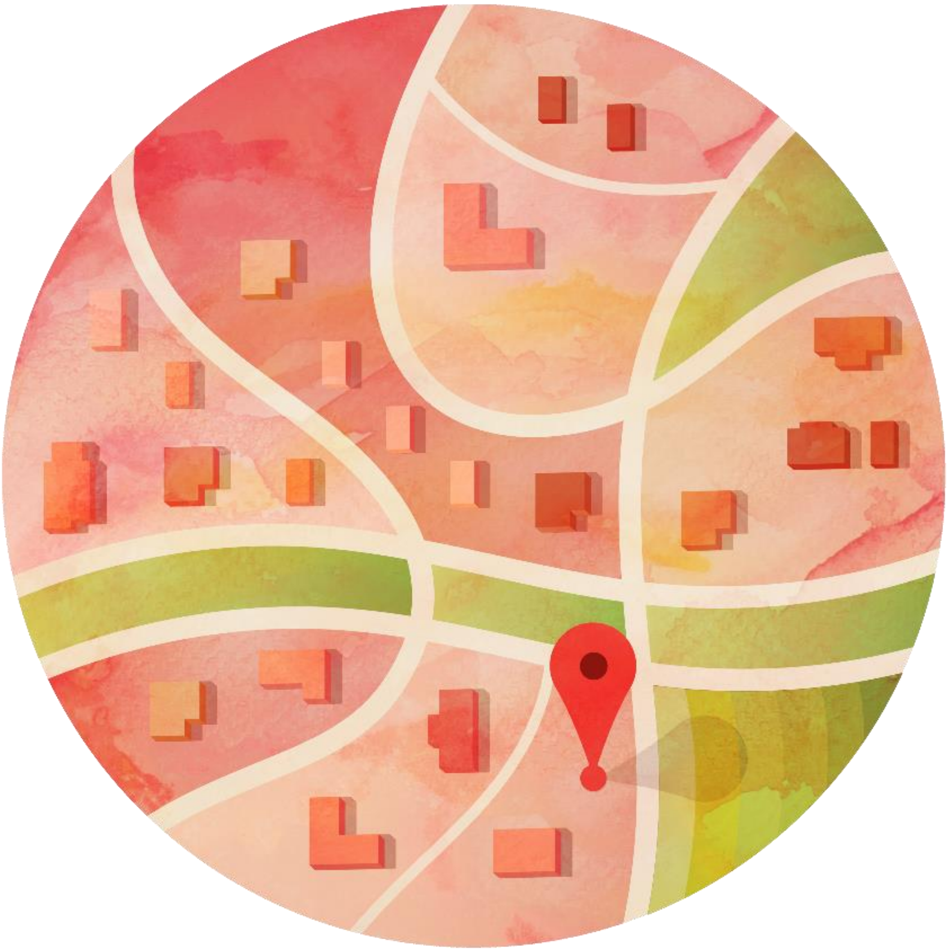

Quarterly Financial Reporting Brief April 2019

The first quarter saw much development with regard to non-financial reporting, with particular regard to sustainability and climate change. International reporting matters addressed included the Insurance standard, and also the Disclosure Initiative. Reporting on intangibles was also in focus. Changes have been proposed to the Irish/UK standards, FRS 101 and FRS 102.

Deloitte publications included:

- IFRS in your Pocket 2019
- A Comparison of IFRS Standards and US GAAP: Bridging the Differences
- Governance in Brief: Brexit and Viability Disclosures – a Reminder

ESG matters were very much in focus, with the International Organisation of Securities Commissions (IOSCO), the Global Reporting Initiative (GRI) and the European Commission (EC) Technical Expert Group on their Action Plan for Financing Sustainable Growth all taking initiatives and publishing reports.

On climate change, there was a plethora of activity with a wide range of bodies contributing to the continuing momentum towards greater awareness and improved reporting on the issues and risks involved.

The insurance accounting standard, IFRS 17, has seen continued activity with substantial completion by the IASB of its discussions on 'Concerns and Implementation Challenges'.

The IASB has published its project summary on Disclosure Initiative – Principles of Disclosure'.

The Financial Reporting Council (FRC) has proposed changes to FRS 101 and FRS 102. It has also published a consultation into possible improvements to the reporting of factors that are important to a business' generation of value.

The FRC is also consulting on proposed changes to the Stewardship Code, setting higher expectations for investor stewardship policy and practice.

The FRC Lab has published a report on Artificial Intelligence and, inter alia, how it might make sense in corporate reporting.

The European Securities and Markets Authority (ESMA) has published it's Annual Report 2018, with a focus on the new standards and also non-financial reporting.

IAASA has published summary information of its financial reporting enforcement activities during 2018.

Accountancy Europe has published its factsheet on the new requirements of the European Single Electronic Format (ESEF).

This Brief comments on financial reporting and legal/regulatory developments during the first quarter of 2019.

