

Quarterly Financial Reporting Brief

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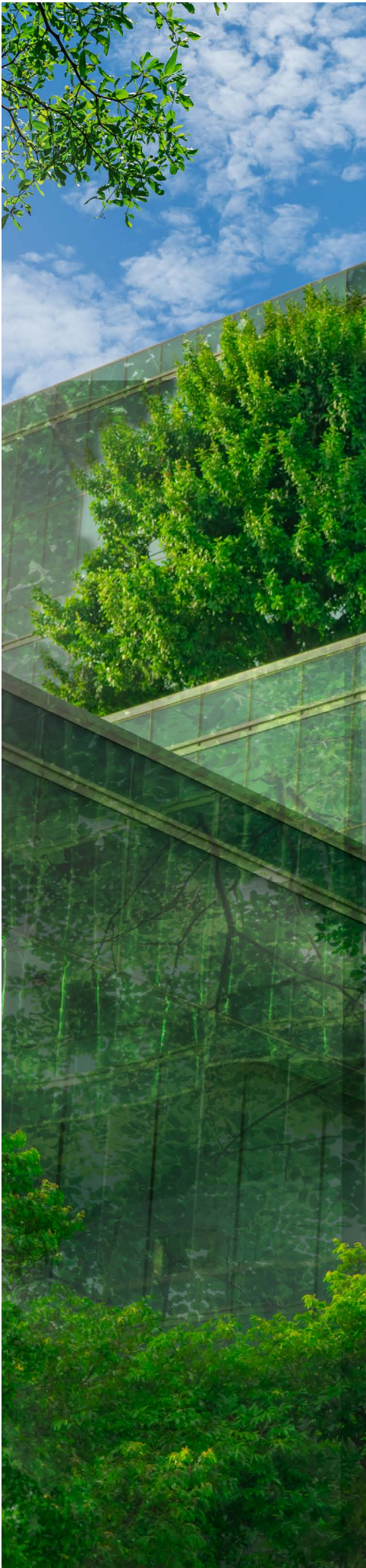
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Introduction

Closing out 2022, the fourth quarter has seen major challenges continue, with the 2020s being particularly difficult for most companies as well as at an individual level.

Companies do need to recognise their responsibility to inform stakeholders of how difficulties are impacting them and what the future is likely to hold. Recent publications highlight what are the priority issues for reporting and provide guidance on achieving quality reporting. Reliable corporate governance is a fundamental need for all companies, supporting the foundations of reliable reporting.

Sustainability reporting is continuing its progress. Europe has adopted the Corporate Sustainability Reporting Directive and twelve draft Sustainability Reporting Standards (ESRS) have been published. Climate change disclosure continues to be a high priority area.

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



1. The Big Issues

Economic Uncertainty – Financial Reporting and Disclosure

IOSCO has published a statement emphasising issuers' need to provide fair, transparent and timely disclosure about the impacts of economic uncertainty. IOSCO encourages issuers, auditors and regulators to be particularly vigilant in times of economic uncertainty in how risks or opportunities that affect or have affected an issuer's operations, financial condition, cash flows and prospects can be transparently communicated to investors and other stakeholders. The statement lists a wide range of factors which have particular impact on current economic conditions that should be considered including ongoing impacts of COVID-19, supply chain challenges, impact of war in Ukraine, inflationary pressures on energy and other costs and many other challenges.

A Good Annual Report

Our December FRB article '[Reporting Season – Challenge of the Message!](#)' commented on the reports published by the financial reporting supervisory authorities. These reports include those from the Irish Auditing and Accounting Supervisory Authority (IAASA), the UK Financial Reporting Council (FRC) and ESMA.

The reports highlight the main focus areas and priority issues that should be fully considered by entities in preparing their annual reports and informing their stakeholders of the impact of major economic and other concerns and the mitigating actions being taken in such areas to include, for example, climate change and cost inflationary pressures.

Subsequent to the publication of these major reports, the FRC has published a report 'What Makes a Good Annual Report and Accounts'. The FRC sets out the common attributes for a high-quality ARA, which includes:

- comply with relevant accounting standards, laws and regulations, and codes;
- be responsive to the needs of stakeholders in an accessible way; and
- demonstrate the corporate reporting principles and effective communication characteristics outlined in this publication.

