting corporate reports and audits for review, the FRC will give priority to travel, hospitality and leisure, retail, construction and materials and gas, water and multi-utilities.

4. Legal and Regulatory Developments

European Single Electronic Format (ESEF) Update

Under the EU Transparency Directive and ESEF Regulation, annual financial reports of issuers which have securities admitted to trading on an EU regulated market must be prepared in accordance with the requirements of the European Single Electronic Format (ESEF) for financial years beginning on or after 1 January 2021. The aim is to harmonise the information provided by issuers and to ensure transparency in capital markets for the benefit of investors and other stakeholders, by enabling the automated analysis of large amounts of financial information.

All financial reports of issuers within scope must be prepared in accordance with XHTML, utilising the ESEF taxonomy designed mainly by the IASB with some input from ESMA. In the first year, only the primary financial statements and certain disclosure notes need to be tagged and for periods beginning 1 January 2022 tagging must be extended to all disclosure notes, with earlier adoption on a voluntary basis being permitted. ESMA's website has a range of resources available to support implementation.

With the UK no longer part of the EU, the UK Government has put in place equivalent regulations for UK entities to assist with consistency and comparability.

The UK Financial Conduct Authority and the FRC have jointly written to Chief Executive Officers of issuers in scope of the requirements to remind them of their obligations. The letter also sets out expectations on quality and identifies actions the FRC and FCA may take in the event of their expectations not being met.

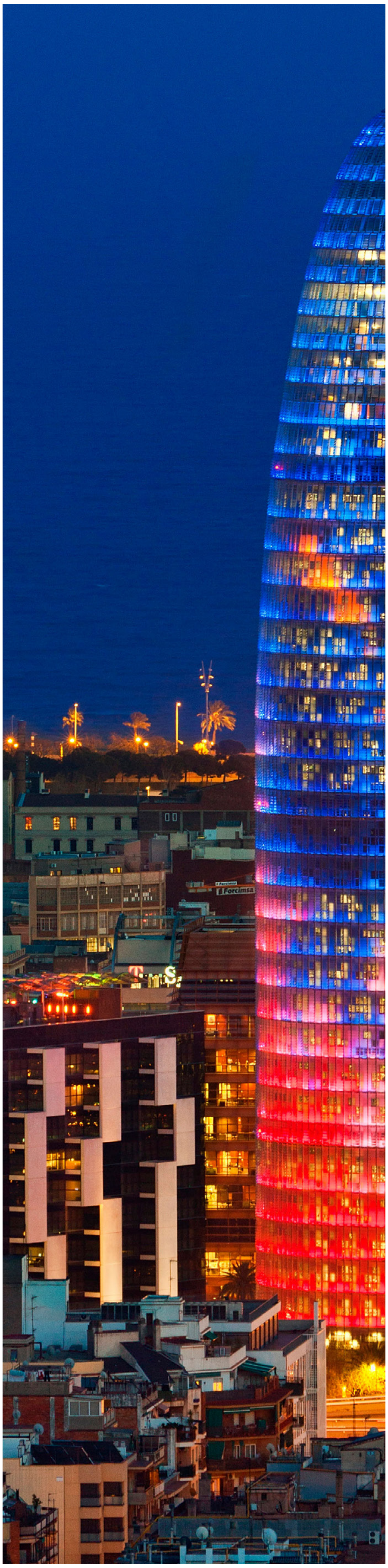
The FRC's Lab has published a report that supports companies in the move towards high-quality digital reporting. The Lab review of fifty early structured reports found that many reports fell short of the quality that will be expected for companies' official filings. The Lab report sets out key considerations and tips for companies covering:

- how to set up the structured reporting process;
- how to enhance the usability of structured reports; and
- common tagging issues to avoid.

Corporate Enforcement Authority

The Companies (Corporate Enforcement Authority) Act 2021 has been enacted and signed into Irish law. It will transform the Office of the Director of Corporate Enforcement into the Corporate Enforcement Authority (CEA), with additional powers and resources to investigate and prosecute 'white collar' crime.