International Accounting and Related Developments

ESG Matters

The International Organisation of Securities Commissions (IOSCO) has published a statement setting out the importance for issuers of considering the inclusion of environmental, social and governance (ESG) matters when disclosing information as they may have a material short-term and long-term impact on the business operations of the issuers as well as on risks and returns for investors and their investment and voting decisions.

The Global Reporting Initiative and the United Nations Global Compact have announced their continued partnership to develop best practices for corporate reporting on the Sustainable Development Goals (SDGs), empowering businesses to prioritize SDG targets and measure and report on progress.

The Technical Expert Group (TEG) established by the European Commission to inform its work on the 'action plan: financing sustainable growth' has published its interim report. This proposes the content of an EU Green Bond standard, explains its purpose and sets its ambition level. It also explains how the TEG believes the creation of the proposed EU GBS will address the barriers hindering the Green Bond market's further development.

Climate-Related Disclosures

The EC Technical Expert Group on Sustainable Finance has published its first report on companies' disclosure of climate-related information. It contains recommendations that have allowed the EC to publish a draft supplement to its non-binding guidelines on non-financial reporting with specific reference to climate-related information. These are in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board. These proposed disclosures deal with how climate change might influence the performance of a company, and also the impact of the company itself on climate change.

The Accountancy Europe response to the report stresses that it is important to clarify the two directions of impacts: the Non-Financial Reporting Directive (NFRD) addresses the impact of the company's activities on the environment and the TFCD recommendations the physical impact of the environment on the company.

The Accountancy Europe response stresses the importance of addressing social aspects and that climate-related matters should not be treated in isolation as this could have a negative impact elsewhere. Accountancy Europe believes that it may be necessary to discuss assurance over non-financial information

The European Financial Reporting Advisory Group (EFRAG) has announced that the European Lab Steering Group has appointed the members of its newly formed project task force on climate-related reporting.

The UK Carbon Trust has published a summary of its findings on climate risk disclosure, in which it reveals that two-thirds (67%) of UK corporates plan to disclose climate-related risks and opportunities in their 2019 annual reports. 72% of those surveyed believe that disclosing information will increase a company's brand value and reputation. Other potential benefits mentioned include greater investor diversity, improved access to capital and an increased company valuation. Guidance to help companies comply with the 'Streamlined Energy and Carbon Reporting regulations', including greenhouse gas (GHG) reporting have been published.

The UK Financial Conduct Authority (FCA) Discussion Paper on climate change and green finance sets out how the different impacts of climate change could impact the FCA's long and short-term objectives, the opportunities and risks that the transition to a low carbon economy presents in the UK's financial services markets and the actions planned by the FCA in the near term.

IFRS 17 – Amendments

The IASB has substantively completed its discussion of all 25 topics included in its Paper 'Concerns and implementation challenges'. It will be carrying out an overview of the proposed amendments and seeking permission to begin the balloting process at its April 2019 meeting.

Matters discussed at its most recent meeting include:

- level of aggregation
- credit cards that provide insurance coverage
- transition requirements—risk mitigation option
- transition requirements—loans that transfer significant insurance risk
- amendments to disclosure requirements resulting from the Board's tentative decisions to date
- other implications for disclosure and transition requirements

Disclosure Initiative

The IASB has published 'Disclosure Initiative — Principles of Disclosure project' summary' which summarises the work performed and conclusions reached in the research project.

In March 2017, the IASB issued a Discussion Paper (DP) on possible approaches to address disclosure issues, such as the lack of relevant information, too much irrelevant information, and ineffective communication of the information provided.

Feedback for the DP revealed that improving the way disclosure requirements are developed and drafted in IFRS Standards is the most effective way it can help to address the disclosure problem." The Board will prioritise its project on targeted Standards-level review of disclosure.

Discount Rates

The IASB conducted a research project from 2014 to 2017 to investigate reasons for inconsistencies between requirements relating to discount rates in IFRSs and to assess whether the Board should consider addressing those inconsistencies. The Board will use the research to inform various projects.

As part of a research project on the use of discount rates in financial astatements, the European Financial Reporting Advisory Group and the Institute of Chartered Accountants of Scotland (ICAS) have issued a survey seeking views on discount rates as applied to pension liabilities for accounting purposes and alternative approaches.

Financial Instruments with Characteristics of Equity

EFRAG has issued a working paper that provides an early-stage analysis of some possible effects of the IASB Discussion Paper DP/2018/1 'Financial Instruments with Characteristics of Equity', and offers an assessment of the impact of the proposals in the IASB Discussion Paper. The evidence gathering and analysis has been carried out at a level of detail appropriate to the proposals put forward.

Ireland & UK – New Developments

FRS 101/FRS 102 – Proposed Amendments

An amendment to FRS 101 is proposed, in FRED 70, to ensure that insurance companies that are not required to, and choose not to, prepare IAS accounts, continue to comply with company law requirements by only applying FRS 102 and FRS 103.

FRED 71 responds to a current financial reporting issue by proposing new requirements, to be included in Section 28 of FRS 102, for presenting the impact of transition from defined contribution accounting to defined benefit accounting.