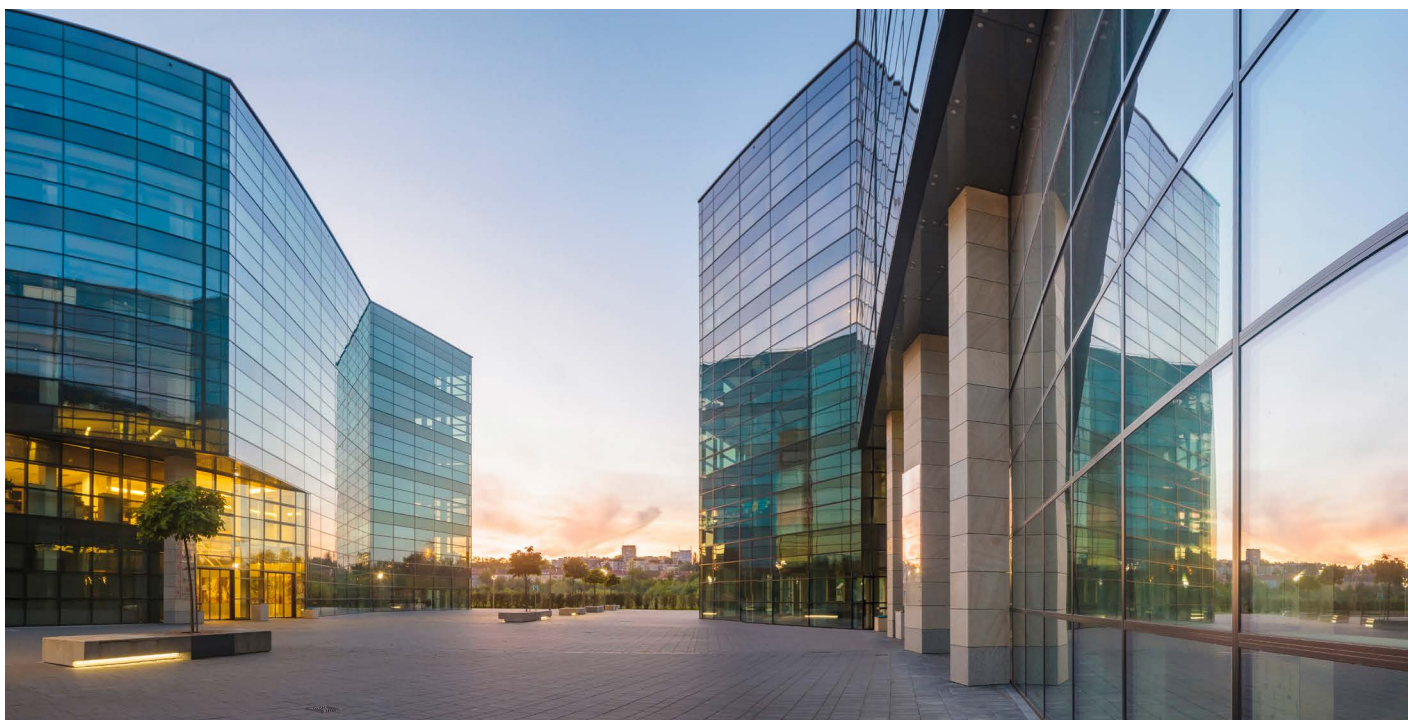
While every business is different, the FRC objective is to identify the characteristics generally associated with a high-quality ARA that will assist preparers and those charged with governance. In addition to highlighting the attributes, the report includes comment on:

- Materiality – the primary tool that helps companies to focus on key matters for them and their stakeholders, informing the breadth and depth of what needs to be included in the ARA;
- Corporate Reporting Principles – issuers should take ACCOUNT of Corporate Reporting Principles of Accurate, Connected and Consistent, Complete, On-time, Unbiased, Navigable and Transparent;
- Effective Communication Principles – observe the four Cs of company-specific, clear, concise and understandable, clutter-free and relevant, comparable.

In addition to providing a number of examples of quality reporting to illustrate major areas, the appendices include a summary infographic, sources of further information and a process map for the accounts.

Corporate Governance

The FRC has published its latest [Review of Corporate Governance Reporting](#), based on a review of a sample of 100 companies drawn from the premium listed market. The report highlights areas of high-quality reporting, but also draws attention to improvements needed in areas such as disclosures in workforce and wider stakeholder engagement, diversity, and



effectiveness of the risk management and internal control systems.