These include encouraging compliance with the Companies Act 2014, investigations of suspected offences and non-compliance under that Act, prosecution of summary offences, referring indictable offences to the Director of Public Prosecutions and the exercise of certain supervisory functions with respect to liquidators and receivers.



5. Deloitte Publications

Annual report insights 2021 — Surveying FTSE reporting

We have surveyed 50 companies with more than 500 employees from among the FTSE 350 and across industry groups, examining reporting trends in five areas: purpose, people, planet, prosperity, and of course a fifth "P" that has been greatly affecting business - the pandemic.

Need to know

Designed for financial controllers, chief accountants and accounting technicians, this publication series from Deloitte provides overviews of new accounting matters, including narrative reporting. Publications during the final quarter of 2021 were:

UK Government publishes Greening Finance: A Roadmap to Sustainable Investing

IASB proposes amendments to IAS 7 and IFRS 7 to address supplier finance arrangements

IASB proposes amendments to IAS 1 regarding the classification of liabilities with covenants

IASB seeks views on the post-implementation review of the IFRS 9 classification and measurement requirements

Purpose-driven Business Reporting in Focus

Purpose-driven Business Reporting provides updates on developments in purpose-driven business practices that are impacting corporate reporting, including progress towards sustainability standards. This publication is aimed at preparers of corporate reports, as well as their users and auditors.

Publications during the final quarter of 2021 included:

IFRS Foundation creates new board to set global sustainability standards

IFRS on Point

IFRS on Point (iasplus.com)

We publish IFRS on Point each month to highlight critical financial reporting developments.

IFRS on Point — November 2021

IFRS on Point — October 2021

Governance in brief

Governance in brief provides a summary of the latest Corporate Governance developments.

Publications during the final quarter of 2021 included:

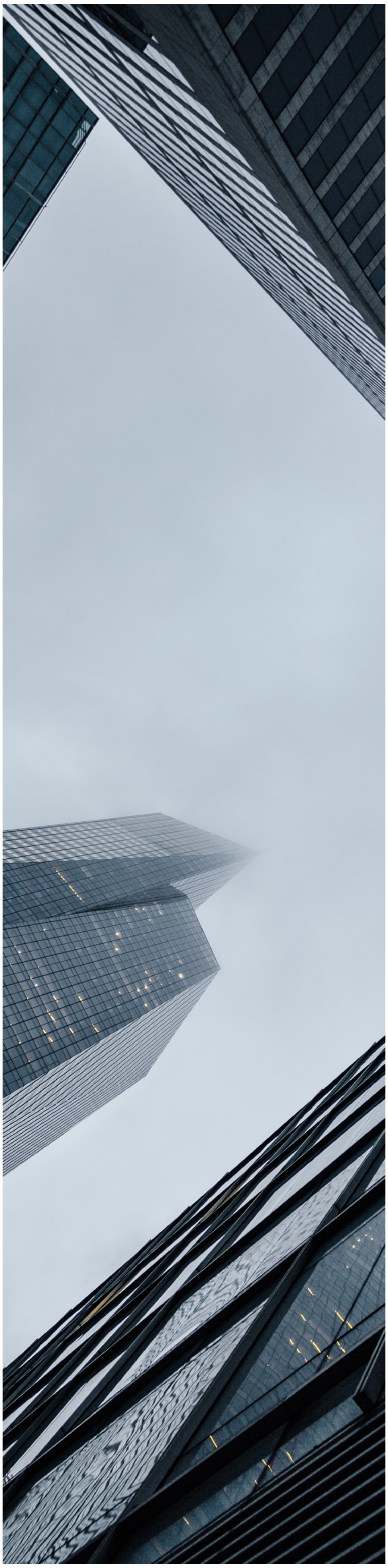
FRC issues advice on annual reports for 2021/22 reporting season

Governance in focus

Governance in Focus provides guidance and views on key aspects of the latest developments in Corporate governance. This publication provides a more comprehensive look than Governance in Brief on specific Corporate Governance topics of interest.

Publications during the final quarter of 2021 included:

On the board agenda 2022



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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