UK Stewardship Code

The FRC is consulting on proposed changes to the Code, setting higher expectations for investor stewardship policy and practice and will focus on how effective stewardship delivers sustainable value for beneficiaries, the economy and society.

The significant proposed changes to the Code include:

- purpose, values and culture: Investors must report how their purpose, values and culture enable them to meet their obligations to clients and beneficiaries
- recognising the importance of environmental, social and governance (ESG) factors
- stewardship beyond listed equity: The proposed Code now expects investors to exercise stewardship across a wider range of assets where they have influence and rights.

The Financial Conduct Authority (FCA) and the FRC have published a joint discussion paper, 'Building a regulatory framework for effective stewardship', aiming to reset the bar on effective stewardship in the UK.

Deloitte has expressed its views in "Achieving effective stewardship in the UK".

AI and Corporate Reporting

The FRC Lab has published the latest in its series of reports looking at how technology might impact the production, distribution and consumption of corporate reporting, and this follows its reports on XBRL and Blockchain.

The report, 'Artificial Intelligence – How does it measure up?', explains what artificial intelligence is, where its use might make sense in corporate reporting, and explores some of the possible and current use cases for the technology.

Reporting on Intangibles

The Financial Reporting Council (FRC) has launched a consultation into possible improvements to the reporting of factors that are important to a business' generation of value. It considers the case for radical change the accounting for intangible assets and the likelihood of such change being made in the near future.

It suggests that:

- relevant and useful information could be provided without the need to recognise more intangible assets in companies' balance sheets
- such information could cover a range of factors, broader than the definition of intangible assets in accounting standards, that are relevant to the generation of value
- improvements could be made on a voluntary basis within current reporting frameworks (such as the strategic report)
- participants in the reporting supply chain could collaborate to bring about improvements.

On a similar note, Deloitte has jointly published 'The Capitalisation Debate: R&D expenditure, disclosure content and stakeholders views'.

UK Charity Commission reviews

The UK Charity Commission has published the findings of two reviews which considered whether charity annual reports and accounts meet user needs, and how well charities are meeting their public benefit reporting requirements.

The first report, 'Public reporting by Charities in their trustees annual report and accounts', focuses on whether the accounts reviewed "meet the basic requirements of the users of those accounts rather than on strict technical compliance with the Statement of Recommended Practice (SORP) and other reporting requirements".

The second report, 'Public benefit reporting by Charities', looked at the quality of public benefit reporting. All registered charities are required to publish a trustees' annual report which sets out the activities that the charity has undertaken for the public benefit. Charities are also required to include a statement as to whether they have had due regard to the Charity Commission's guidance on public benefit. The focus of the review was on whether each trustees' annual report demonstrated a clear understanding of the public benefit reporting requirement.

The Charity Commission has also published a follow up of its review into reporting of matters of material significance by auditors. The review reminds trustees of the list of matters of material significance that they need to be aware of and the duty placed upon an auditor to report these to the regulator.

Brexit

The FRC and the UK Department for Business, Energy and Industrial Strategy (BEIS) have published letters for auditors and accountants to share information in case there is no deal. A recently drafted UK Statutory Instrument gives power to the Secretary of State to endorse new or amended standards and also power to delegate this responsibility. The intention is to delegate these functions to a newly-formed independent UK endorsement body.

In regards to existing EU-adopted IAS, the letter notes that at the point of exit, the Withdrawal legislation brings into UK law IASs already endorsed by the EU, to provide continuity.

In the UK, The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177) have been approved by the government. The timing of when they become effective is dependent on other agreements made in the broader scheme of the UK's exit from the EU.

Legal and Regulatory Developments

IAASA – Enforcement Activities

IAASA has published summary information of its financial reporting enforcement activities undertaken during 2018. In 2018, IAASA examined 39 annual and half-yearly financial statements and raised 164 separate matters with those companies. The outcome of 14 financial reporting decisions reached in 2018 was published by IAASA in the year. 18 companies have provided 134 undertakings to improve their financial reporting in future years.

ESEF Factsheet

Accountancy Europe has published an ESEF factsheet designed to guide market participants through the new requirements of the European Single Electronic Format (ESEF).

The factsheet developed by Accountancy Europe provides an overview of these digital reporting requirements, including practical advice for preparers of financial information and the implications for statutory auditors.

ESMA Annual Report

ESMA published its Annual Report on the enforcement and regulatory activities of accounting enforcers within the EU. There is a particular focus on IFRS 15 and IFRS 9, and also on non-financial (ESG) information.

In 2019, the focus will continue to be on IFRS 15 and IFRS 9 and on the disclosure of the expected impact of implementation of IFRS 16. It will also contribute to the endorsement process of IFRS 17. There will also be a focus on strengthening the harmonisation and enforcement of the disclosures of non-financial information, notably those related to environmental and climate change-related matters, as well as on the application of the ESMA Guidelines on Alternative Performance Measures (APMs).

Contact Us

Our firm's website, 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 subsite, UK Accounting Plus.

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