The review highlights the continuing need for high quality governance which is linked to effective decision making by Boards and Management. The FRC calls for greater clarity as to how a company is applying the basic principles and clearer explanations where there are departures from the Code provisions. The aim is to enable stakeholders to have greater confidence in the quality of governance.

A wide range of recommendations for improvement are included in the report.

Board Diversity

The FRC has published a [report](#) which looks at the opportunities and challenges that minority ethnic individuals might experience in progressing to the boards of top FTSE 350 companies. The report highlights that there is widespread acknowledgement of the need for serious change. Obstacles include overt and covert racism, being overlooked for promotion and having to demonstrate higher standards.

Sustainability Reporting

Substantial progress has been made by the European Union on the path to developing a sustainability reporting framework. There are two major developments:

- The adoption of the [Corporate Sustainability Reporting Directive \(CSRD\)](#). The new rules will need to be brought in by EU Member States within eighteen

months of their official publication – by 2024;

- The European Financial Reporting Advisory Group (EFRAG) has submitted [twelve draft European Sustainability Reporting Standards \(ESRS\)](#) to the European Commission. The next step is for the EC to approve the ESRS drafts or revise them itself before they are applied within the scope of the CSRD. The draft standards include two on general requirements and disclosures and ten on key Environmental Social and Governance (ESG) areas, including climate change.

Earlier in 2022, the International Sustainability Standards Board (ISSB) published drafts of standards on general disclosure requirements and climate change. By the end of the year, the ISSB is continuing to work on a request for information to assist the process of developing its work plan.

Four potential projects have been identified to do with biodiversity and other nature-related issues, human capital with a focus on diversity and inclusion, human rights particularly in the context of the value chain and connectivity in reporting.

At COP 27, IOSCO outlined the actions it takes to protect investors by mitigating ‘green washing’ in financial markets, contributing to sustainability disclosure standards and promoting well-functioning capital markets. IOSCO sets out its expectations that both disclosure and

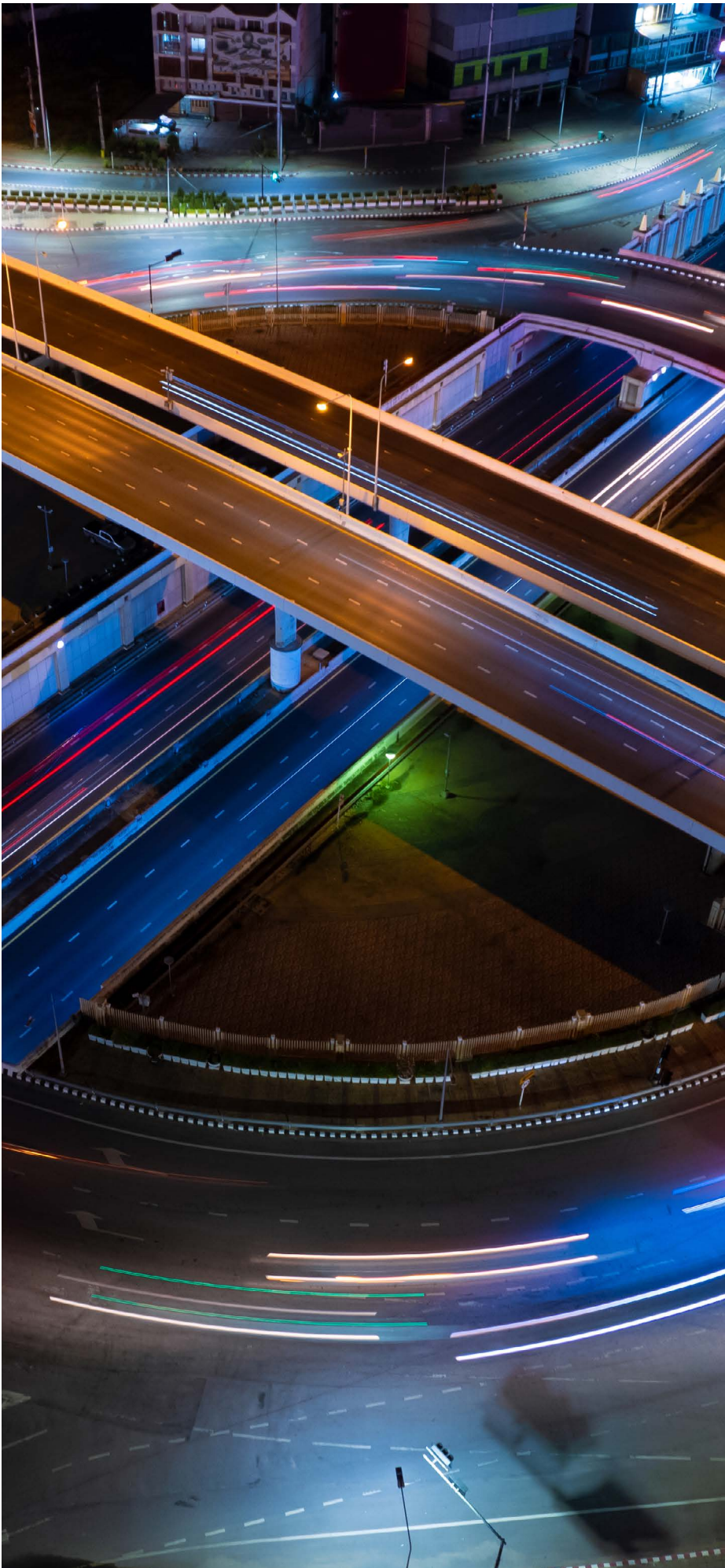
assurance standards should be ready for use by corporates for their end-2024 reporting.

The UK Financial Conduct Authority (FCA) has published ‘[Sustainability Disclosure Requirements and Investment Labels](#)’. The proposals aim to ensure that consumers are provided with all of the information necessary to make informed investment decisions and ultimately to provide greater transparency, consistency and trust in the market for sustainable investment products. A major objective of the proposals is to attempt to clamp down on ‘green washing’ by companies.

Climate Change Disclosure

Climate change disclosure continues at the forefront of discussion and developments in corporate reporting. The Financial Stability Board (FSB) and the Task-force on Climate Related Disclosures (TCFD) have both published substantial reports, as follows:

- The FSB has submitted [two reports](#) to G20:
 - A final report on supervisory and regulatory approaches to climate-related risks to assist authorities in their approach to monitor, manage and supervise cross-jurisdictional system-wide risks and to promote consistent approaches across sectors and jurisdictions;
 - A progress report on climate-related disclosures, considering progress made by the ISSB and by national/regional authorities.



- The TCFD has published its [fifth annual status report](#) providing an overview of the extent to which companies included in their 2021 annual reports information aligned with the core TCFD Recommendations published in June 2017. The TCFD has found that the percent of companies disclosing TCFD aligned information continues to grow, but considers that more urgent progress is needed

The UK FRC Lab has published a [report](#) on net-zero disclosures, with many companies estimating impact, disclosing climate-related commitments and transition plans. The Lab report outlines the three key elements that investors want to understand about net zero disclosures:

- Commitments – the level of ambition, scope, nature and timing of the commitment and what is included and excluded;
- Impact – how the commitment impacts strategy and business model, including transition plans, uncertainties, risks and opportunities;
- Performance – how performance is being measured in the short, medium and long term, and how high-quality data and accountability will be ensured.

IAASA has published a [paper](#) to provide preparers, auditors and users of financial statements with information to encourage discussion as to whether issuers adequately consider the appropriateness and completeness of climate-related disclosures provided in annual reports.



2. International Accounting and Related Developments

Debt with Covenants

The IASB has published '[Non-current liabilities with covenants \(Amendments to IAS1\)](#)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Only covenants with which an entity is required to comply by the end of the reporting period need consideration in determining whether a liability is classified as current or non-current.

In addition, an entity has to disclose information in the notes that enable users of the financial statements to understand the risk that non-current liabilities with covenants could subsequently fall into the bracket of becoming repayable within twelve months.

The amendments are effective for accounting periods beginning on or after 1 January 2024.

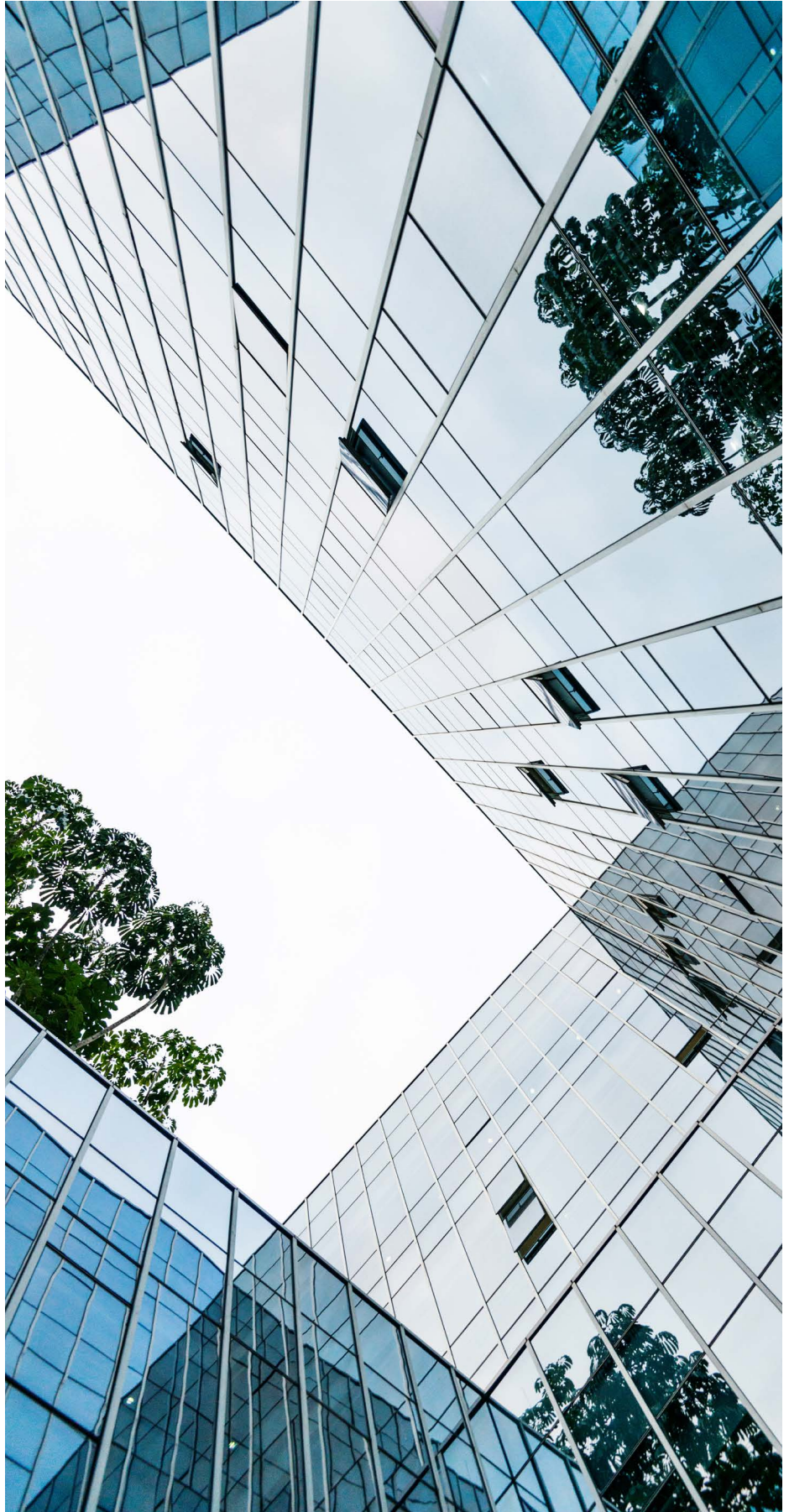
IFRS 9 – Post-Implementation Review

The IASB has issued its [project report and feedback statement](#) on the Post-Implementation Review (PIR) of IFRS 9 Financial Instruments – Classification and Measurement. In general, stakeholders do not have fundamental issues with application and do not encounter unexpected additional costs. Two areas where they consider additional clarification is needed are:

- The assessment of the contractual cash flow characteristics of financial assets with ESG-linked features;
- Electronic cash transfers as settlement of a financial asset or liability.

Impairment of Goodwill

The IASB has discussed whether there is compelling evidence that amortisation of goodwill should be reintroduced. Ten out of eleven members agreed that there was not enough evidence to change the IASB's original decision to work with an impairment only model. The IASB noted that the decision might be revisited in later years. The decision made is consistent with the determination by the US Financial





Accounting Standards Board announced earlier in 2022.

IFRS Agenda Decisions

The IFRS Foundation has issued [‘Compilation of Agenda Decisions – Volume 7’](#) which contains all the agenda decisions made by the IFRS Interpretations Committee from May to October 2022. Examples of matters addressed by decisions include:

- Lessor Forgiveness of Lease Payment
- Principal versus Agent: Software Reseller
- Multi-currency Groups of Insurance Contracts
- Negative Low Emission Vehicle Credits

Valuation Standards

IOSCO and the International Valuation Standards Council (IVSC) have agreed to collaborate to explore international valuation approaches and the quality of financial information for investors. The cooperation agreement aims at developing a better understanding of the quality and consistency of valuations and the professional standards employed by valuers internationally.

The IVSC has published a perspectives paper [‘Automated Valuation Models and Residential Valuations’](#).

IPSASB – Developments

The International Public Sector Accounting Standards Board (IPSASB) has released an exposure draft proposing additional guidance on how previous recommended practice guidelines can be applied now by governments and public sector entities to report on sustainability programme information. Additional implementation guidance is proposed, along with illustrative examples on such key topics as green bonds, carbon taxes, tax expenditures and other programmes developed to mitigate the effects of climate change and achieve the UN’s Sustainable Development Goals.

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

IFR4NPO Guidance

The International Financial Reporting for Non-Profit Organisations (IFR4NPO) has released its first exposure draft, [‘International Non-Profit Accounting Guidance’](#). INPAG seek to improve the clarity and consistency of non-profit organisation financial reports. The ED is the first of three-part proposed guidance and addresses four main topics – a description of NPOs, a framework for INPAG, financial statements presentation and narrative reporting.





3. Ireland and UK – Recent Developments

FRS 102 – Review

The FRC has issued [FRED 82](#), following its second periodic review of FRS 102.

As a result of the proposed amendments set out in FRED 82, FRS 102 will reflect up to date IFRS-based solutions, providing high-quality and clear financial reporting to users. This will include more transparent reporting of lease obligations, as well as a clear five-step model for determining the recognition of revenue from all contracts with customers. The proposals have been designed to be proportionate to the size and complexity of the entities applying the standards.

The proposed effective date of the amendments set out in the FRED is 1 January 2025. Comments on FRED 82, including the consultation stage impact assessment, are requested by 30 April 2023.

Guidance to FRS 100

The FRC has issued FRS 100 Application of Financial Reporting Requirements to incorporate revised application guidance arising from changes to UK company law and decisions on equivalence following the UK's exit from the European Union, as well as some changes in Irish company law.

Materiality

The FRC Lab is initiating a new project to look at how companies develop, assess and use materiality and to consider how enhancements to disclosures about materiality processes might assist investors. The project is expected to cover both financial and non-financial reporting, including factors for consideration, how and when those factors are considered and how materiality assessments are used to determine what is included or excluded in corporate reporting.

FRC - Thematic Reviews and Priority Sectors

The FRC has announced its areas of supervisory focus for 2023/24 for corporate reporting reviews and audit quality inspections.

The FRC will supplement routine reviews with four thematic reviews in the following areas:

- IFRS 17: Insurance Contracts
- Large Private Companies – following broadening of the FRC definition of a Public Interest Entity
- TCFD metrics and targets and net zero commitments
- IFRS 13: Fair Value Measurement – with focus on financial services entities.





4. Legal & Regulatory Developments

European single electronic format (ESEF)

ESMA has recently published an updated [ESEF Reporting Manual](#) applicable to the 2022 financial year. This manual includes the requirement to mark up the notes to and the accounting policies of the IFRS consolidated financial statements, following the “block tagging” approach. Observations on reporting in 2021, the first year of ESEF reporting, included those in respect of:

- Use of extensions/custom tags
- Consistent tagging of the same fact
- Dashes that represent zeros
- Footnotes to the primary statements



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:

[Financial reporting: Closing out 2022](#)
[European sustainability reporting — EFRAG submits first set of draft ESRS to the European Commission](#)
[EU Taxonomy — corporate reporting requirements](#)
[Financial reporting: IASB issues amendments to IAS 1 regarding the classification of liabilities with covenants](#)

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).

Publications in the fourth quarter are:

[FRC sets out key matters for 2022/23 reporting season](#)

Governance in brief

[Governance in Brief](#) provides a summary of the latest corporate reporting developments (Note: Irish requirements are generally similar).



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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